

ESTEE LAUDER COMPANIES INC

Form 10-Q

November 04, 2011

[Table of Contents](#)

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

Washington, D.C. 20549-1004

---

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2011**

**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 ☐  
(Do not check if a smaller reporting company)

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 25, 2011, 116,596,817 shares of the registrant's Class A Common Stock, \$.01 par value, and 75,982,041 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.



Table of Contents

THE ESTÉE LAUDER COMPANIES INC.

INDEX

	Page
<b><u>Part I. Financial Information</u></b>	
<b><u>Item 1. Financial Statements</u></b>	
<b><u>Consolidated Statements of Earnings</u></b> <b><u>Three Months Ended September 30, 2011 and 2010</u></b>	2
<b><u>Consolidated Balance Sheets</u></b> <b><u>September 30, 2011 and June 30, 2011</u></b>	3
<b><u>Consolidated Statements of Cash Flows</u></b> <b><u>Three Months Ended September 30, 2011 and 2010</u></b>	4
<b><u>Notes to Consolidated Financial Statements</u></b>	5
<b><u>Item 2. Management's Discussion and Analysis of</u></b> <b><u>Financial Condition and Results of Operations</u></b>	25
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	39
<b><u>Item 4. Controls and Procedures</u></b>	39
<b><u>Part II. Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	40
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	40
<b><u>Item 6. Exhibits</u></b>	41
<b><u>Signatures</u></b>	42

---

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 September 30</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In millions, except per share data)</b>	
Net Sales	\$ 2,476.7	\$ 2,091.7
Cost of sales	534.3	488.1
<b>Gross Profit</b>	<b>1,942.4</b>	<b>1,603.6</b>
<b>Operating expenses</b>		
Selling, general and administrative	1,507.7	1,301.8
Restructuring and other charges	4.7	3.8
<b>Total operating expenses</b>	<b>1,512.4</b>	<b>1,305.6</b>
<b>Operating Income</b>	<b>430.0</b>	<b>298.0</b>
Interest expense, net	16.0	16.1
<b>Earnings before Income Taxes</b>	<b>414.0</b>	<b>281.9</b>
Provision for income taxes	135.4	92.3
<b>Net Earnings</b>	<b>278.6</b>	<b>189.6</b>
Net loss attributable to noncontrolling interests		1.5
<b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>	<b>\$ 278.6</b>	<b>\$ 191.1</b>
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share</b>		
Basic	\$ 1.43	\$ .97
Diluted	\$ 1.40	\$ .95
<b>Weighted-average common shares outstanding</b>		
Basic	195.3	196.7
Diluted	199.6	200.4

See notes to consolidated financial statements.



[Table of Contents](#)**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED BALANCE SHEETS**

	September 30 2011 (Unaudited)	June 30 2011
	(\$ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 719.5	\$ 1,253.0
Accounts receivable, net	1,378.5	945.6
Inventory and promotional merchandise, net	982.2	995.6
Prepaid expenses and other current assets	481.9	492.3
Total current assets	3,562.1	3,686.5
Property, Plant and Equipment, net	1,125.1	1,143.1
Other Assets		
Goodwill	876.7	877.3
Other intangible assets, net	222.1	227.5
Other assets	349.4	339.5
Total other assets	1,448.2	1,444.3
Total assets	\$ 6,135.4	\$ 6,273.9
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	\$ 141.8	\$ 138.0
Accounts payable	424.2	446.7
Accrued income taxes	163.9	62.3
Other accrued liabilities	1,239.7	1,296.3
Total current liabilities	1,969.6	1,943.3
Noncurrent Liabilities		
Long-term debt	1,072.8	1,080.1
Accrued income taxes	131.6	130.0
Other noncurrent liabilities	469.4	473.5
Total noncurrent liabilities	1,673.8	1,683.6
Contingencies (Note 7)		
Equity		
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued: 196,850,606 at September 30, 2011 and 196,586,976 at June 30, 2011; 240,000,000 shares Class B authorized; shares issued and outstanding: 75,982,041 at September 30, 2011 and June 30, 2011	2.7	2.7
Paid-in capital	1,789.2	1,735.6
Retained earnings	4,395.1	4,116.5
Accumulated other comprehensive income (loss)	(66.2)	17.7
	6,120.8	5,872.5
Less: Treasury stock, at cost; 79,332,335 Class A shares at September 30, 2011 and 75,287,545 Class A shares at June 30, 2011	(3,645.5)	(3,243.1)

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

<b>Total stockholders' equity</b>	<b>The Estée Lauder Companies Inc.</b>	2,475.3	2,629.4
<b>Noncontrolling interests</b>		16.7	17.6
<b>Total equity</b>		2,492.0	2,647.0
<b>Total liabilities and equity</b>	\$	6,135.4	\$ 6,273.9

See notes to consolidated financial statements.



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

	Three Months Ended September 30		
	2011		2010
	(In millions)		
<b>Cash Flows from Operating Activities</b>			
Net earnings	\$	278.6	\$ 189.6
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization		69.6	68.8
Deferred income taxes		(9.6)	6.1
Non-cash stock-based compensation		45.4	30.6
Excess tax benefits from stock-based compensation arrangements		(11.0)	(0.9)
Loss on disposal of property, plant and equipment		3.0	0.4
Non-cash charges associated with restructuring activities		0.1	0.9
Pension and post-retirement benefit expense		17.6	16.9
Pension and post-retirement benefit contributions		(7.8)	(8.7)
Other non-cash items			0.4
Changes in operating assets and liabilities:			
Increase in accounts receivable, net		(482.1)	(369.2)
Increase in inventory and promotional merchandise, net		(21.4)	(34.6)
Increase in other assets, net		(9.1)	(12.9)
Decrease in accounts payable		(10.6)	(63.8)
Increase in accrued income taxes		113.0	71.5
Increase (decrease) in other liabilities		(11.9)	65.8
<b>Net cash flows used for operating activities</b>		<b>(36.2)</b>	<b>(39.1)</b>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures		(80.8)	(57.7)
Acquisition of businesses and other intangible assets, net of cash acquired		(7.7)	(258.5)
<b>Net cash flows used for investing activities</b>		<b>(88.5)</b>	<b>(316.2)</b>
<b>Cash Flows from Financing Activities</b>			
Borrowings of current debt, net		1.2	7.1
Debt issuance costs		(1.1)	
Repayments and redemptions of long-term debt, net		(2.4)	(9.5)
Net settlement of interest rate derivatives			47.4
Net proceeds from stock-based compensation transactions		3.6	14.6
Excess tax benefits from stock-based compensation arrangements		11.0	0.9
Payments to acquire treasury stock		(402.9)	(143.8)
Dividends paid to stockholders		(0.3)	(0.1)
<b>Net cash flows used for financing activities</b>		<b>(390.9)</b>	<b>(83.4)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents			
		(17.9)	11.5
<b>Net Decrease in Cash and Cash Equivalents</b>		<b>(533.5)</b>	<b>(427.2)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>		<b>1,253.0</b>	<b>1,120.7</b>

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

<b>Cash and Cash Equivalents at End of Period</b>	\$	719.5	\$	693.5
---------------------------------------------------	----	-------	----	-------

See notes to consolidated financial statements.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

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, 2011.

***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 notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. 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***

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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 are reported as cumulative translation adjustments through other comprehensive income (loss) ( OCI ). Such adjustments, attributable to The Estée Lauder Companies Inc., amounted to \$113.3 million of unrealized translation losses, net of tax, and \$86.7 million of unrealized translation gains, net of tax, during the three months ended September 30, 2011 and 2010, respectively. For the Company's Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings.

The accompanying consolidated statements of earnings include net exchange gains (losses) on foreign currency transactions of \$(9.8) million and \$2.8 million during the three months ended September 30, 2011 and 2010, respectively.

### *Accounts Receivable*

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling \$33.9 million as of September 30, 2011 and June 30, 2011.

