

ESTEE LAUDER COMPANIES INC

Form 10-Q

November 01, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549-1004

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2010**

**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)

**212-572-4200**

(Registrant's telephone number, including area code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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 ☒ No ☐

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

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 ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

At October 21, 2010, 119,047,044 shares of the registrant's Class A Common Stock, \$.01 par value, and 76,732,041 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.



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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions, except per share data)</b>	
<b>Net Sales</b>	\$ 2,091.7	\$ 1,833.4
Cost of sales	488.1	445.1
<b>Gross Profit</b>	1,603.6	1,388.3
Operating expenses:		
Selling, general and administrative	1,301.8	1,149.7
Restructuring and other special charges	3.8	18.2
<b>Total operating expenses</b>	1,305.6	1,167.9
<b>Operating Income</b>	298.0	220.4
Interest expense, net	16.1	19.6
<b>Earnings before Income Taxes</b>	281.9	200.8
Provision for income taxes	92.3	63.0
<b>Net Earnings</b>	189.6	137.8
Net loss attributable to noncontrolling interests	1.5	2.9
<b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>	\$ 191.1	\$ 140.7
Net earnings attributable to The Estée Lauder Companies Inc. per common share:		
Basic	\$ .97	\$ .72
Diluted	\$ .95	\$ .71
Weighted-average common shares outstanding:		
Basic	196.7	196.7
Diluted	200.4	198.2

See notes to consolidated financial statements.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED BALANCE SHEETS**

	September 30 2010 (Unaudited)	June 30 2010
	(\$ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 693.5	\$ 1,120.7
Accounts receivable, net	1,155.4	746.2
Inventory and promotional merchandise, net	905.2	826.6
Prepaid expenses and other current assets	444.3	427.5
Total current assets	3,198.4	3,121.0
Property, Plant and Equipment, net	1,043.8	1,023.6
Other Assets		
Investments, at cost or market value	13.7	12.2
Goodwill	896.7	752.5
Other intangible assets, net	245.0	109.5
Other assets	239.9	316.8
Total other assets	1,395.3	1,191.0
Total assets	\$ 5,637.5	\$ 5,335.6
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	\$ 30.6	\$ 23.4
Accounts payable	379.2	425.2
Accrued income taxes	76.4	5.6
Other accrued liabilities	1,200.7	1,118.0
Total current liabilities	1,686.9	1,572.2
Noncurrent Liabilities		
Long-term debt	1,204.5	1,205.0
Accrued income taxes	163.5	163.3
Other noncurrent liabilities	444.6	429.7
Total noncurrent liabilities	1,812.6	1,798.0
Contingencies (Note 8)		
Equity		
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued:		
191,572,221 at September 30, 2010 and 190,767,435 at June 30, 2010; 240,000,000 shares		
Class B authorized; shares issued and outstanding: 76,732,041 at September 30, 2010 and		
77,082,041 at June 30, 2010		
	2.7	2.7
Paid-in capital	1,477.8	1,428.7
Retained earnings	3,755.1	3,564.0
Accumulated other comprehensive loss	(121.1)	(196.7)
	5,114.5	4,798.7

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Less: Treasury stock, at cost; 72,553,771 Class A shares at September 30, 2010 and			
70,125,805 Class A shares at June 30, 2010		(2,993.5)	(2,850.3)
<b>Total stockholders' equity - The Estée Lauder Companies Inc.</b>		2,121.0	1,948.4
<b>Noncontrolling interests</b>		17.0	17.0
<b>Total equity</b>		2,138.0	1,965.4
<b>Total liabilities and equity</b>	\$	5,637.5	\$ 5,335.6

See notes to consolidated financial statements.



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## THE ESTÉE LAUDER COMPANIES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30		
	2010		2009
	(In millions)		
<b>Cash Flows from Operating Activities</b>			
Net earnings	\$	189.6	\$ 137.8
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization		68.8	65.3
Deferred income taxes		6.1	(21.8)
Non-cash stock-based compensation		30.6	19.2
Excess tax benefits from stock-based compensation arrangements		(0.9)	
Loss on disposal of property, plant and equipment		0.4	5.4
Non-cash charges associated with restructuring activities		0.9	9.7
Pension and post-retirement benefit expense		16.9	14.3
Pension and post-retirement benefit contributions		(8.7)	(17.2)
Other non-cash items		0.4	0.4
Changes in operating assets and liabilities:			
Increase in accounts receivable, net		(369.2)	(218.7)
Increase in inventory and promotional merchandise, net		(34.6)	(42.6)
Increase in other assets, net		(12.9)	(24.5)
Increase (decrease) in accounts payable		(63.8)	6.1
Increase in accrued income taxes		71.5	36.0
Increase in other liabilities		65.8	33.3
<b>Net cash flows provided by (used for) operating activities</b>		(39.1)	2.7
<b>Cash Flows from Investing Activities</b>			
Capital expenditures		(57.7)	(45.4)
Acquisition of businesses and other intangible assets, net of cash acquired		(258.5)	(9.3)
<b>Net cash flows used for investing activities</b>		(316.2)	(54.7)
<b>Cash Flows from Financing Activities</b>			
Increase (decrease) in short-term debt, net		7.1	(6.3)
Repayments and redemptions of long-term debt		(9.5)	(13.9)
Net settlement of interest rate derivatives		47.4	
Net proceeds from stock-based compensation transactions		14.6	0.4
Excess tax benefits from stock-based compensation arrangements		0.9	
Payments to acquire treasury stock		(143.8)	(0.4)
Dividends paid to stockholders		(0.1)	(0.1)
<b>Net cash flows used for financing activities</b>		(83.4)	(20.3)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		11.5	7.0
<b>Net Decrease in Cash and Cash Equivalents</b>		(427.2)	(65.3)
<b>Cash and Cash Equivalents at Beginning of Period</b>		1,120.7	864.5

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Cash and Cash Equivalents at End of Period	\$	693.5	\$	799.2
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See notes to consolidated financial statements.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the Company). Net earnings attributable to the Company and net earnings attributable to noncontrolling interests are disclosed separately on the face of the accompanying consolidated statements of earnings. In addition, noncontrolling interests are reported as a separate component of equity in the consolidated balance sheets and consolidated statements of equity. All significant intercompany balances and transactions have been eliminated.

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2010.

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

***Management Estimates***

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives. Descriptions of these policies are discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2010. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

***Currency Translation and Transactions***

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted average rates of exchange for the period. Unrealized translation gains or losses, net of tax, are reported as cumulative translation adjustments through other comprehensive income (loss). Such adjustments amounted to \$86.7 million and \$33.6 million of unrealized translation gains, net of tax, during the three months ended September 30, 2010 and 2009, respectively. For the Company's subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings.

The accompanying consolidated statements of earnings include net exchange gains on foreign currency transactions of \$2.8 million during the three months ended September 30, 2010 and net exchange losses on foreign currency transactions of \$0.4 million during the three months ended September 30, 2009.

***Accounts Receivable***

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling \$36.2 million and \$34.3 million as of September 30, 2010 and June 30, 2010, respectively.

[Table of Contents](#)**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Concentration of Credit Risk***

The Company's largest customer sells products primarily within the United States and accounted for \$282.0 million, or 13%, and \$246.1 million, or 13%, of the Company's consolidated net sales for the three months ended September 30, 2010 and 2009, respectively. This customer accounted for \$182.0 million, or 16%, and \$84.3 million, or 11%, of the Company's accounts receivable at September 30, 2010 and June 30, 2010, respectively.

***Inventory and Promotional Merchandise***

	September 30 2010	June 30 2010
	(In millions)	
Inventory and promotional merchandise, net consists of:		
Raw materials	\$ 220.4	\$ 206.0
Work in process	71.9	78.6
Finished goods	507.6	377.8
Promotional merchandise	105.3	164.2
	\$ 905.2	\$ 826.6

***Property, Plant and Equipment***

	September 30 2010	June 30 2010
	(In millions)	
<b><u>Assets (Useful Life)</u></b>		
Land	\$ 14.6	\$ 14.3
Buildings and improvements (10 to 40 years)	180.5	172.5
Machinery and equipment (3 to 10 years)	1,225.1	1,174.9
Furniture and fixtures (5 to 10 years)	88.1	82.1
Leasehold improvements	1,129.4	1,081.2
	2,637.7	2,525.0
Less accumulated depreciation and amortization	1,593.9	1,501.4
	\$ 1,043.8	\$ 1,023.6

The cost of assets related to projects in progress of \$150.6 million and \$160.4 million as of September 30, 2010 and June 30, 2010, respectively, is included in their respective asset categories in the table above. Depreciation and amortization of property, plant and equipment was \$65.4

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million and \$62.0 million during the three months ended September 30, 2010 and 2009, respectively. Depreciation and amortization related to the Company's manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Income Taxes***

The effective rate for income taxes was 32.7% and 31.4% for the three months ended September 30, 2010 and 2009, respectively. The increase in the effective income tax rate was primarily attributable to the geographical mix of earnings and in particular, the increase in earnings from the Company's travel retail business.

As of September 30, 2010 and June 30, 2010, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$153.3 million and \$157.3 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$79.6 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three months ended September 30, 2010 in the accompanying consolidated statement of earnings was \$0.8 million. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at September 30, 2010 and June 30, 2010 was \$43.9 million and \$43.6 million, respectively. On the basis of the information available as of September 30, 2010, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of \$55 million to \$70 million within 12 months as a result of projected resolutions of global tax examinations and controversies and a potential lapse of the applicable statutes of limitations.

During the three months ended September 30, 2010, the Company's claim entered pursuant to an administrative process of the tax treaty between the United States and Belgium (commonly referred to as the "Competent Authority" process) was settled. This settlement resolved U.S. foreign tax credit determinations relating to a formal agreement with the Appeals division of the IRS in connection with the examination of fiscal years 2002 through 2005. The Competent Authority settlement did not materially impact the Company's consolidated financial statements.

Subsequent to September 30, 2010, the Company formally concluded the IRS examination of fiscal years 2006 through 2008. The change to the balance of gross unrecognized tax benefits will be recorded in the second quarter of fiscal 2011. At this time, the Company estimates that it will recognize, in the second quarter of fiscal 2011, a related tax and interest benefit that ranges between \$7 million and \$11 million, net of tax.

***Recently Issued Accounting Standards***

In January 2010, the Financial Accounting Standards Board ( "FASB" ) issued authoritative guidance that will require entities to make new disclosures about recurring or nonrecurring fair-value measurements of assets and liabilities. The Company adopted the new guidance in its fiscal 2010 third quarter, except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. Because this guidance is primarily related to disclosures, the adoption is not expected to have an impact on the Company's consolidated financial statements.

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In June 2009, the FASB issued authoritative guidance to eliminate the exception to consolidate a qualifying special-purpose entity, change the approach to determining the primary beneficiary of a variable interest entity and require companies to more frequently re-assess whether they must consolidate variable interest entities. Under the new guidance, the primary beneficiary of a variable interest entity is identified qualitatively as the enterprise that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance becomes effective for the Company at its fiscal 2011 year-end and interim reporting periods thereafter. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

### **NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

During the three months ended September 30, 2010, the Company acquired the Smashbox brand which included the addition of goodwill of approximately \$139 million, amortizable intangible assets of approximately \$77 million (with a weighted-average amortization period of 9 years) and non-amortizable intangible assets of approximately \$61 million related to the Company's makeup business. The fair value of identifiable intangible assets acquired is provisional pending receipt of the final valuation of those assets.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company assigns goodwill of a reporting unit to the product category in which that reporting unit predominantly operates at the time of its acquisition.

The change in the carrying amount of goodwill is as follows:

(In millions)	Skin Care		Makeup		Fragrance		Hair Care		Total
<b><u>Balance as of June 30, 2010</u></b>									
Goodwill	\$	67.9	\$	265.1	\$	54.8	\$	400.6	\$ 788.4
Accumulated impairments		(20.9)						(15.0)	(35.9)
		47.0		265.1		54.8		385.6	752.5
Goodwill acquired during the period				140.9					140.9
Translation and other adjustments		0.8		0.2		0.1		2.2	3.3
		0.8		141.1		0.1		2.2	144.2
<b><u>Balance as of September 30, 2010</u></b>									
Goodwill		69.1		406.2		54.9		403.0	933.2
Accumulated impairments		(21.3)						(15.2)	(36.5)
	\$	47.8	\$	406.2	\$	54.9	\$	387.8	\$ 896.7

Other intangible assets consists of the following:

(In millions)	September 30, 2010			June 30, 2010		
	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
<b>Amortizable intangible assets:</b>						
Customer lists and other	\$ 282.3	\$ 154.4	\$ 127.9	\$ 205.0	\$ 151.0	\$ 54.0
License agreements	43.0	43.0		43.0	43.0	
	\$ 325.3	\$ 197.4	127.9	\$ 248.0	\$ 194.0	54.0
<b>Non-amortizable intangible assets:</b>						
Trademarks and other			117.1			55.5
Total intangible assets			\$ 245.0			\$ 109.5

The aggregate amortization expense related to amortizable intangible assets for the three months ended September 30, 2010 and 2009 was \$3.6 million and \$2.5 million, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2011 and each of fiscal years ending June 30, 2012 to 2015 is \$12.6 million, \$15.6 million, \$15.6 million, \$15.5 million and \$15.5 million, respectively.

**NOTE 3 ACQUISITION OF BUSINESS**

During the first quarter of fiscal 2011, the Company acquired Smashbox Beauty Cosmetics. The purchase price was funded by cash provided by operations. The results of operations are included in the accompanying consolidated financial statements commencing with the date it was acquired. Pro forma results of operations of the prior-year period have not been presented, as the impact on the Company's consolidated financial results would not have been material. The aggregate cost of this transaction, net of cash acquired, and continuing earn-out obligations related to the acquisition of the Bobbi Brown brand was approximately \$258 million.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES**

In an effort to drive down costs and achieve synergies within the organization, in February 2009, the Company announced the implementation of a multi-faceted cost savings program (the Program) to position itself to achieve long-term profitable growth. The Company anticipates the Program will result in related restructuring and other special charges, inclusive of cumulative charges recorded to date and over the next few fiscal years, totaling between \$350 million and \$450 million before taxes.

The Program focuses on a redesign of the Company's organizational structure in order to integrate it in a more cohesive way and operate more globally across brands and functions. A principal aspect of the Program is the reduction of the workforce by approximately 2,000 employees. Specific actions taken during the three months ended September 30, 2010 and 2009 included:

- Resize and Reorganize the Organization The Company continued the realignment and optimization of its 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.
- Turnaround or Exit Unprofitable Operations To improve the profitability in certain of the Company's brands and regions, the Company has selectively exited certain channels of distribution, categories and markets, and has made changes to turnaround others. This included the exit from the global wholesale distribution of our Prescriptives brand and the reformulation of Ojon brand products. In connection with these activities, we recorded a reserve for anticipated product returns, wrote off inventory and incurred costs to reduce workforce and terminate contracts.
- Outsourcing In order to balance the growing need for information technology support with the Company's efforts to provide the most efficient and cost effective solutions, the Company continued the outsourcing of certain information technology processes. The Company incurred costs to transition services to an outsource provider.

Restructuring Charges

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

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	Three Months Ended September 30	
	2010	2009
	(In millions)	
Employee related costs	\$ 0.7	\$ 13.4
Asset write-offs	0.1	0.2
Contract terminations	0.3	0.6
Other exit costs	0.6	0.5
Total restructuring charges	\$ 1.7	\$ 14.7

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The following table presents aggregate restructuring charges related to the Program:

(In millions)	Employee- Related Costs	Asset Write- offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Three months ended September 30, 2010	0.7	0.1	0.3	0.6	1.7
Charges recorded through September 30, 2010	\$ 90.9	\$ 15.3	\$ 6.0	\$ 8.6	\$ 120.8

The total amount of restructuring charges expected to be incurred (including those recorded as set forth in the table above include approximately \$112 million to \$114 million for employee-related costs, approximately \$18 million in asset write-offs and approximately \$23 million of contract terminations and other exit costs.