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

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

The Company's largest customer sells products primarily within the United States and accounted for \$313.3 million, or 13%, and \$282.0 million, or 13%, of the Company's consolidated net sales for the three months ended September 30, 2011 and 2010, respectively. This customer accounted for \$202.6 million, or 15%, and \$92.3 million, or 10%, of the Company's accounts receivable at September 30, 2011 and June 30, 2011, respectively.

***Inventory and Promotional Merchandise***

(In millions)	September 30 2011	June 30 2011
Inventory and promotional merchandise, net consists of:		
Raw materials	\$ 226.8	\$ 230.2
Work in process	74.2	93.6
Finished goods	494.4	475.4
Promotional merchandise	186.8	196.4
	\$ 982.2	\$ 995.6

***Property, Plant and Equipment***

(In millions)	September 30 2011	June 30 2011
<b><u>Assets (Useful Life)</u></b>		
Land	\$ 14.7	\$ 15.0
Buildings and improvements (10 to 40 years)	189.9	195.5
Machinery and equipment (3 to 10 years)	623.8	635.3
Computer hardware and software (4 to 10 years)	715.9	707.1
Furniture and fixtures (5 to 10 years)	98.1	93.9

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Leasehold improvements	1,197.7	1,215.3
	2,840.1	2,862.1
Less accumulated depreciation and amortization	1,715.0	1,719.0
	\$ 1,125.1	\$ 1,143.1

The cost of assets related to projects in progress of \$208.8 million and \$183.5 million as of September 30, 2011 and June 30, 2011, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was \$67.3 million and \$65.4 million during the three months ended September 30, 2011 and 2010, respectively. Depreciation and amortization related to the Company's manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Income Taxes***

The effective rate for income taxes was 32.7% for the three months ended September 30, 2011 and 2010.

As of September 30, 2011 and June 30, 2011, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$105.8 million and \$104.8 million, respectively. The total amount of unrecognized tax benefits at September 30, 2011 that, if recognized, would affect the effective tax rate was \$62.2 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three months ended September 30, 2011 in the accompanying consolidated statement of earnings was \$3.1 million. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at September 30, 2011 and June 30, 2011 was \$39.0 million and \$37.7 million, respectively. On the basis of the information available as of September 30, 2011, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of \$15 million to \$25 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, 2011, the Company was notified that an appeal for judicial review by the National Appellate Court of Spain of a disallowance of tax deductions claimed by its subsidiary in Spain for fiscal years 1999 through 2002 has been denied. The Company has been assessed corporate income tax and interest of \$4.1 million, net of tax, at current exchange rates. On July 21, 2011, the Company filed an appeal with the Spain Supreme Court. While no assurance can be given as to the outcome in respect of this assessment and pending appeal in the Spanish courts, based on the decision of the National Appellate Court, management believes it is not more-likely-than-not that the subsidiary will be successful in its appeal to the Spain Supreme Court. Accordingly, the Company established a reserve which resulted in an increase to the provision for income taxes equal to the \$4.1 million exposure, net of tax. Separately, during the fiscal 2012 first quarter the Company's subsidiary in Spain made a cash payment of \$3.7 million, at current exchange rates, to the Spain tax authority as an advance deposit to limit the additional interest that would be due to the Spain tax authority should it receive an unfavorable decision from the Spain Supreme Court.

***Recently Adopted Accounting Standards***

In December 2010, the Financial Accounting Standards Board ( FASB ) amended its authoritative guidance related to Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more-likely-than-not that a goodwill impairment exists. In determining whether it is more-likely-than-not that a goodwill impairment exists, consideration should be made as to whether there are any adverse qualitative factors indicating that an impairment may exist. This guidance became effective for the Company's fiscal 2012 first quarter. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

In December 2010, the FASB amended its authoritative guidance related to business combinations entered into by an entity that are material on an individual or aggregate basis. These amendments clarify existing guidance that if an entity presents comparative financial statements that include a material business combination, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance became effective prospectively for business combinations for which the acquisition date was on or after the first day of the Company's fiscal 2012. This disclosure-only guidance did not have an impact on the Company's results of operations, financial position or cash flows.

In January 2010, the 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 recurring Level 3 disclosures, which became effective for the Company's fiscal 2012 first quarter. The Company currently does not have any recurring Level 3 assets or liabilities.



Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Recently Issued Accounting Standards***

In September 2011, the FASB amended its authoritative guidance related to testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before performing Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the two-step impairment test would be required. This guidance becomes effective in the beginning of the Company's fiscal 2013, with early adoption permitted. The Company is currently evaluating the timing of adopting this guidance which will not have an impact on the Company's consolidated financial statements.

In September 2011, the FASB amended its authoritative guidance related to multiemployer benefit plans. This revised disclosure-only guidance is intended to provide enhanced qualitative and quantitative disclosures about an employer's significant financial obligations to a multiemployer pension plan and, therefore, help financial statement users better understand the financial health of all significant plans in which the employer participates. To the extent the information required under the revised standard is not available in the public domain, as may be the case for some foreign plans, employers should include more qualitative information about the plan. This disclosure-only guidance becomes effective for the Company's fiscal year ending June 30, 2013, with early adoption permitted and full retrospective application required. The Company is currently evaluating the timing of adopting and the impact of this guidance on the Company's consolidated financial statements.

In June 2011, the FASB amended its authoritative guidance related to the presentation of comprehensive income, requiring entities to present items of net income and other comprehensive income either in one continuous statement or in two separate consecutive statements. This guidance becomes effective for the Company's fiscal 2013 first quarter. The Company is currently evaluating the impact of adopting this guidance but believes that it will result only in changes in the presentation of its consolidated financial statements and will not have a material impact on the Company's results of operations, financial position or cash flows.

In May 2011, the FASB amended its authoritative guidance related to fair value measurements to provide a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This guidance clarifies the application of existing fair value measurement and expands the existing disclosure requirements. This guidance becomes effective for the Company's fiscal 2012 third quarter. This guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flows, but may require certain additional disclosures.

**NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

(In millions)	Skin Care		Makeup		Fragrance		Hair Care		Total
<b><u>Balance as of June 30, 2011</u></b>									
Goodwill	\$	70.4	\$	412.6	\$	55.0	\$	406.9	\$ 944.9
Accumulated impairments		(24.4)						(43.2)	(67.6)
		46.0		412.6		55.0		363.7	877.3
Goodwill acquired during the period				2.2					2.2
Translation and other adjustments		(0.7)		(0.2)		(0.1)		(1.8)	(2.8)
		(0.7)		2.0		(0.1)		(1.8)	(0.6)
<b><u>Balance as of September 30, 2011</u></b>									
Goodwill		69.7		414.6		54.9		405.1	944.3
Accumulated impairments		(24.4)						(43.2)	(67.6)
	\$	45.3	\$	414.6	\$	54.9	\$	361.9	\$ 876.7

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

Other intangible assets consist of the following:

(In millions)	September 30, 2011			June 30, 2011		
	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
<b><u>Amortizable intangible assets:</u></b>						
Customer lists and other	\$ 267.6	\$ 170.0	\$ 97.6	\$ 270.9	\$ 168.5	\$ 102.4
License agreements	43.0	43.0		43.0	43.0	
	\$ 310.6	\$ 213.0	97.6	\$ 313.9	\$ 211.5	102.4
<b><u>Non-amortizable intangible assets:</u></b>						
Trademarks and other			124.5			125.1
Total intangible assets			\$ 222.1			\$ 227.5

The aggregate amortization expense related to amortizable intangible assets for the three months ended September 30, 2011 and 2010 was \$3.5 million and \$3.6 million, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2012 and for each of fiscal 2013 to 2016 is \$10.1 million, \$13.6 million, \$13.5 million, \$13.5 million and \$13.3 million, respectively.