The following table presents accrued restructuring charges and the related activity as of and for the three months ended September 30, 2010 under the Program:

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Balance at June 30, 2010	\$ 30.6	\$	\$ 0.1	\$ 0.4	\$ 31.1
Charges	0.7	0.1	0.3	0.6	1.7
Cash payments	(9.5)		(0.3)	(0.7)	(10.5)
Non-cash write-offs		(0.1)			(0.1)
Translation adjustments	0.4				0.4
Balance at September 30, 2010	\$ 22.2	\$	\$ 0.1	\$ 0.3	\$ 22.6

Accrued restructuring charges at September 30, 2010 are expected to result in cash expenditures funded from cash provided by operations of approximately \$18 million and \$5 million in fiscal 2011 and 2012, respectively.

Charges Associated with Restructuring Activities

The following table presents total charges associated with restructuring activities related to the Program:

	Three Months Ended September 30	
	2010	2009
	(In millions)	
Sales Returns (included in Net sales)	\$	\$ 18.5
Cost of Sales	0.8	5.6
Restructuring Charges	1.7	14.7
Other Special Charges	2.1	3.5
Total Charges Associated with Restructuring Activities	\$ 4.6	\$ 42.3

Other special charges in connection with the implementation of the Program relate 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 recorded through September 30, 2010 is approximately \$41 million.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended September 30, 2010, the Company recorded a write-off of inventory associated with turnaround operations of \$0.8 million. For the three months ended September 30, 2009, the Company recorded \$18.5 million reflecting sales returns (less a related cost of sales of \$3.9 million) and a write-off of inventory of \$9.5 million associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand. The total amounts expected to be incurred, including those recorded through September 30, 2010 is between \$36 million and \$39 million related to sales returns and approximately \$15 million related to inventory write-offs.

**NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value (1)		Fair Value (1)	
		September 30 2010	June 30 2010	September 30 2010	June 30 2010
Derivatives Designated as Hedging Instruments:					
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 9.3	\$ 17.1	Other accrued liabilities	\$ 16.6 \$ 10.5
Interest rate swap contracts	Other assets		38.7	Not applicable	
Total Derivatives Designated as Hedging Instruments		9.3	55.8	16.6	10.5
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forward contracts	Prepaid expenses and other current assets	2.8	2.0	Other accrued liabilities	2.5 2.0
Total Derivatives		\$ 12.1	\$ 57.8	\$ 19.1	\$ 12.5

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended September 30	Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (1) Three Months Ended September 30



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	2010		2009			2010		2009	
<b>Derivatives in Cash Flow Hedging Relationships:</b>									
Foreign currency forward contracts	\$	(13.9)	\$	(4.9)	Cost of sales	\$	(0.3)	\$	
					Selling, general and administrative				(2.3)
Total derivatives	\$	(13.9)	\$	(4.9)		\$	(0.3)	\$	(2.3)

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was \$0.3 million for the three months ended September 30, 2010 and 2009. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended September 30, 2010 and 2009.

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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives (1) Three Months Ended September 30	
		2010	2009
<b>Derivatives in Fair Value Hedging Relationships:</b>			
Interest rate swap contracts	Interest expense, net	\$ 8.7	\$ 6.0

(1) Changes in the fair values of the interest rate swap agreements are exactly offset by changes in the fair value of the underlying long-term debt.

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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives Three Months Ended September 30	
		2010	2009
<b>Derivatives Not Designated as Hedging Instruments:</b>			
Foreign currency forward contracts	Selling, general and administrative	\$ 0.4	\$ (4.2)

***Foreign Currency Cash-Flow Hedges***

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2011. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option

contracts is based on a dollar offset methodology.

The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income (loss) are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of September 30, 2010, the Company's foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain (loss) as of September 30, 2010 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings, net of tax, within the next twelve months is \$2.5 million.

At September 30, 2010, the Company had foreign currency forward contracts in the amount of \$1,338.9 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$252.3 million), British pound (\$243.4 million), Euro (\$142.0 million), Canadian dollar (\$136.3 million), Hong Kong dollar (\$104.0 million), Japanese yen (\$88.7 million), and Australian dollar (\$87.5 million).

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Fair Value Hedges***

The Company may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on our funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. During the three months ended September 30, 2010, the Company terminated its interest rate swap agreements with a notional amount totaling \$250.0 million which had effectively converted the fixed rate interest on its outstanding 2017 Senior Notes to variable interest rates. The instrument, which was classified as an asset, had a fair value of \$47.4 million at the date of cash settlement. The net settlement is classified as a financing activity on the consolidated statements of cash flows. Hedge accounting treatment was discontinued prospectively and the fair value adjustment to the carrying amount of the related debt will be amortized against interest expense over the remaining life of the debt.

***Credit Risk***

As a matter of policy, the Company only enters into derivative contracts with counterparties that have at least an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$12.1 million at September 30, 2010. To manage this risk, the Company has established counterparty credit guidelines that are continually monitored and reported to management. Accordingly, management believes risk of loss under these hedging contracts is remote.

Certain of the Company's derivative financial instruments contain credit-risk-related contingent features. As of September 30, 2010, the Company was in compliance with such features.

**NOTE 6 FAIR VALUE MEASUREMENTS**

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

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

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

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

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

The following table presents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2010:

(In millions)	(Level 1)	(Level 2)	(Level 3)	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$	\$ 12.1	\$	\$ 12.1
Available-for-sale securities	5.9			5.9
Total	\$ 5.9	\$ 12.1	\$	\$ 18.0
<b>Liabilities:</b>				
Foreign currency forward contracts	\$	\$ 19.1	\$	\$ 19.1

The following table presents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$	\$ 19.1	\$	\$ 19.1
Interest rate swap contracts		38.7		38.7
Available-for-sale securities	5.4			5.4
Total	\$ 5.4	\$ 57.8	\$	\$ 63.2
<b>Liabilities:</b>				
Foreign currency forward contracts	\$	\$ 12.5	\$	\$ 12.5

***Fair Value of Financial Instruments***

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

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

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

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

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

*Interest rate swap contracts* - The fair values of the Company's outstanding interest rate swap contracts were determined using the market approach and were based on non-binding offers from the counterparties that are corroborated by observable market data using the income approach. The non-binding offers represented the prices offered by the counterparties in the over-the-counter market to unwind and terminate these instruments (exclusive of accrued interest) and incorporated the counterparties' respective overall credit exposure to the Company. The Company performs a discounted cash flow analysis to corroborate the fair values of the non-binding offers using inputs such as swap yield curves and six-month LIBOR forward rates, which are obtained from an independent pricing service. During the three months ended September 30, 2010, the Company terminated its interest rate swap agreements. See Note 5 - Derivative Financial Instruments.

*Short-term and long-term debt* - The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities. To a lesser extent, debt also includes capital lease obligations for which the carrying amount approximates the fair value.

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

(In millions)	September 30 2010		June 30 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Nonderivatives</b>				
Cash and cash equivalents	\$ 693.5	\$ 693.5	\$ 1,120.7	\$ 1,120.7
Available-for-sale securities	5.9	5.9	5.4	5.4
Current and long-term debt	1,235.1	1,356.6	1,228.4	1,325.3
<b>Derivatives</b>				
Foreign currency forward contracts - asset (liability)	(7.0)	(7.0)	6.6	6.6
Interest rate swap contracts - asset			38.7	38.7

**NOTE 7 - PENSION AND POST-RETIREMENT BENEFIT PLANS**

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. The Company also maintains post-retirement benefit plans which provide certain medical and dental benefits to eligible employees. Descriptions of these plans are discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2010.



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The components of net periodic benefit cost for the three months ended September 30, 2010 and 2009 consisted of the following:

(In millions)	Pension Plans						Other than Pension Plans Post-retirement	
	2010	U.S. 2009	2010	International 2009	2010	2009	2010	2009
Service cost	\$ 6.4	\$ 5.6	\$ 5.1	\$ 4.4	\$ 0.9	\$ 0.8		
Interest cost	7.0	7.3	4.7	4.9	1.9	2.0		
Expected return on plan assets	(8.7)	(8.0)	(5.3)	(5.0)	(0.1)			
Amortization of:								
Prior service cost	0.2	0.2	0.5	0.6				
Actuarial loss	2.4	1.0	1.4	0.4	0.5	0.1		
Net periodic benefit cost	\$ 7.3	\$ 6.1	\$ 6.4	\$ 5.3	\$ 3.2	\$ 2.9		

During the three months ended September 30, 2010, the Company made contributions to its international pension plans totaling approximately \$5 million.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 8 CONTINGENCIES**

*Legal Proceedings*

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

**NOTE 9 COMMON STOCK**

During the three months ended September 30, 2010, 350,000 shares of the Company's Class B Common Stock were converted into shares of Class A Common Stock.

During the three months ended September 30, 2010, the Company purchased approximately 2.4 million shares of its Class A Common Stock for \$143.8 million.

**NOTE 10 STOCK PROGRAMS**

As of September 30, 2010, the Company has two active equity compensation plans which include the Amended and Restated Fiscal 2002 Share Incentive Plan (the "Fiscal 2002 Plan") and the Non-Employee Director Share Incentive Plan (collectively, the "Plans"). These Plans currently provide for the issuance of 24,775,200 shares of Class A Common Stock, which consist of shares originally provided for and shares transferred to the Fiscal 2002 Plan from other inactive plans and employment agreements, to be granted in the form of stock-based awards to key employees, consultants and non-employee directors of the Company. As of September 30, 2010, approximately 4,316,100 shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company's equity compensation awards outstanding at September 30, 2010 include stock options, performance share units ("PSU"), restricted stock units ("RSU") and share units.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options, PSUs, RSUs and share units. Compensation expense attributable to net stock-based compensation during the three months ended September 30, 2010 and 2009 was \$30.6 million and \$19.2 million, respectively. As of September 30, 2010, the total unrecognized compensation cost related to nonvested stock-based awards was \$111.5 million and the related weighted-average period over which it is expected to be recognized is approximately 2.2 years.

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

A summary of the Company's stock option programs as of September 30, 2010 and changes during the three months then ended, is presented below:

(Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value(1) (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2010	10,083.6	\$ 39.84		
Granted at fair value	2,465.1	58.08		
Exercised	(378.1)	38.65		
Expired	(13.1)	41.58		
Forfeited	(19.6)	40.98		
Outstanding at September 30, 2010	12,137.9	43.58	\$ 238.6	6.8
Exercisable at September 30, 2010	6,057.8	39.26	\$ 145.2	4.5

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

The exercise period for all stock options generally may not exceed ten years from the date of grant. Stock option grants to individuals generally become exercisable in three substantively equal tranches over a service period of up to four years. The Company attributes the value of option awards on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

The per-share weighted-average grant date fair value of stock options granted during the three months ended September 30, 2010 and 2009 was \$18.81 and \$10.53, respectively. The total intrinsic value of stock options exercised during the three months ended September 30, 2010 and 2009 was \$7.7 million and \$0.1 million, respectively.

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

	Three Months Ended September 30	
	2010	2009
Weighted-average expected stock-price volatility	31%	30%
Weighted-average expected option life	8 years	8 years
Average risk-free interest rate	2.2%	3.1%
Average dividend yield	1.1%	2.0%

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

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

During the three months ended September 30, 2010, the Company granted 184,600 PSUs, which will be settled in stock subject to the achievement of the Company's net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2013. Settlement will be made pursuant to a range of opportunities relative to the net sales, diluted net earnings per common share and return on invested capital targets of the Company and, as such, the compensation cost of the PSU is subject to adjustment based upon the attainability of these target goals. No settlement will occur for results below the applicable minimum threshold for a target and additional shares shall be issued if performance exceeds the targeted performance goals. Certain PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. Other PSUs granted in fiscal 2011 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period. These awards are subject to the provisions of the agreement under which the PSUs are granted. The PSUs were valued at the closing market value of the Company's Class A Common Stock on the date of grant and generally vest at the end of the performance period. In September 2010, 47,500 shares of the Company's Class A Common Stock were issued and related accrued dividends were paid, relative to the target goals set at the time of issuance, in settlement of 93,200 PSUs which vested as of June 30, 2010.

The following is a summary of the status of the Company's PSUs as of September 30, 2010 and activity during the three months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2010	296.3	\$ 42.00
Granted	184.6	58.61
Vested		
Forfeited		
Nonvested at September 30, 2010	480.9	48.38

***Restricted Stock Units***

The Company granted approximately 924,100 RSUs during the three months ended September 30, 2010 which, at the time of grant, were scheduled to vest as follows: 496,900 on October 31, 2011, 284,100 on October 31, 2012 and 143,100 on October 31, 2013, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2011 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the RSU and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant. Other RSUs granted in fiscal 2011 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

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The following is a summary of the status of the Company's RSUs as of September 30, 2010 and activity during the three months then ended:

<b>(Shares in thousands)</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Nonvested at June 30, 2010	1,300.9	\$ 37.79
Granted	924.1	57.32
Vested	(39.8)	33.50
Forfeited	(11.6)	36.92
Nonvested at September 30, 2010	2,173.6	46.18

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Share Units***

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The share units are convertible into shares of Class A Common Stock as provided for in that plan. Share units are accompanied by dividend equivalent rights that are converted to additional share units when such dividends are declared.

The following is a summary of the status of the Company's share units as of September 30, 2010 and activity during the three months then ended:

<b>(Shares in thousands)</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Outstanding at June 30, 2010	26.4	\$ 39.27
Granted		
Dividend equivalents		
Converted		
Outstanding at September 30, 2010	26.4	39.27

***Cash Units***

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company's Class A Common Stock. The Company recorded \$0.7 million and \$0.4 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended September 30, 2010 and 2009, respectively.

**NOTE 11 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE**

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



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A reconciliation between the numerators and denominators of the basic and diluted EPS computations is as follows:

		Three Months Ended September 30	
		2010	2009
		(In millions, except per share data)	
<b>Numerator:</b>			
Net earnings attributable to The Estée Lauder Companies Inc.		\$ 191.1	\$ 140.7
<b>Denominator:</b>			
Weighted-average common shares outstanding	Basic	196.7	196.7
Effect of dilutive stock options		2.8	0.7
Effect of restricted stock units		0.9	0.8
Weighted-average common shares outstanding	Diluted	200.4	198.2
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share:</b>			
Basic		\$ .97	\$ .72
Diluted		.95	.71

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As of September 30, 2010 and 2009, outstanding options to purchase 2.5 million and 11.7 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. As of September 30, 2010 and 2009, 0.5 million and 0.4 million of PSUs, respectively, have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in Note 10.

**NOTE 12 COMPREHENSIVE INCOME (LOSS)**

The components of accumulated other comprehensive income ( OCI ) included in the accompanying consolidated balance sheets consist of net unrealized investment gain (loss), net gain (loss) on derivative instruments designated and qualifying as cash-flow hedging instruments, net actuarial gain (loss) and prior service (costs) credits associated with pension and other post-retirement benefits, and cumulative translation adjustments as of the end of each period.

Comprehensive income (loss) and its components, net of tax, are as follows:

	<b>Three Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>	
Net earnings	\$ 189.6	\$ 137.8
Other comprehensive income (loss):		
Net unrealized investment gain (loss)		0.2
Net derivative instruments gain (loss)	(8.8)	(1.7)
Amounts included in net periodic benefit cost, net	(2.3)	1.5
Translation adjustments	88.2	34.5
	77.1	34.5
Comprehensive income (loss)	266.7	172.3
Comprehensive (income) loss attributable to noncontrolling interests:		
Net (earnings) loss	1.5	2.9
Translation adjustments	(1.5)	(0.9)
		2.0
Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.	\$ 266.7	\$ 174.3

**NOTE 13 CHANGES IN EQUITY**

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(In millions)		Common Stock	Total Stockholders Paid-in Capital	Equity Retained Earnings	The Estée Lauder Companies Inc. AOCI	Treasury Stock	Total	Non- controlling Interests	Total Equity
Balance	June 30, 2010	\$ 2.7	\$ 1,428.7	\$ 3,564.0	\$ (196.7)	\$ (2,850.3)	\$ 1,948.4	\$ 17.0	\$ 1,965.4
Net earnings (loss)				191.1			191.1	(1.5)	189.6
Other comprehensive income					75.6		75.6	1.5	77.1
Acquisition of treasury stock						(141.5)	(141.5)		(141.5)
Stock-based compensation			49.1			(1.7)	47.4		47.4
Balance	September 30, 2010	\$ 2.7	\$ 1,477.8	\$ 3,755.1	\$ (121.1)	\$ (2,993.5)	\$ 2,121.0	\$ 17.0	\$ 2,138.0

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Supplemental cash flow information for the three months ended September 30, 2010 and 2009 is as follows:

	2010	(In millions)	2009
Cash:			
Cash paid during the period for interest	\$	2.7	\$ 10.5
Cash paid during the period for income taxes	\$	12.2	\$ 42.0
Non-cash investing and financing activities:			
Long-term debt issued upon acquisition of business	\$		\$ 0.3
Liabilities incurred for acquisitions	\$		\$ 4.1
Incremental tax benefit from the exercise of stock options	\$	(1.8)	\$
Capital lease obligations incurred	\$	0.3	\$ 0.3
Interest rate swap derivative mark to market	\$	8.7	\$ 6.0

**NOTE 15 SEGMENT DATA AND RELATED INFORMATION**

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

The accounting policies for the Company's reportable segments are substantially the same as those for the consolidated financial statements, as described in the segment data and related information footnote included in the Company's Annual Report on Form 10-K for the year ended June 30, 2010. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset values associated with the Company's segment data since June 30, 2010.