**NOTE 3 RETURNS AND 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 charges, inclusive of cumulative charges recorded to date and through the remainder of the Program, totaling between \$350 million and \$450 million before taxes. While the Company will continue to seek cost savings opportunities, the Company's current plans are to identify and approve specific initiatives under the Program through fiscal 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program, recorded, plus other initiatives approved through September 30, 2011, is approximately \$305 million to \$310 million, of which approximately \$200 million to \$202 million relates to restructuring charges, approximately \$50 million of other costs to implement the initiatives, approximately \$39 million to \$42 million in sales returns and approximately \$16 million in inventory write-offs. The restructuring charges are comprised of approximately \$153 million to \$155 million of employee-related costs, approximately \$27 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately \$20 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through September 30, 2011 was \$243.5 million.

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. The principal aspect of the Program was the reduction of the workforce by approximately 2,000

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

employees. Specific actions taken since the inception of the Program included:

- Resize and Reorganize the Organization The Company continued the realignment and optimization of its organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions, which the Company achieved through a combination of normal attrition and job eliminations, and the closure and consolidation of certain distribution and office facilities.
- 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 the Company's Prescriptives brand and the reformulation of Ojon brand products. In connection with these activities, the Company incurred charges related to product returns, inventory write-offs, reduction of workforce and termination of 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 outsource providers and employee-related termination costs.

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

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

(In millions)	Three Months Ended September 30	
	2011	2010
Employee-related costs	\$ 2.2	\$ 0.7
Asset write-offs	0.1	0.1
Contract terminations	0.1	0.3
Other exit costs	0.6	0.6
Total restructuring charges	\$ 3.0	\$ 1.7

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
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Three months ended September 30, 2011	2.2	0.1	0.1	0.6	3.0
Charges recorded through September 30, 2011	\$ 127.0	\$ 17.7	\$ 8.8	\$ 9.7	\$ 163.2

The following table presents accrued restructuring charges and the related activity as of and for the three months ended September 30, 2011 under the Program:

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

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Non-cash write-offs		(4.2)			(4.2)
Translation adjustments	0.6				0.6
Other adjustments	(2.4)				(2.4)
Balance at June 30, 2009	51.6		2.9	0.2	54.7
Charges	29.3	11.0	2.3	6.2	48.8
Cash payments	(49.5)		(5.1)	(6.0)	(60.6)
Non-cash write-offs		(11.0)			(11.0)
Translation adjustments	(0.8)				(0.8)
Balance at June 30, 2010	30.6		0.1	0.4	31.1
Charges	34.6	2.4	3.0	1.1	41.1
Cash payments	(30.6)		(2.4)	(1.4)	(34.4)
Non-cash write-offs		(2.4)			(2.4)
Translation adjustments	1.2		(0.1)	0.1	1.2
Balance at June 30, 2011	35.8		0.6	0.2	36.6
Charges	2.2	0.1	0.1	0.6	3.0
Cash payments	(6.9)		(0.2)	(0.3)	(7.4)
Non-cash write-offs		(0.1)			(0.1)
Translation adjustments	(0.7)				(0.7)
Balance at September 30, 2011	\$ 30.4	\$	\$ 0.5	\$ 0.5	\$ 31.4

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

Accrued restructuring charges at September 30, 2011 are expected to result in cash expenditures funded from cash provided by operations of approximately \$22 million, \$7 million and \$2 million in fiscal 2012, 2013 and 2014, respectively.

Total Returns and Charges Associated with Restructuring Activities

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

(In millions)	Three Months Ended September 30	
	2011	2010
Sales returns (included in Net sales)	\$ (0.7)	\$ 0.8
Cost of sales	0.1	0.8
Restructuring charges	3.0	1.7
Other charges	1.7	2.1
Total returns and charges associated with restructuring activities	\$ 4.1	\$ 4.6

During the three months ended September 30, 2011, the Company recorded adjustments to reflect revised estimates of anticipated sales returns associated with prior initiatives. During the three months ended September 30, 2010, the cost of sales adjustment primarily related to inventory write-offs associated with turnaround operations of \$0.8 million. Other charges in connection with the implementation of the Program primarily relate to consulting and other professional services.

**NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS**

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

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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



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

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

(In millions)	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value (1)		Fair Value (1)	
		September 30 2011	June 30 2011	September 30 2011	June 30 2011
<b>Derivatives Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 21.4	\$ 11.9	Other accrued liabilities	\$ 5.5
					\$ 28.4
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	3.8	3.1	Other accrued liabilities	7.8
					2.5
Total Derivatives		\$ 25.2	\$ 15.0		\$ 13.3
					\$ 30.9

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended 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) (2) Three Months Ended September 30	
	2011	2010		2011	2010

**Derivatives in Cash Flow Hedging Relationships:**

# Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Foreign currency forward contracts	\$	33.3	\$	(13.9)	Cost of sales	\$	0.6	\$	(0.3)
					Selling, general and administrative		(2.1)		
Total derivatives	\$	33.3	\$	(13.9)		\$	(1.5)	\$	(0.3)

---

(2) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was \$(2.4) million and \$0.3 million for the three months ended September 30, 2011 and 2010, respectively. There was a de minimis gain recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended September 30, 2011. 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.

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 (3) Three Months Ended September 30	
		2011	2010
Derivatives in Fair Value Hedging Relationships:			
Interest rate swap contracts	Interest expense, net	\$	\$ 8.7

(3) 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	
		2011	2010
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward contracts	Selling, general and administrative	\$ (4.5)	\$ 0.4

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

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The 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 2013. 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.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

The ineffective portion of foreign currency forward 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 OCI 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 OCI are reclassified to current-period earnings. As of September 30, 2011, the Company's foreign currency cash-flow hedges were highly effective in all material respects. The estimated net loss as of September 30, 2011 that is expected to be reclassified from accumulated OCI into earnings, net of tax, within the next twelve months is \$11.0 million. The accumulated gain (loss) on derivative instruments in accumulated OCI was \$21.6 million and \$(13.2) million as of September 30, 2011 and June 30, 2011, respectively.

At September 30, 2011, the Company had foreign currency forward contracts in the amount of \$1,580.1 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$311.0 million), Swiss franc (\$264.9 million), Euro (\$241.2 million), Canadian dollar (\$191.5 million), Australian dollar (\$109.3 million), Japanese yen (\$75.6 million) and South Korean won (\$71.7 million).

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Credit Risk***

As a matter of policy, the Company only enters into derivative contracts with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$25.2 million at September 30, 2011. To manage this risk, the Company has established strict 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. At September 30, 2011, the Company was in a net asset position for certain derivative contracts that contain such features with two counterparties. The fair value of those contracts as of September 30, 2011 was approximately \$0.5 million. As of September 30, 2011, the Company was in compliance with such credit-risk-related contingent features.

**NOTE 5 FAIR VALUE MEASUREMENTS**

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

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

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.

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, 2011:

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

(In millions)	Level 1		Level 2		Level 3		Total
<b>Assets:</b>							
Foreign currency forward contracts	\$		\$	25.2	\$		25.2
Available-for-sale securities		5.9					5.9
Total	\$	5.9	\$	25.2	\$		31.1
<b>Liabilities:</b>							
Foreign currency forward contracts	\$		\$	13.3	\$		13.3

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 June 30, 2011:

(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$	\$ 15.0	\$	\$ 15.0
Available-for-sale securities	6.6			6.6
Total	\$ 6.6	\$ 15.0	\$	\$ 21.6
<b>Liabilities:</b>				
Foreign currency forward contracts	\$	\$ 30.9	\$	\$ 30.9

***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.

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

*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.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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

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

(In millions)	September 30 2011		June 30 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Nonderivatives</b>				
Cash and cash equivalents	\$ 719.5	\$ 719.5	\$ 1,253.0	\$ 1,253.0
Available-for-sale securities	5.9	5.9	6.6	6.6
Current and long-term debt	1,214.6	1,379.9	1,218.1	1,293.5
<b>Derivatives</b>				
Foreign currency forward contracts    asset (liability)	11.9	11.9	(15.9)	(15.9)