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

	Three Months Ended September 30		
	2010		2009
	(In millions)		
PRODUCT CATEGORY DATA			
Net Sales:			
Skin Care	\$	857.7	\$ 730.3
Makeup		794.2	717.9
Fragrance		334.5	291.5
Hair Care		94.4	97.9
Other		10.9	14.3
		2,091.7	1,851.9
Returns associated with restructuring activities			(18.5)
	\$	2,091.7	\$ 1,833.4
Operating Income (Loss):			
Skin Care	\$	149.9	\$ 114.3
Makeup		103.2	107.8
Fragrance		50.3	28.2
Hair Care		1.8	9.6
Other		(2.6)	2.8
		302.6	262.7
Total charges associated with restructuring activities		(4.6)	(42.3)
		298.0	220.4
Reconciliation:			
Interest expense, net		16.1	19.6
Earnings before income taxes	\$	281.9	\$ 200.8
GEOGRAPHIC DATA			
Net Sales:			
The Americas	\$	997.2	\$ 892.3
Europe, the Middle East & Africa		680.9	601.9
Asia/Pacific		413.6	357.7
		2,091.7	1,851.9
Returns associated with restructuring activities			(18.5)
	\$	2,091.7	\$ 1,833.4
Operating Income (Loss):			
The Americas	\$	103.1	\$ 113.9
Europe, the Middle East & Africa		138.6	93.3
Asia/Pacific		60.9	55.5
		302.6	262.7
Total charges associated with restructuring activities		(4.6)	(42.3)
	\$	298.0	\$ 220.4

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****RESULTS OF OPERATIONS**

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following is a comparative summary of operating results for the three months ended September 30, 2010 and 2009, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Sales of products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

	Three Months Ended September 30		
	2010		2009
	(In millions)		
NET SALES			
By Region:			
The Americas	\$	997.2	\$ 892.3
Europe, the Middle East & Africa		680.9	601.9
Asia/Pacific		413.6	357.7
		2,091.7	1,851.9
Returns associated with restructuring activities			(18.5)
	\$	2,091.7	\$ 1,833.4
By Product Category:			
Skin Care	\$	857.7	\$ 730.3
Makeup		794.2	717.9
Fragrance		334.5	291.5
Hair Care		94.4	97.9
Other		10.9	14.3
		2,091.7	1,851.9
Returns associated with restructuring activities			(18.5)
	\$	2,091.7	\$ 1,833.4
OPERATING INCOME (LOSS)			
By Region:			
The Americas	\$	103.1	\$ 113.9
Europe, the Middle East & Africa		138.6	93.3
Asia/Pacific		60.9	55.5
		302.6	262.7
Total charges associated with restructuring activities		(4.6)	(42.3)
	\$	298.0	\$ 220.4
By Product Category:			
Skin Care	\$	149.9	\$ 114.3
Makeup		103.2	107.8
Fragrance		50.3	28.2

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Hair Care	1.8	9.6
Other	(2.6)	2.8
	302.6	262.7
Total charges associated with restructuring activities	(4.6)	(42.3)
	\$ 298.0	\$ 220.4



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

	<b>Three Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Net sales	100.0%	100.0%
Cost of sales	23.3	24.3
Gross profit	76.7	75.7
Operating expenses:		
Selling, general and administrative	62.3	62.7
Restructuring and other special charges	0.2	1.0
	62.5	63.7
Operating income	14.2	12.0
Interest expense, net	0.7	1.1
Earnings before income taxes	13.5	10.9
Provision for income taxes	4.4	3.4
Net earnings	9.1	7.5
Net loss attributable to noncontrolling interests	0.1	0.2
Net earnings attributable to The Estée Lauder Companies Inc.	9.2%	7.7%

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.

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

**Overview**

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 have implemented 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.

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We believe we have a strong, diverse brand portfolio with global reach and potential. Our strategy continues to build on and leverage our history of outstanding creativity, innovation and entrepreneurship. We have experienced initial successes in expanding our High-Touch service model. We are expanding our efforts to evolve our e-commerce-based online strategy into a multi-pronged digital strategy encompassing e-commerce, as well as digital and social media. We are leveraging our regional organization in an effort to assure that we are locally relevant in each market.

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As part of our strategy, we are shifting 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 are strengthening our geographic presence by seeking share growth in large, image-building cities within core markets such as the United States, the United Kingdom, France, Italy and Japan. In addition, we continue to prioritize efforts to expand our presence and accelerate share growth in emerging markets such as China, Russia, the Middle East and Eastern Europe. While we believe the retail environment in North America may be challenging over the remainder of the fiscal year, we recognize the need to restore profitable growth in our traditional department store channel. We have implemented changes to reshape our organization to meet the needs of the changing retail landscape. Internationally, we plan to continue 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 and continuing efforts to grow online, specialty retailers and prestige salons. During the current-year quarter, we continued to execute on certain initiatives designed to drive out non-value added costs, optimize productivity and increase financial discipline. To optimize our portfolio, we are focusing on improving our margins and share in our distribution channels. We are re-energizing certain of our brands through the introduction of products that feature advances in research and technology. At the same time, we are investing in initiatives to incubate and develop next generation products and brands, as well as driving turnaround brands toward sustainable profitability levels. We are leveraging 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.

Our results for the three months ended September 30, 2010, reflect an improvement as compared to the prior-year period and are due, in part, from stronger net sales, and savings achieved in connection with our multi-faceted cost savings program, including favorable product mix (which reflects our strategic emphasis on skin care products), resizing, restructuring and other cost containment initiatives. Although our overall results exceeded our expectations, we remain cautious regarding global economic uncertainties and other risks that may affect our business.

***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, inclusive of cumulative charges recorded to date 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 \$500 million to \$550 million (program inception through the end of fiscal 2011 estimated to be approximately \$500 million to \$525 million) 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. A principal aspect of the Program is the reduction of the workforce by approximately 2,000 employees. Specific actions taken during the three months ended September 30, 2010 and 2009 included:

- **Resize and Reorganize the Organization** We continued the 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.

- Turnaround or 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, and have made changes to turnaround others. This included the exit from the global wholesale distribution of our Prescriptives brand and the reformulation of Ojon brand products. In connection with these activities, we recorded a reserve for anticipated product returns, wrote off inventory and incurred costs to reduce workforce and terminate contracts.

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- 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 continued the outsourcing of certain information technology processes. We incurred costs to transition services to an outsource provider.

## Restructuring Charges

The following table presents restructuring charges related to the Program:

		2010	Three Months Ended September 30 (In millions)	2009
Employee related costs	\$	0.7	\$	13.4
Asset write-offs		0.1		0.2
Contract terminations		0.3		0.6
Other exit costs		0.6		0.5
Total restructuring charges	\$	1.7	\$	14.7

The following table presents aggregate restructuring charges related to the Program:

(In millions)	Employee- Related Costs	Asset Write- offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Three months ended September 30, 2010	0.7	0.1	0.3	0.6	1.7
Charges recorded through September 30, 2010	\$ 90.9	\$ 15.3	\$ 6.0	\$ 8.6	\$ 120.8

The total amount of restructuring charges expected to be incurred (including those recorded as set forth in the table above) include approximately \$112 to \$114 million for employee-related costs, approximately \$18 million in asset write-offs and approximately \$23 million of contract terminations and other exit costs.