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 6 PENSION AND POST-RETIREMENT BENEFIT PLANS**

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. The Company also maintains post-retirement benefit plans which provide certain medical and dental benefits to eligible employees. Descriptions of these plans are discussed in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

The components of net periodic benefit cost for the three months ended September 30, 2011 and 2010 consisted of the following:

(In millions)	Pension Plans				Other than Pension Plans Post-retirement			
	2011	U.S. 2010	2011	International 2010	2011	2010	2011	2010
Service cost	\$ 6.9	\$ 6.4	\$ 5.9	\$ 5.1	\$ 0.9	\$ 0.9	\$ 0.9	\$ 0.9
Interest cost	7.4	7.0	4.9	4.7	2.1	1.9	2.1	1.9
Expected return on plan assets	(9.7)	(8.7)	(5.4)	(5.3)	(0.3)	(0.1)	(0.3)	(0.1)
Amortization of:								
Prior service cost	0.2	0.2	1.0	0.5				
Actuarial loss	2.0	2.4	1.2	1.4	0.5	0.5	0.5	0.5
Net periodic benefit cost	\$ 6.8	\$ 7.3	\$ 7.6	\$ 6.4	\$ 3.2	\$ 3.2	\$ 3.2	\$ 3.2

During the three months ended September 30, 2011, the Company made contributions to its international pension plans totaling approximately \$4 million.

**NOTE 7 CONTINGENCIES***Legal Proceedings*

The Company is involved, from time to time, in litigation and other legal proceedings incidental to its business. Management believes that the outcome of current litigation and legal proceedings will not have a material adverse effect upon the Company's results of operations or financial condition. However, management's assessment of the Company's current litigation and other legal proceedings could change in light of the

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

discovery of facts with respect to legal actions or other proceedings pending against the Company, not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or proceedings. Reasonably possible losses in addition to the amount accrued for litigation and other legal proceedings are not material to the Company's consolidated financial statements.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 8 STOCK-BASED COMPENSATION**

The Company has various stock-based compensation programs under which awards, including stock options, performance share units ( PSU ), restricted stock units ( RSU ), share units and a market share unit ( MSU ), may be granted. As of September 30, 2011, approximately 11,634,800 shares of the Company's Class A Common Stock were reserved and available to be granted pursuant to these plans.

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

(In millions)		Three Months Ended September 30	
		2011	2010
Compensation expense	\$	45.4	\$ 30.6
Income tax benefit		14.9	10.1

As of September 30, 2011, the total unrecognized compensation cost related to nonvested stock-based awards was \$151.7 million and the related weighted-average period over which it is expected to be recognized is approximately 2 years.

***Stock Options***

The following is a summary of the Company's stock option programs as of September 30, 2011 and changes during the three months then ended:

(Shares in thousands)	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value (1) (in millions)	Weighted Average Contractual Life Remaining in Years
Outstanding at June 30, 2011	8,486.2	\$ 45.73		
Granted at fair value	1,647.7	98.17		
Exercised	(91.7)	39.67		

# Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Expired	(0.9)	42.68			
Forfeited	(19.9)	54.71			
Outstanding at September 30, 2011	10,021.4	54.39	\$	352.3	7.2
Vested and expected to vest at September 30, 2011	9,880.9	54.07	\$	350.0	7.1
Exercisable at September 30, 2011	4,092.2	41.19	\$	190.9	5.0

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

(In millions, except per share data)	Three Months Ended September 30	
	2011	2010
Per-share weighted average grant date fair value of stock options granted	\$ 34.68	\$ 18.81
Intrinsic value of stock options exercised	\$ 5.5	\$ 7.7

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

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

	<b>Three Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Weighted-average expected stock-price volatility	35%	31%
Weighted-average expected option life	8 years	8 years
Average risk-free interest rate	1.7%	2.2%
Average dividend yield	1.0%	1.1%

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

***Performance Share Units***

During the three months ended September 30, 2011, the Company granted 130,000 PSUs, which will be settled in stock subject to the achievement of the Company's net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2014. In September 2011, approximately 137,600 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 131,000 PSUs which vested as of June 30, 2011.

The following is a summary of the status of the Company's PSUs as of September 30, 2011 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, 2011	349.9	\$ 46.71
Granted	130.0	97.14

# Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Vested		
Forfeited		
Nonvested at September 30, 2011	479.9	60.37

## *Restricted Stock Units*

The Company granted approximately 651,000 RSUs during the three months ended September 30, 2011 which, at the time of grant, were scheduled to vest as follows: 371,800 on October 31, 2011, 193,600 on October 31, 2012 and 85,600 on October 31, 2013, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2012 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 2012 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

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

The following is a summary of the status of the Company's RSUs as of September 30, 2011 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, 2011	1,435.1	\$ 49.74
Granted	651.0	97.19
Vested	(39.8)	33.50
Forfeited	(11.1)	57.60
Nonvested at September 30, 2011	2,035.2	65.19

***Market Share Unit***

As of September 30, 2011, the Company had outstanding one market share unit with a grant date fair value of \$10.6 million that was estimated using a lattice model with a Monte Carlo simulation and the following assumptions: contractual life of 41 months, a weighted average expected volatility of 29%, a weighted average risk-free interest rate of 1.6% and a weighted average dividend yield of 1.0%. The Company used an expected stock-price volatility assumption that is a combination of both current and historical implied volatilities from options on the underlying stock. The implied volatilities were obtained from publicly available data sources. The expected life is equal to the contractual term of the grant. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant and the average dividend yield is based on historical experience.

***Share Units***

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The following is a summary of the status of the Company's share units as of September 30, 2011 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, 2011	29.2	\$ 42.45
Granted		

Dividend equivalents		
Converted		
Outstanding at September 30, 2011	29.2	42.45

***Cash Units***

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company's Class A Common Stock. The Company recorded \$1.5 million as compensation income and \$0.7 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended September 30, 2011 and 2010, respectively.



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE**

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

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

(In millions, except per share data)		Three Months Ended September 30	
		2011	2010
<b>Numerator:</b>			
Net earnings attributable to The Estée Lauder Companies Inc.	\$	278.6	\$ 191.1
<b>Denominator:</b>			
Weighted-average common shares outstanding	Basic	195.3	196.7
Effect of dilutive stock options		3.2	2.8
Effect of restricted stock units		1.0	0.9
Effect of market share unit		0.1	
Weighted-average common shares outstanding	Diluted	199.6	200.4
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share:</b>			
Basic	\$	1.43	\$ .97
Diluted		1.40	.95

As of September 30, 2011 and 2010, outstanding options to purchase 1.6 million and 2.5 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, 2011 and 2010, 0.5 million of PSUs have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in Note 8.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 COMPREHENSIVE INCOME (LOSS)**

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

(In millions)	Three Months Ended September 30	
	2011	2010
Net earnings	\$ 278.6	\$ 189.6
Other comprehensive income (loss):		
Net unrealized investment gain (loss)	(0.2)	
Net derivative instruments gain (loss)	22.4	(8.8)
Amounts included in net periodic benefit cost, net	7.2	(2.3)
Translation adjustments	(114.4)	88.2
	(85.0)	77.1
Comprehensive income (loss)	193.6	266.7
Comprehensive (income) loss attributable to noncontrolling interests:		
Net (earnings) loss		1.5
Translation adjustments	1.1	(1.5)
	1.1	
Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.	\$ 194.7	\$ 266.7

**NOTE 11 EQUITY**

(In millions)	Common Stock	Total Stockholders' Equity		The Estée Lauder Companies Inc.		Total	Non- controlling Interests	Total Equity
		Paid-in Capital	Retained Earnings	AOCI	Treasury Stock			
Balance June 30, 2011	\$ 2.7	\$ 1,735.6	\$ 4,116.5	\$ 17.7	\$ (3,243.1)	\$ 2,629.4	\$ 17.6	\$ 2,647.0
Net earnings (loss)			278.6			278.6		278.6
Other comprehensive income (loss)				(83.9)		(83.9)	(1.1)	(85.0)
Acquisition of treasury stock					(394.3)	(394.3)		(394.3)
Stock-based compensation		53.8			(8.1)	45.7		45.7
Purchase of noncontrolling interest		(0.2)				(0.2)	0.2	
Balance September 30, 2011	\$ 2.7	\$ 1,789.2	\$ 4,395.1	\$ (66.2)	\$ (3,645.5)	\$ 2,475.3	\$ 16.7	\$ 2,492.0

*Common Stock*

During the three months ended September 30, 2011, the Company purchased approximately 4,050,300 shares of its Class A Common Stock for \$402.9 million.

Subsequent to September 30, 2011, the Company purchased approximately 926,900 additional shares of Class A Common Stock for \$80.8 million pursuant to its share repurchase program.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 12 STATEMENT OF CASH FLOWS**

Supplemental cash flow information for the three months ended September 30, 2011 and 2010 is as follows:

<b>(In millions)</b>	<b>2011</b>	<b>2010</b>
<b>Cash:</b>		
Cash paid during the period for interest	\$ 4.7	\$ 2.7
Cash paid during the period for income taxes	\$ 27.7	\$ 12.2
<b>Non-cash investing and financing activities:</b>		
Incremental tax benefit from the exercise of stock options	\$ (0.3)	\$ (1.8)
Capital lease obligations incurred	\$ 0.4	\$ 0.3
Interest rate swap derivative mark to market	\$	\$ 8.7

**NOTE 13 SEGMENT DATA AND RELATED INFORMATION**

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Chief Executive) in deciding how to allocate resources and in assessing performance. Although the Company operates in one business segment, beauty products, management also evaluates performance on a product category basis. Product category performance is measured based upon net sales 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 notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. 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, 2011.

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

(In millions)	Three Months Ended September 30	
	2011	2010
<b>PRODUCT CATEGORY DATA</b>		
<b>Net Sales:</b>		
Skin Care	\$ 1,072.9	\$ 857.7
Makeup	928.8	794.2
Fragrance	356.8	334.5
Hair Care	103.8	94.4
Other	13.7	10.9
	2,476.0	2,091.7
Returns associated with restructuring activities	0.7	
	\$ 2,476.7	\$ 2,091.7
<b>Operating Income (Loss):</b>		
Skin Care	\$ 223.7	\$ 149.9
Makeup	159.6	103.2
Fragrance	48.3	50.3
Hair Care	5.1	1.8
Other	(2.6)	(2.6)
	434.1	302.6
<b>Reconciliation:</b>		
Total returns and charges associated with restructuring activities	(4.1)	(4.6)
Interest expense, net	(16.0)	(16.1)
Earnings before income taxes	\$ 414.0	\$ 281.9
<b>GEOGRAPHIC DATA</b>		
<b>Net Sales:</b>		
The Americas	\$ 1,105.4	\$ 997.2
Europe, the Middle East & Africa	858.2	680.9
Asia/Pacific	512.4	413.6
	2,476.0	2,091.7
Returns associated with restructuring activities	0.7	
	\$ 2,476.7	\$ 2,091.7
<b>Operating Income (Loss):</b>		
The Americas	\$ 149.2	\$ 103.1
Europe, the Middle East & Africa	187.7	138.6
Asia/Pacific	97.2	60.9
	434.1	302.6
Total returns and charges associated with restructuring activities	(4.1)	(4.6)
	\$ 430.0	\$ 298.0



Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 14 SUBSEQUENT EVENT**

On November 3, 2011, the Company's Board of Directors declared a two-for-one stock split on the Company's Class A and Class B Common Stock to be effected in the form of a stock dividend. As a result of this action, one additional share will be issued on January 20, 2012 for each share held by stockholders of record at the close of business on January 4, 2012. The stock split will not have an impact on the Company's consolidated financial position or results of operations. Share and per share amounts have not been restated for the upcoming stock split.

In addition, on November 3, 2011, the Company's Board of Directors declared a dividend in the amount of \$1.05 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on December 14, 2011 to stockholders of record at the close of business on November 28, 2011.

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

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for the three months ended September 30, 2011 and 2010, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

(In millions)	Three Months Ended September 30	
	2011	2010
<b>NET SALES</b>		
<b>By Region:</b>		
The Americas	\$ 1,105.4	\$ 997.2
Europe, the Middle East & Africa	858.2	680.9
Asia/Pacific	512.4	413.6
	2,476.0	2,091.7
Returns associated with restructuring activities	0.7	
	\$ 2,476.7	\$ 2,091.7
<b>By Product Category:</b>		
Skin Care	\$ 1,072.9	\$ 857.7
Makeup	928.8	794.2
Fragrance	356.8	334.5
Hair Care	103.8	94.4
Other	13.7	10.9
	2,476.0	2,091.7
Returns associated with restructuring activities	0.7	
	\$ 2,476.7	\$ 2,091.7
<b>OPERATING INCOME (LOSS)</b>		
<b>By Region:</b>		
The Americas	\$ 149.2	\$ 103.1
Europe, the Middle East & Africa	187.7	138.6
Asia/Pacific	97.2	60.9
	434.1	302.6
Total returns and charges associated with restructuring activities	(4.1)	(4.6)
	\$ 430.0	\$ 298.0
<b>By Product Category:</b>		
Skin Care	\$ 223.7	\$ 149.9
Makeup	159.6	103.2
Fragrance	48.3	50.3



Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Hair Care	5.1	1.8
Other	(2.6)	(2.6)
	434.1	302.6
Total returns and charges associated with restructuring activities	(4.1)	(4.6)
	\$ 430.0	\$ 298.0

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

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

	<b>Three Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Net sales	100.0%	100.0%
Cost of sales	21.6	23.3
Gross profit	78.4	76.7
Operating expenses:		
Selling, general and administrative	60.9	62.3
Restructuring and other charges	0.1	0.2
	61.0	62.5
Operating income	17.4	14.2
Interest expense, net	0.7	0.7
Earnings before income taxes	16.7	13.5
Provision for income taxes	5.5	4.4
Net earnings	11.2	9.1
Net loss attributable to noncontrolling interests		0.1
Net earnings attributable to The Estée Lauder Companies Inc.	11.2%	9.2%

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

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 continue to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing their changing shopping habits. To be the

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

global leader in prestige beauty, we are implementing a long-term strategy that is guiding us through fiscal 2014. The strategy has numerous initiatives across geographic regions, product categories, brands and functions that are designed to leverage our strengths, make us more productive and grow our sales.

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 succeeded in expanding our High-Touch service model and will continue to look for ways to expand it in newer channels and within geographic regions. 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.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

As part of our strategy, we are continuing to shift our category mix towards higher margin categories with greater global growth potential. Skin care, our most profitable product category, is a strategic priority for our innovation and investment spending, particularly in the Asia/Pacific region. We also focused our attention on luxury consumers across all categories and have seen an improvement in the net sales of many of our higher-end prestige products, due to an improvement in the luxury retail environment.

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, Eastern Europe and Brazil. We continue to expand our digital presence which has resulted in growth in net sales of our products sold over the Internet. In North America, we recognized the need to drive profitable growth in our traditional department store channel and saw many benefits from the changes we have previously implemented and continued to reshape our organization to meet the needs of the changing retail landscape. Internationally, we continue to take actions to grow profitability in European perfumeries and pharmacies and in department stores in Asia, while emphasizing our skin care and makeup initiatives to boost our travel retail business and continuing efforts to grow our online, specialty retailer and prestige salon businesses. The travel retail business continues to be a source of sales growth and profitability. Our business in this channel is benefiting from the implementation of programs we designed to enhance consumers' High-Touch experiences and convert travelers into purchasers. In addition, we see travel retail as another way to capture the attention of travelers from emerging markets, who either buy in the channel, in stores at their destinations or when they return to their homes.