The following table presents accrued restructuring charges and the related activity as of and for the three months ended September 30, 2010 under the Program:

(In millions)	Employee- Related	Asset	Contract Terminations	Other Exit Costs	Total
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	Costs		Write-offs							
Balance at June 30, 2010	\$	30.6	\$		\$	0.1	\$	0.4	\$	31.1
Charges		0.7		0.1		0.3		0.6		1.7
Cash payments		(9.5)				(0.3)		(0.7)		(10.5)
Non-cash write-offs				(0.1)						(0.1)
Translation adjustments		0.4								0.4
Balance at September 30, 2010	\$	22.2	\$		\$	0.1	\$	0.3	\$	22.6

Accrued restructuring charges at September 30, 2010 are expected to result in cash expenditures funded from cash provided by operations of approximately \$18 million and \$5 million in fiscal 2011 and 2012, respectively.

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### Charges Associated with Restructuring Activities

The following table presents total charges associated with restructuring activities related to the Program as follows:

	Three Months Ended September 30	
	2010	2009
	(In millions)	
Sales Returns (included in Net sales)	\$	\$ 18.5
Cost of Sales	0.8	5.6
Restructuring charges	1.7	14.7
Other Special Charges	2.1	3.5
Total Charges Associated with Restructuring Activities	\$ 4.6	\$ 42.3

Other special charges in connection with the implementation of the Program relate 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 recorded through September 30, 2010 is approximately \$41 million.

For the three months ended September 30, 2010, we recorded a write-off of inventory associated with turnaround operations of \$0.8 million. For the three months ended September 30, 2009, we recorded \$18.5 million reflecting sales returns (less a related cost of sales of \$3.9 million) and a write-off of inventory of \$9.5 million associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand. The total amounts expected to be incurred, including those recorded through September 30, 2010 is between \$36 million and \$39 million related to sales returns and approximately \$15 million related to inventory write-offs.

### *First Quarter Fiscal 2011 as Compared with First Quarter Fiscal 2010*

#### NET SALES

Net sales increased 14%, or \$258.3 million, to \$2,091.7 million, primarily reflecting strong growth in all of our geographic regions. Net sales increases in the skin care, fragrance and makeup product categories were partially offset by a decline in the hair care category. Excluding the impact of foreign currency translation, net sales increased 15%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of \$18.5 million recorded during the prior-year period. 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 increased 17%, or \$127.4 million, to \$857.7 million, primarily reflecting the success of our strategic focus on growing this category. The recent launches of Even Better Clinical Dark Spot Corrector, Repairwear Laser Focus Wrinkle & UV Damage Corrector, All About Eyes Serum De-Puffing Night Massage and Youth Surge Night Age Decelerating Night Moisturizer from Clinique contributed incremental sales of approximately \$62 million, combined. Also contributing incremental sales to the category were the recent launches of Advanced Night Repair Eye Synchronized Complex and Hydrationist Maximum Moisture Crème and Lotion from Estée Lauder, of approximately \$50 million combined, and The Regenerating Serum and The Eye Balm Intense from La Mer, of approximately \$14 million, combined. Higher sales from existing products in the Time Zone and Re-Nutriv lines of products from Estée Lauder contributed approximately \$12 million to the increase. These increases were partially offset by approximately \$30 million of lower sales from existing products in the Advanced Night Repair and Repairwear lines from Estée Lauder. Excluding the impact of foreign currency translation, skin care net sales increased 18%.



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***Makeup***

Makeup net sales increased 11%, or \$76.3 million, to \$794.2 million, primarily reflecting an increase in net sales from our makeup artist brands, which for the first time includes net sales of Smashbox products, of approximately \$84 million, combined. The recent launches of new Pure Color lip and eye products and Resilience Lift Extreme Radiant Lifting Makeup SPF 15 from Estée Lauder, and Acne Solutions Liquid Makeup and Redness Solutions Makeup SPF 15 from Clinique, contributed approximately \$32 million, combined, to the increase. These increases were partially offset by lower sales of Prescriptives products due to the exit from the global wholesale distribution of the brand in fiscal 2010, as well as lower sales of Superfit Makeup from Clinique and Double Wear Stay-in-Place lip and eye pencils from Estée Lauder of approximately \$19 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 11%.

***Fragrance***

Net sales of fragrance products increased 15%, or \$43.0 million, to \$334.5 million. The prior-year period was impacted by then existing economic conditions, coupled with competitive dynamics. Incremental sales from the recent launches of pureDKNY, Estée Lauder *pleasures bloom* and Coach Poppy contributed approximately \$26 million to the category. Higher sales of Tom Ford and Jo Malone, as well as certain other designer fragrances through self-select outlets contributed approximately \$13 million to the increase. Partially offsetting these increases were lower sales of Very Hollywood Michael Kors and Dreaming Tommy Hilfiger of approximately \$4 million. We anticipate future net sales growth in this category to be impacted by our efforts to improve profitability through a more strategically focused approach to investment spending, as well as competitive dynamics. Excluding the impact of foreign currency translation, fragrance net sales increased 17%.

***Hair Care***

Hair care net sales decreased 4%, or \$3.5 million, to \$94.4 million. While the category benefited from incremental sales from expanded distribution, particularly outside the United States, as well as from the recent launch of Control Force from Aveda, these improvements only partially offset lower net sales resulting from the ongoing reformulation and anticipated re-launch of Ojon brand products and a soft salon retail environment in the United States. Excluding the impact of foreign currency translation, hair care net sales decreased 3%.

***Geographic Regions***

Net sales in the Americas increased 12%, or \$104.9 million, to \$997.2 million. The increase during the current period was primarily attributable to growth in the United States from our heritage and makeup artist brands which benefited from an improved retail environment, new skin care and makeup product offerings and an increase in sales of certain designer fragrances through self-select outlets. Net sales also reflected the addition of the Smashbox brand to our portfolio. We have also seen an improvement in the net sales of many of our higher-end prestige products, which were negatively impacted by a change in spending patterns of consumers as a result of the economic downturn in the prior year. Together with the impact of the exit from the global wholesale distribution of the Prescriptives brand, all of these factors resulted in higher net sales in the United States of approximately \$98 million. Net sales in Canada and Latin America increased approximately \$7 million, combined. 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. To address these concerns, we are introducing new High-Touch concepts and working with retailers in the channel to improve consumer traffic. Foreign currency translation had a minimal impact on net sales in the Americas.

In Europe, the Middle East & Africa, net sales increased 13%, or \$79.0 million, to \$680.9 million, reflecting strong growth in our travel retail business and from substantially all countries in the region and in each major product category. This reflects our strategy to strengthen our geographic presence and to succeed in the travel retail channel. The region was impacted by an unfavorable foreign currency translation. Net sales increase of approximately \$69 million were driven by our travel retail business, the United Kingdom, the Middle East, Russia, South Africa and Turkey, reflecting improved retail environments, successful launches of skin care products and higher combined sales from our makeup artist brands and the benefit garnered during the current period from our investment spending and advertising support of products during

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the fourth quarter of fiscal 2010. The net sales improvement in our travel retail business also reflected a favorable comparison to the prior year due to successful product launches, our efforts to improve the High-Touch consumer experience and an increase in global airline passenger traffic. During the third quarter of fiscal 2010, we undertook an initiative to identify underperforming SKU s for the purpose of evaluating their relevance to our long-term perfumery strategy. The impact of this initiative benefited the current quarter as customers used the opportunity to purchase higher demand products. We do not expect the level of activity to continue during the remainder of the current fiscal year. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 18%.

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Net sales in Asia/Pacific increased 16%, or \$55.9 million, to \$413.6 million, reflecting growth in each product category and from substantially all countries in the region, several of which had a significant favorable impact of foreign currency translation. This reflects our strategy to strengthen existing distribution and expand our geographic presence in Asia, particularly in China. Net sales in China continue to grow at a rapid pace reflecting increases in share as well as the expansion of our presence in this emerging market. Approximately \$48 million of this increase was generated in China, Hong Kong, Taiwan, Japan and Korea, primarily reflecting strong sales of skin care products. Our businesses in Japan and Australia continued to be challenged due to difficult economic conditions, as reported net sales gains were generated from the strengthening of their respective currencies. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 10%.