The recent economic uncertainty and financial market volatility taking place in the United States, Japan and certain European countries have not significantly impacted our business. This is due in part to our belief that we are better positioned as a result of our strategy to manage our business effectively and efficiently and we will allocate resources appropriately. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. We continue to monitor global economic uncertainties and other risks that may affect our business. The disasters that occurred in Japan during the prior fiscal year did not have a significant impact on our business or our consolidated financial results for the three months ended September 30, 2011.

***Returns and 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 charges, inclusive of cumulative charges recorded to date and through the remainder of the Program, totaling between \$350 million and \$450 million before taxes. While we will continue to seek cost savings opportunities, our current plans are to identify and approve specific initiatives under the Program through fiscal 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program recorded, plus other initiatives approved through September 30, 2011, is approximately \$305 million to \$310 million, of which approximately \$200 million to \$202 million relates to restructuring charges, approximately \$50 million of other costs to implement the initiatives, approximately \$39 million to \$42 million in sales returns and approximately \$16 million in inventory write-offs. The restructuring charges are comprised of approximately \$153 million to \$155 million of employee-related costs, approximately \$27 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately \$20 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through September 30, 2011 was \$243.5 million.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately \$675 million to \$725 million (program inception through the end of fiscal 2012 is estimated to be approximately \$660 million to \$690 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.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

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

- **Resize and Reorganize the Organization** We continued the realignment and optimization of our organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions, which we achieved through a combination of normal attrition and job eliminations, and the closure and consolidation of certain distribution and office facilities.
- **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 incurred charges for product returns, inventory write-offs, reduction of workforce and termination of contracts.
- **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 outsource providers and employee-related termination costs.

Restructuring Charges

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

(In millions)	Three Months Ended September 30			
	2011		2010	
Employee-related costs	\$	2.2	\$	0.7
Asset write-offs		0.1		0.1
Contract terminations		0.1		0.3
Other exit costs		0.6		0.6
Total restructuring charges	\$	3.0	\$	1.7

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

Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Three months ended September 30, 2011	2.2	0.1	0.1	0.6	3.0
Charges recorded through September 30, 2011	\$ 127.0	\$ 17.7	\$ 8.8	\$ 9.7	\$ 163.2

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

The following table presents accrued restructuring charges and the related activity under the Program:

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Charges	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Cash payments	(7.5)		(0.5)	(1.6)	(9.6)
Non-cash write-offs		(4.2)			(4.2)
Translation adjustments	0.6				0.6
Other adjustments	(2.4)				(2.4)
Balance at June 30, 2009	51.6		2.9	0.2	54.7
Charges	29.3	11.0	2.3	6.2	48.8
Cash payments	(49.5)		(5.1)	(6.0)	(60.6)
Non-cash write-offs		(11.0)			(11.0)
Translation adjustments	(0.8)				(0.8)
Balance at June 30, 2010	30.6		0.1	0.4	31.1
Charges	34.6	2.4	3.0	1.1	41.1
Cash payments	(30.6)		(2.4)	(1.4)	(34.4)
Non-cash write-offs		(2.4)			(2.4)
Translation adjustments	1.2		(0.1)	0.1	1.2
Balance at June 30, 2011	35.8		0.6	0.2	36.6
Charges	2.2	0.1	0.1	0.6	3.0
Cash payments	(6.9)		(0.2)	(0.3)	(7.4)
Non-cash write-offs		(0.1)			(0.1)
Translation adjustments	(0.7)				(0.7)
Balance at September 30, 2011	\$ 30.4	\$	\$ 0.5	\$ 0.5	\$ 31.4

Accrued restructuring charges at September 30, 2011 are expected to result in cash expenditures funded from cash provided by operations of approximately \$22 million, \$7 million and \$2 million in fiscal 2012, 2013 and 2014, respectively.

Total Returns and Charges Associated with Restructuring Activities

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

(In millions)	Three Months Ended September 30	
	2011	2010



Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Sales returns (included in Net sales)	\$	(0.7)	\$	
Cost of sales		0.1		0.8
Restructuring charges		3.0		1.7
Other charges		1.7		2.1
Total returns and charges associated with restructuring activities	\$	4.1	\$	4.6

During the three months ended September 30, 2011, we recorded adjustments to reflect revised estimates of anticipated sales returns associated with prior initiatives. During the three months ended September 30, 2010, the cost of sales adjustment primarily related to inventory write-offs associated with turnaround operations of \$0.8 million. Other charges in connection with the implementation of the Program primarily relate to consulting and other professional services.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Other Intangible Asset Impairments***

As of our latest annual indefinite-lived asset impairment test on April 1, 2011, we determined that the trademark related to the Darphin reporting unit had an estimated fair value exceeding its carrying value by approximately 13% and the trademark related to the Ojon reporting unit had an estimated fair value that was equal to its carrying value. As of September 30, 2011, the carrying values of the trademarks were \$8.4 million and \$10.0 million, respectively. The estimated fair values of the trademarks were based on the use of a royalty rate to determine discounted projected future cash flows ( relief-from-royalty method ). The key assumptions that were used to determine the estimated fair value of the Darphin trademark were predicated on new market initiatives including expanded international distribution. The key assumptions that were used to determine the estimated fair value of the Ojon trademark were predicated on new market initiatives including expanded international distribution and consumer reception to the reformulated product line. If such plans do not materialize, if there is a delay in new market initiatives, or if there is a decline in the business environment, a resulting change in the key assumptions could have a negative impact on the estimated fair value of these trademarks and it is possible we could recognize an impairment charge in the future.

***First Quarter Fiscal 2012 as Compared with First Quarter Fiscal 2011***

**NET SALES**

Net sales increased 18%, or \$385.0 million, to \$2,476.7 million, primarily reflecting strong growth in all of our geographic regions and product categories. Excluding the impact of foreign currency translation, net sales increased 14%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of an adjustment to reduce the reserve for anticipated returns associated with restructuring activities of \$0.7 million recorded during the current-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 25%, or \$215.2 million, to \$1,072.9 million, primarily reflecting the continued success of our strategic focus on growing this category. The recent launches of Idealist Even Skintone Illuminator and Idealist Cooling Eye Illuminator from Estée Lauder, Turnaround Overnight Radiance Moisturizer from Clinique and the Plantscription line of products from Origins contributed incremental sales of approximately \$63 million, combined. The relaunch of the reformulated Nutritious Vita-Mineral and Resilience Lift lines of products from Estée Lauder contributed incremental sales of approximately \$49 million, combined. Higher sales from existing products Renuvri Ultimate Lift Age-Correcting Serum and Advanced Night Repair Synchronized Recovery Complex from Estée Lauder, Repairwear Laser Focus Wrinkle & UV Damage Corrector from Clinique and various products from La Mer contributed approximately \$65 million, combined, to the increase. This growth was partially offset by approximately \$25 million of lower sales from the Resilience Lift Extreme line of products from

Estée Lauder and Cyber White EX from Clinique. Excluding the impact of foreign currency translation, skin care net sales increased 20%.

***Makeup***

Makeup net sales increased 17%, or \$134.6 million, to \$928.8 million, primarily reflecting an increase in net sales from our makeup artist brands of approximately \$89 million, combined. The recent launches of new Pure Color lip and eye products and Doublewear Stay-In-Place Makeup SPF 10 from Estée Lauder, and Repairwear Laser Focus Makeup, Lid Smoothie Antioxidant 8-Hour Eye Colour and Chubby Stick Moisturizing Lip Colour Balm from Clinique, contributed approximately \$51 million, combined, to the increase. This growth was partially offset by lower sales of Pure Color Lipgloss and Double Wear Maximum Coverage Camouflage Makeup from Estée Lauder, and Vitamin C Lip Smoothie Antioxidant Lip Colour from Clinique of approximately \$10 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 13%.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Fragrance***

Net sales of fragrance products increased 7%, or \$22.3 million, to \$356.8 million. Incremental sales from the recent launches of DKNY Golden Delicious, Estée Lauder Sensuous Nude and Coach Poppy Flower contributed approximately \$37 million to the category. Higher sales of Tom Ford and Jo Malone fragrances contributed approximately \$19 million to the increase. Partially offsetting these increases were approximately \$15 million of lower sales of Estée Lauder *pleasures bloom*, pureDKNY, and Coach Poppy, which were new launches in the prior-year period, as well as lower sales of Estée Lauder Sensuous and DKNY Be Delicious of approximately \$15 million, combined. We continue to expect challenges in this category due to competitive dynamics. Excluding the impact of foreign currency translation, fragrance net sales increased 3%.

***Hair Care***

Hair care net sales increased 10%, or \$9.4 million, to \$103.8 million, primarily reflecting an increase in sales from Aveda including the introduction of new products led by Be Curly Style-Prep. Also contributing incremental sales to this category was the recent launch of the Sleek & Straight line of products from Bumble and bumble. The category also benefited from an improved retail environment for our products as well as net sales generated from expanded global distribution. Partially offsetting these increases were lower net sales of Ojon brand products due in part to softness in the direct response television channel. Excluding the impact of foreign currency translation, hair care net sales increased 8%.

***Geographic Regions***

Net sales in the Americas increased 11%, or \$108.2 million, to \$1,105.4 million. The increase during the current-year period was primarily attributable to growth in the United States from our heritage and makeup artist brands, which benefited from a strong retail environment for our products, new skin care offerings and an increase in sales of higher-end prestige skin care products which resulted in higher net sales in the United States of approximately \$88 million. These increases reflect, in part, our ongoing efforts to work with retailers in the U.S. department store channel on strengthening the High-Touch concepts used to help market our products. Net sales in Latin America increased approximately \$13 million, reflecting growth in emerging markets such as Brazil. Excluding the impact of foreign currency translation, net sales in the Americas increased 10%.

In Europe, the Middle East & Africa, net sales increased 26%, or \$177.3 million, to \$858.2 million, reflecting strong growth in our travel retail business and from virtually all countries in the region and in each major product category. This reflects our strategy to strengthen our geographic presence and continue to succeed in the travel retail channel. Net sales increases of approximately \$142 million were driven by our travel retail business, the United Kingdom, Germany, France, Italy and the Middle East. This was attributable to strong retail environments for our products, successful launches of skin care and makeup products from certain of our heritage brands, as well as higher combined sales from our makeup artist brands. The net sales improvement in our travel retail business also reflected an increase in global airline passenger traffic, new points of distribution and benefits of programs designed to enhance consumers High-Touch experiences and convert travelers into purchasers. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 19%.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

Net sales in Asia/Pacific increased 24%, or \$98.8 million, to \$512.4 million, reflecting growth in each product category and from all countries in the region, several of which had a significant favorable impact of foreign currency translation. Approximately \$68 million of this increase was generated in China, Hong Kong and Korea, primarily reflecting strong sales of skin care and makeup products. Our businesses in Japan and Australia continued to be challenged due to difficult economic conditions, but they reported net sales gains of approximately \$9 million, which were generated solely from the strengthening of their respective currencies. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 15%.

Although our financial performance reflected a strong retail environment for our products in certain geographies, we continue to operate in an uncertain economic climate 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.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**COST OF SALES**

Cost of sales as a percentage of total net sales decreased to 21.6% as compared with 23.3% in the prior-year period. This improvement primarily reflected strategic changes in the mix of our business of approximately 150 basis points, the favorable effect of exchange rates of approximately 20 basis points and favorable manufacturing variances of approximately 10 basis points. These improvements were offset by an increase in obsolescence charges of approximately 10 basis points.

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

**OPERATING EXPENSES**

Operating expenses as a percentage of net sales decreased to 61.0% as compared with 62.5% in the prior-year period and reflects the impact of the strong growth in net sales. This improvement primarily reflected a decrease in general and administrative costs as a percentage of net sales of approximately 120 basis points. Also contributing to the improvement were lower selling and shipping costs as a percentage of net sales of approximately 110 basis points due to various cost containment efforts implemented as part of the Program and a strategically focused approach to spending. Partially offsetting these improvements was an unfavorable change in foreign exchange transactions of approximately 50 basis points, higher costs related to stock-based compensation of approximately 30 basis points and increased spending in advertising, merchandising and sampling costs in line with our strategy of approximately 20 basis points.

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

**OPERATING RESULTS**

Operating income increased 44%, or \$132.0 million, to \$430.0 million. Operating margin improved to 17.4% of net sales as compared with 14.2% in the prior-year period, reflecting our higher gross margin and the decrease in our operating expense margin, as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total returns and charges associated with restructuring activities of \$4.1 million, or less than 1% of net sales, for the three months ended September 30, 2011 and \$4.6 million, or less than 1% of net sales, for the three months ended September 30, 2010. 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 49%, or \$73.8 million, to \$223.7 million, primarily reflecting improved results from higher-margin product launches from certain of our heritage brands. Makeup operating income increased 55%, or \$56.4 million, to \$159.6 million, primarily reflecting improved results from our makeup artist brands and from our larger heritage brands. Fragrance operating results decreased 4%, or \$2.0 million, to \$48.3 million, primarily reflecting higher spending in support of new launches of designer fragrances. Hair care operating results increased over 100%, or \$3.3 million, to \$5.1 million, primarily reflecting higher net sales and an improved retail environment for our products.

***Geographic Regions***

Operating income in the Americas increased 45%, or \$46.1 million, to \$149.2 million, primarily reflecting increased sales from our heritage and makeup artist brands driven by improved category mix partially offset by the timing and level of spending activities in the current-year period, which are in line with our strategy.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

In Europe, the Middle East & Africa, operating income increased 35%, or \$49.1 million, to \$187.7 million, reflecting improvements in travel retail and most countries in the region. Higher results from our travel retail business, the United Kingdom, Germany, Italy and the Middle East totaled approximately \$54 million, combined. Partially offsetting these improvements were lower results in Russia of approximately \$13 million, primarily reflecting strategic investment spending.

In Asia/Pacific, operating income increased 60%, or \$36.3 million, to \$97.2 million. Substantially all countries in the region reported higher operating results, led by approximately \$31 million in China, Hong Kong and Korea, combined. Partially offsetting these increases were lower operating results of approximately \$3 million in Australia and Singapore, combined.

**INTEREST EXPENSE, NET**

Net interest expense was \$16.0 million as compared with \$16.1 million in the prior-year period.

**PROVISION FOR INCOME TAXES**

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

The effective rate for income taxes was 32.7% for the three months ended September 30, 2011 and 2010. The effective tax rate would have increased by approximately 170 basis points over the prior-year period due to income tax reserve adjustments, however, this increase was offset by a lower effective tax rate on our foreign operations.

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

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period increased 46%, or \$87.5 million, to \$278.6 million and diluted net earnings per common share increased 46% from \$.95 to \$1.40.



**FINANCIAL CONDITION**

**LIQUIDITY AND CAPITAL RESOURCES**

*Overview*

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At September 30, 2011, we had cash and cash equivalents of \$719.5 million compared with \$1,253.0 million at June 30, 2011. Our cash and cash equivalents are maintained at a number of financial institutions. As of September 30, 2011, approximately 13% of the total balance was insured by governmental agencies. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and perform ongoing evaluations of these institutions to limit our concentration risk exposure.

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

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

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents balance at September 30, 2011 includes cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations.