Although our financial performance reflected improved economic conditions in certain geographies, we continue to operate in a challenging environment which may impact our future business activities.

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 decreased to 23.3% as compared with 24.3% in the prior-year period. This improvement primarily reflected a decrease in obsolescence charges of approximately 30 basis points, the favorable effect of exchange rates of approximately 20 basis points, favorable manufacturing variances of 10 basis points, as well as favorable changes in the mix of our business and a decrease in the timing and level of promotional activities of approximately 10 basis points, combined. Also contributing to the improvement in cost of sales margin was the impact in the prior-year period of the charges associated with restructuring activities of approximately 50 basis points.

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

**OPERATING EXPENSES**

Operating expenses as a percentage of net sales decreased to 62.5% as compared with 63.7% in the prior-year period and reflects the impact of the strong growth in net sales. This improvement primarily reflected lower selling and shipping costs as a percentage of net sales of approximately 130 basis points due to various cost containment efforts implemented as part of the Program and a strategically focused approach to spending, lower charges associated with restructuring activities of 80 basis points, and a favorable impact from foreign exchange transactions of approximately 20 basis points. Partially offsetting these improvements were higher general and administrative costs of 60 basis points, reflecting a more normalized level of spending in the current quarter, and advertising, sampling and merchandising costs of approximately 50 basis points.

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

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**OPERATING RESULTS**

Operating income increased 35%, or \$77.6 million, to \$298.0 million. Operating margin improved to 14.2% of net sales as compared with 12.0% in the prior-year period, reflecting strong net sales growth as well as our strategy to drive out non-value-added costs and enhanced financial discipline which resulted in a decrease in our operating expense margin. The current period also benefited from the lower level of restructuring charges compared to the prior-year period. Partially offsetting such improvements was the increase of certain expenses in the current quarter, as compared to the prior-year period which were reduced due to the economic conditions which existed at the time, returning to more normalized levels which are in line with our level of sales. While operating results improved dramatically from fiscal 2010, we do not expect the same levels of period-over-period improvements to continue. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges associated with restructuring activities of \$4.6 million, or 0.2% of net sales, for the three months ended September 30, 2010 and \$42.3 million, or 2.3% of net sales, for the three months ended September 30, 2009. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

***Product Categories***

All product categories benefited from initiatives we implemented as part of the Program including a more strategically focused approach to spending. Skin care operating income increased 31%, or \$35.6 million, to \$149.9 million, primarily reflecting improved results from certain of our heritage brands driven by increased net sales from recently-launched products with higher margins. Makeup operating income decreased 4%, or \$4.6 million, to \$103.2 million, primarily reflecting the timing and level of spending activities in the current quarter which are in line with our current level of sales as well as costs associated with the acquisition and integration of the Smashbox brand, partially offset by improved results from certain of our heritage and makeup artist brands. Fragrance operating results improved 78%, or \$22.1 million, to \$50.3 million, primarily reflecting higher net sales of designer fragrances as well as recent product launches, improved cost of goods and a more strategically focused approach to spending reflecting our strategy to improve profitability. Hair care operating results decreased 81%, or \$7.8 million, to \$1.8 million, primarily reflecting the impact of the reformulation and anticipated re-launch of Ojon brand products and a soft salon retail environment, partially offset by net sales growth outside the United States.

***Geographic Regions***

Operating income in the Americas decreased 9%, or \$10.8 million, to \$103.1 million, primarily reflecting the timing and level of spending activities in the current quarter which are in line with our current level of sales, the impact of reduced profitability in Venezuela as well as costs associated with the acquisition and integration of the Smashbox brand partially offset by improved results from our heritage and makeup artist brands.

In Europe, the Middle East & Africa, operating income increased 49%, or \$45.3 million, to \$138.6 million, reflecting improvements in travel retail and most countries in the region, some of which benefited from the impact of customer purchases pursuant to our long-term perfumery strategy. Higher results from our travel retail business and in the Middle East, the United Kingdom, Spain and Russia totaled approximately \$37 million.

In Asia/Pacific, operating income increased 10%, or \$5.4 million, to \$60.9 million. This increase primarily reflected improved results in Hong Kong, Japan, China, Taiwan and Malaysia, partially offset by lower results in Australia and Korea.

**INTEREST EXPENSE, NET**

Net interest expense was \$16.1 million as compared with \$19.6 million in the prior-year period. Interest expense decreased primarily due to a reduction of debt balances that resulted from the \$200 million debt tender offer we completed in the fourth quarter of fiscal 2010.

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**PROVISION FOR INCOME TAXES**

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

The effective rate for income taxes for the three months ended September 30, 2010 was 32.7% as compared with 31.4% in the prior-year period. The increase in the effective income tax rate of 130 basis points was primarily attributable to the geographical mix of earnings and, in particular, the increase in earnings from our travel retail business.

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

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period increased 36%, or \$50.4 million, to \$191.1 million and diluted net earnings per common share increased 34% from \$.71 to \$.95.

**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 September 30, 2010, we had cash and cash equivalents of \$693.5 million compared with \$1,120.7 million at June 30, 2010. Our cash and cash equivalents are maintained at a number of financial institutions in the United States and abroad. As of September 30, 2010, less than 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.

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.



Table of Contents***Credit Ratings***

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of October 21, 2010, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's and our long-term debt is rated A with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's.

***Debt***

At September 30, 2010, our outstanding borrowings were as follows:

	Long-term Debt		Current Debt (In millions)		Total Debt
6.00% Senior Notes, due May 15, 2037 ( 2037 Senior Notes(1), (7))	\$ 296.3			\$ 296.3	
5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes(2))	197.6				197.6
5.55% Senior Notes, due May 15, 2017 ( 2017 Senior Notes ) (3), (7)	346.4				346.4
7.75% Senior Notes, due November 1, 2013 ( 2013 Senior Notes(4), (7))	230.0				230.0
6.00% Senior Notes, due January 15, 2012 ( 2012 Senior Notes(5))	118.6				118.6
Promissory note due August 31, 2012 (6)	3.7				3.7
Turkish lira overdraft facility			11.9		11.9
Other borrowings	11.9		18.7		30.6
	\$ 1,204.5		\$ 30.6		\$ 1,235.1

(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 \$2.4 million.

(3) Consists of \$300.0 million principal, unamortized debt discount of \$0.3 million and a \$46.7 million adjustment to reflect the termination value of interest rate swaps.

(4) Consists of \$230.1 million principal and unamortized debt discount of \$0.1 million.

(5) Consists of \$120.0 million principal, unamortized debt discount of \$0.1 million and a \$1.3 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 \$3.4 million face value and unamortized premium of \$0.3 million.

(7) As of September 30, 2010, we were in compliance with all restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance.

We have a \$750.0 million commercial paper program under which we may issue commercial paper in the United States. At September 30, 2010, there was no commercial paper outstanding. We also have \$201.2 million in additional uncommitted credit facilities, of which \$17.6 million was used as of September 30, 2010. We do not anticipate difficulties in securing this form of working capital financing.

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 amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on our current credit ratings. This facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$50.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. As of September 30, 2010, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance. The financial covenant of this facility requires an interest expense coverage ratio of greater than 3:1 as of the last day of each fiscal quarter. The interest expense coverage ratio is defined in the credit agreement as the ratio of Consolidated EBITDA (which does not represent a measure of our operating results as defined under U.S. generally accepted accounting principles) to Consolidated Interest Expense and is calculated as stipulated in the agreement as follows:

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**Twelve Months Ended  
September 30, 2010 (1)  
(\$ in millions)**

**Consolidated EBITDA:**

Net earnings	\$	528.7
Add:		
Provision for income taxes		235.2
Interest expense, net (2)		98.1
Depreciation and amortization (3)		265.4
Extraordinary non-cash charges (4) (5)		61.0
Less:		
Extraordinary non-cash gains (5)		
	\$	1,188.4

**Consolidated Interest Expense:**

Interest expense, net	\$	98.1
Interest expense coverage ratio		12 to 1

- 
- (1) In accordance with the credit agreement, this period represents the four most recent quarters.
- (2) Includes interest expense, net and interest expense on debt extinguishment.
- (3) Excludes amortization of debt discount, and derivative and debt issuance costs as they are already included in Interest expense, net.
- (4) Includes goodwill, other intangible asset and long-lived asset impairments and non-cash charges associated with restructuring activities.
- (5) As provided for in the credit agreement.