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

***Credit Ratings***

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of October 25, 2011, 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, 2011, 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)), (6)	\$ 296.4	\$	\$ 296.4
5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes(2))	197.7		197.7
5.55% Senior Notes, due May 15, 2017 ( 2017 Senior Notes(3)), (6)	339.8		339.8
7.75% Senior Notes, due November 1, 2013 ( 2013 Senior Notes(4)), (6)	230.1		230.1
6.00% Senior Notes, due January 15, 2012 ( 2012 Senior Notes(5))		119.7	119.7
Other borrowings	8.8	22.1	30.9
	\$ 1,072.8	\$ 141.8	\$ 1,214.6

- (1) Consists of \$300.0 million principal and unamortized debt discount of \$3.6 million.
- (2) Consists of \$200.0 million principal and unamortized debt discount of \$2.3 million.
- (3) Consists of \$300.0 million principal, unamortized debt discount of \$0.3 million and a \$40.1 million adjustment to reflect the termination value of interest rate swaps.
- (4) Consists of \$230.1 million principal.
- (5) Consists of \$120.0 million principal and a \$0.3 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) As of September 30, 2011, 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, 2011, there was no commercial paper outstanding. We also have \$159.1 million in additional uncommitted credit facilities, of which \$10.7 million was used as of September 30, 2011. We do not anticipate difficulties in securing this form of working capital financing.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

In July 2011, we replaced our undrawn \$750.0 million senior unsecured revolving credit facility that was set to expire on April 26, 2012 (the Prior Facility), with a new \$1.0 billion senior unsecured revolving credit facility that expires on July 14, 2015 (the New Facility). The New Facility may be used to provide credit support for our commercial paper program and for general corporate purposes. As with the Prior Facility, up to the equivalent of \$250 million of the New Facility is available for multi-currency loans. The interest rate on borrowings under the New Facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately \$1 million to establish the New Facility which will be amortized over the term of the facility. The New Facility has an annual fee of \$0.7 million, payable quarterly, based on our current credit ratings. The New Facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$100.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility.

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, 2011, 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 (\$21.9 million at the exchange rate at September 30, 2011). 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, 2011 (\$10.7 million at the exchange rate at September 30, 2011) is classified as short-term debt in our consolidated balance sheet.

We have a 1.5 billion Japanese yen (\$19.7 million at the exchange rate at September 30, 2011) revolving credit facility that expires on March 31, 2012. The interest rate on borrowings under this credit facility is based on TIBOR (Tokyo Interbank Offered Rate) plus .75% and the facility fee incurred on the undrawn balance is 25 basis points. At September 30, 2011, no borrowings were outstanding under this facility.

Total debt as a percent of total capitalization (excluding noncontrolling interests) increased to 33% at September 30, 2011 from 32% at June 30, 2011.

***Cash Flows***

Net cash used for operating activities was \$36.2 million during the three months ended September 30, 2011 as compared with \$39.1 million in the prior-year period. Cash flows used for operating activities decreased as compared with the prior-year period, primarily reflecting the increase in net earnings, favorable changes in levels of accounts payable due to the timing of payments, and an increase in accrued income taxes resulting from the timing and level of tax payments. These changes were offset by an increase in accounts receivable in line with the increase in sales and a decrease in other liabilities primarily due to the timing of payments and costs related to employee compensation.

Net cash used for investing activities was \$88.5 million during the three months ended September 30, 2011 as compared with \$316.2 million in the prior-year period. The decrease in investing cash outflows primarily reflected a favorable comparison with the fiscal 2011 first quarter acquisition of Smashbox Cosmetics and was partially offset by an increase in capital expenditure activity in the current-year period primarily related to counters and leasehold improvements.

Net cash used for financing activities was \$390.9 million during the three months ended September 30, 2011 as compared with \$83.4 million in the prior-year period. The change in net cash used for financing activities primarily reflected an increase in treasury stock purchases and the prior-year period receipt of proceeds related to the settlement of interest rate derivatives.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Dividends***

On November 3, 2011, our Board of Directors declared a two-for-one stock split on our Class A and Class B Common Stock to be effected in the form of a stock dividend. As a result of this action, one additional share will be issued on January 20, 2012 for each share held by stockholders of record at the close of business on January 4, 2012. The stock split will not have an impact on our consolidated financial position or results of operations. Share and per share amounts have not been restated for the upcoming stock split.

In addition, on November 3, 2011, our Board of Directors declared a dividend in the amount of \$1.05 per share on our Class A and Class B Common Stock. The dividend is payable in cash on December 14, 2011 to stockholders of record at the close of business on November 28, 2011.

***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, 2011.

***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, 2011.

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

There have been no significant changes to our derivative financial instruments and hedging activities as discussed in our Annual Report on Form 10-K for the year ended June 30, 2011.

***Foreign Exchange Risk Management***

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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. 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 2013. 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. The ineffective portion of foreign currency forward 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, 2011, these foreign currency cash-flow hedges were highly effective in all material respects.

At September 30, 2011, we had foreign currency forward contracts in the amount of \$1,580.1 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$311.0 million), Swiss franc (\$264.9 million), Euro (\$241.2 million), Canadian dollar (\$191.5 million), Australian dollar (\$109.3 million), Japanese yen (\$75.6 million) and South Korean won (\$71.7 million).

### *Credit Risk*

As a matter of policy, we only enter into derivative contracts with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$25.2 million at September 30, 2011. 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. At September 30, 2011, we were in a net asset position for certain derivative contracts that contain such features with two counterparties. The fair value of those contracts as of September 30, 2011 was approximately \$0.5 million. As of September 30, 2011, we were in compliance with such credit-risk-related contingent features.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***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, 2011, the high, low and average measured value-at-risk for the twelve months ended September 30, 2011 related to our foreign exchange contracts are as follows:

(In millions)	High	Low	Average
Foreign exchange contracts	\$ 47.1	\$ 19.8	\$ 28.0

The change in the value-at-risk measures from June 30, 2011 related to our foreign exchange contracts reflected an increase in foreign exchange volatilities and a different portfolio mix. We believe that any resulting loss incurred would be offset by the effects of market rate movements on the respective underlying transactions for which the derivative financial instrument was intended.

**OFF-BALANCE SHEET ARRANGEMENTS**

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

**CRITICAL ACCOUNTING POLICIES**

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, 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, 2011, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

**RECENTLY ISSUED ACCOUNTING STANDARDS**



## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**FORWARD-LOOKING INFORMATION**

We and our representatives from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission, in our press releases and in our reports to stockholders. The words and phrases "will likely result," "expect," "believe," "planned," "may," "should," "could," "anticipate," "estimate," "project," "intend," "forecast" or similar expressions are used in our forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, our expectations regarding sales, earnings or other future financial performance and liquidity, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale, our long-term strategy, restructuring and other charges and 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, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;

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

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

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

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

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

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

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

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

(16) consequences attributable to the events that are currently taking place in the Middle East, as well as from any terrorist action, retaliation and the threat of further action or retaliation;

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

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

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

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

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, 2011 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 enabled through 2013. Based on management's evaluation, the necessary steps were taken to monitor and maintain appropriate internal control over financial reporting during the quarter ended September 30, 2011.

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 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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. Reasonably possible losses in addition to the amount accrued for litigation and other legal proceedings are not material to our consolidated financial statements.

**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, 2011, the cumulative total of acquired shares pursuant to the authorization was 78.9 million, reducing the remaining authorized share repurchase balance to 9.1 million. During the three months ended September 30, 2011, we purchased approximately 4.0 million shares pursuant to the authorization for \$394.3 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2011	1,148,242(2)	\$ 105.18	1,129,100	11,942,769
August 2011	1,910,800	97.31	1,910,800	10,031,969
September 2011	991,232(3)	97.00	924,098	9,107,871
	4,050,274	\$ 99.47	3,963,998	9,107,871

(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.

## Edgar Filing: ESTEE LAUDER COMPANIES INC - Form 10-Q

(3) Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of performance share units.

Subsequent to September 30, 2011, we purchased approximately 926,900 additional shares of Class A Common Stock for \$80.8 million pursuant to our share repurchase program.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
10.1	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 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).
10.5	Form of Restricted Stock 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).
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*

---

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.



Table of Contents

**SIGNATURES**

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

**THE ESTÉE LAUDER COMPANIES INC.**

Date: November 4, 2011

By:

/s/RICHARD W. KUNES

Richard W. Kunes  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

Table of Contents

**INDEX TO 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 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).
10.5	Form of Restricted Stock 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).
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*

---

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.