We have a fixed rate promissory note agreement with a financial institution pursuant to which we may borrow up to \$150.0 million in the form of loan participation notes through one of our subsidiaries in Europe. The interest rate on borrowings under this agreement is at an all-in fixed rate determined by the lender and agreed to by us at the date of each borrowing. At September 30, 2010, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

We have an overdraft borrowing agreement with a financial institution pursuant to which our subsidiary in Turkey may be credited to satisfy outstanding negative daily balances arising from its business operations. The total balance outstanding at any time shall not exceed 40.0 million Turkish lira (\$26.3 million at the exchange rate at September 30, 2010). The interest rate applicable to each such credit shall be up to a maximum of 175 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by us at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at September 30, 2010 (\$11.9 million at the exchange rate at September 30, 2010) is classified as short-term debt in our consolidated balance sheet.

We have a 1.5 billion Japanese yen (\$17.7 million at the exchange rate at September 30, 2010) revolving credit facility that expires on March 31, 2011 and a 1.5 billion Japanese yen (\$17.7 million at the exchange rate at September 30, 2010) revolving credit facility that expires on

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March 31, 2012. The interest rates on borrowings under these credit facilities are based on TIBOR (Tokyo Interbank Offered Rate) plus .45% and .75%, respectively and the facility fees incurred on undrawn balances are 15 basis points and 25 basis points, respectively. At September 30, 2010, no borrowings were outstanding under these facilities.

Total debt as a percent of total capitalization (excluding noncontrolling interests) decreased to 37% at September 30, 2010 from 39% at June 30, 2010, primarily as a result of an increase in stockholders' equity driven by higher net earnings during the current-year period.

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***Cash Flows***

Net cash used for operating activities was \$39.1 million during the three months ended September 30, 2010 as compared with net cash provided by operating activities of \$2.7 million in the prior-year period. The change in operating cash in the first quarter of this fiscal year, as compared with the first quarter of the prior fiscal year, primarily reflected the levels of accounts receivable balances resulting from increased shipments in advance of the holiday season as well as the reduced levels of accounts payable balances. Partially offsetting these uses of cash were higher net earnings, the level and timing of tax payments and other liabilities.

Net cash used for investing activities was \$316.2 million during the three months ended September 30, 2010 as compared with \$54.7 million in the prior-year period. The increase in investing cash outflows primarily reflected the acquisition of Smashbox in the current-year period. The change also reflected higher cash payments in the current-year period primarily related to counters and global information technology systems and infrastructure partially offset by lower leasehold improvements.

Net cash used for financing activities was \$83.4 million during the three months ended September 30, 2010 as compared with net cash used for financing activities of \$20.3 million in the prior-year period. Cash used for financing activities in the current-year period primarily reflected the acquisition of treasury stock. Partially offsetting this use was the receipt of proceeds related to the settlement of interest rate derivatives and from employee stock transactions. Cash used in financing activities in the prior-year period primarily reflected the repayment of a promissory note due July 31, 2009 related to the acquisition of Ojon Corporation as well as repayments of other short-term debt.

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

There have been no significant changes to our pension and post-retirement funding as discussed in our Annual Report on Form 10-K for the year ended June 30, 2010.

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

There have been no significant changes to our commitments, contingencies and contractual obligations as discussed in our Annual Report on Form 10-K for the year ended June 30, 2010.

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

Except for the termination of the interest rate swap agreements as discussed below, there have been no significant changes to our derivative financial instruments and hedging activities as discussed in our Annual Report on Form 10-K for the year ended June 30, 2010.

***Foreign Exchange Risk Management***

We enter into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that we receive from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. We may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts

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entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2011. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income (loss) are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of September 30, 2010, these foreign currency cash-flow hedges were highly effective, in all material respects.

At September 30, 2010, we had foreign currency forward contracts in the amount of \$1,338.9 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$252.3 million), British pound (\$243.4 million), Euro (\$142.0 million), Canadian dollar (\$136.3 million), Hong Kong dollar (\$104.0 million), Japanese yen (\$88.7 million), and Australian dollar (\$87.5 million).

Table of Contents***Interest Rate Risk Management***

We may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on our funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. During the three months ended September 30, 2010, we terminated our interest rate swap agreements with a notional amount totaling \$250.0 million which had effectively converted the fixed rate interest on our outstanding 2017 Senior Notes to variable interest rates. The instrument, which was classified as an asset, had a fair value of \$47.4 million at the date of cash settlement. Hedge accounting treatment was discontinued prospectively and the fair value adjustment to the carrying amount of the related debt will be amortized against interest expense over the remaining life of the debt.

***Credit Risk***

As a matter of policy, we only enter into derivative contracts with counterparties that have at least an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$12.1 million at September 30, 2010. To manage this risk, we have established counterparty credit guidelines that are continually monitored and reported to management. Accordingly, management believes risk of loss under these hedging contracts is remote.

Certain of our derivative financial instruments contain credit-risk-related contingent features. As of September 30, 2010, we were in compliance with such features.

***Market Risk***

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, the high, low and average measured value-at-risk for the twelve months ended September 30, 2010 related to our foreign exchange contracts are as follows:

(In millions)	High		Low		Average	
Foreign exchange contracts	\$	31.7	\$	19.0	\$	22.7

Except for the termination of the interest rate swap agreements as discussed above, there have been no significant changes in market risk since June 30, 2010 that would have a material effect on our calculated value-at-risk exposure, as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

***Off-Balance Sheet Arrangements***

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

**CRITICAL ACCOUNTING POLICIES**

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives. Since June 30, 2010, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

#### **RECENTLY ISSUED ACCOUNTING STANDARDS**

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



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**FORWARD-LOOKING INFORMATION**

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

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

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

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

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

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

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

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

(8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products, changes in accounting standards, tax laws and regulations, environmental or climate change laws,

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regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;

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

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

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

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

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

(14) our ability to acquire, develop or implement new information and distribution technologies and initiatives on a timely basis and within our cost estimates;

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

(16) consequences attributable to the events that are currently taking place in the Middle East, including terrorist attacks, retaliation and the threat of further attacks or retaliation;

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

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

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

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

**Item 4. Controls and Procedures.**

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of September 30, 2010 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

As part of our Strategic Modernization Initiative, we anticipate the continued migration of our operations to SAP, with the majority of our locations being implemented through fiscal 2012. Based on management's evaluation, the necessary steps have been taken to monitor and maintain appropriate internal control over financial reporting during the quarter ended September 30, 2010.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the first quarter of fiscal 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. 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.

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

We are authorized by the Board of Directors to repurchase up to 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 September 30, 2010, the cumulative total of acquired shares pursuant to the authorization was 72.4 million, reducing the remaining authorized share repurchase balance to 15.6 million. During the three months ended September 30, 2010, we purchased approximately 2.4 million shares pursuant to the authorization for \$141.5 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 2010	1,018,233(2)	\$ 60.57	1,000,000	17,040,669
August 2010	360,000	56.69	360,000	16,680,669
September 2010	1,061,537(3)	58.12	1,040,000	15,640,669
	2,439,770	\$ 58.93	2,400,000	15,640,669

(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 vesting of restricted stock units.

(3) Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of performance 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 September 30, 2010, the stockholder set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the dates set forth below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares
		Converted/ Received
Ronald S. Lauder	August 25, 2010	350,000

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**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
10.1	Form of Stock Option Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant).
10.2	Form of Performance Share Unit Award Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant).
10.3	Form of Performance Share Unit Award Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant).
10.4	Form of Restricted Stock Unit Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant).
10.5	Form of Restricted Stock Unit Agreement under The Estée Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant).
10.6	Amendment to Employment Agreement with Leonard A. Lauder
31.1	Certification pursuant to Rule 13a-14(a) (CEO).
31.2	Certification pursuant to Rule 13a-14(a) (CFO).
32.1	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)
32.2	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

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Exhibit is a management contract or compensatory plan or arrangement.

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for the purposes of section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchanges Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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**SIGNATURES**

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

**THE ESTÉE LAUDER COMPANIES INC.**

Date: November 1, 2010

By:

/s/RICHARD W. KUNES  
Richard W. Kunes  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



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