

ESTEE LAUDER COMPANIES INC  
Form 10-K  
August 20, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2010

OR

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

For the transition period from      to

Commission file number 1-14064

# The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**11-2408943**

(I.R.S. Employer Identification No.)

**767 Fifth Avenue, New York, New York**

(Address of principal executive offices)

**10153**

(Zip Code)

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

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

**Title of each class**  
Class A Common Stock, \$.01 par value

**Name of each exchange  
on which registered**  
New York Stock Exchange

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

**None**

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

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

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

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

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

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

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant was approximately \$5.43 billion at December 31, 2009 (the last business day of the registrant's most recently completed second quarter).\*

At August 13, 2010, 119,750,963 shares of the registrant's Class A Common Stock, \$.01 par value, and 77,082,041 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.

**Documents Incorporated by Reference**

<b>Document</b>	<b>Where Incorporated</b>
Proxy Statement for Annual Meeting of Stockholders to be held November 9, 2010	Part III

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

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**THE ESTÉE LAUDER COMPANIES INC.**

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*Forward-Looking Statements and Risk Factors*

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

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

**PART I**

**Item 1. Business.**

The Estée Lauder Companies Inc., founded in 1946 by Estée and Joseph Lauder, is one of the world's leading manufacturers and marketers of quality skin care, makeup, fragrance and hair care products. Our products are sold in over 150 countries and territories under a number of well-known brand names including: Estée Lauder, Aramis, Clinique, Origins, M A C, Bobbi Brown, La Mer and Aveda. We are also the global licensee for fragrances and/or cosmetics sold under brand names such as Tommy Hilfiger, Donna Karan, Michael Kors, Sean John and Coach. Each brand is distinctly positioned within the market for cosmetics and other beauty products.

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

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

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For segment and geographical area financial information, see *Item 8. Financial Statements and Supplementary Data Note 20 Segment Data and Related Information.*

We have been controlled by the Lauder family since the founding of our Company. Members of the Lauder family, some of whom are directors, executive officers and/or employees, beneficially own, directly or indirectly, as of August 13, 2010, shares of Class A Common Stock and Class B Common Stock having approximately 87.1% of the outstanding voting power of the Common Stock.

### Products

**Skin Care** - Our broad range of skin care products addresses various skin care needs for women and men. These products include moisturizers, creams, lotions, cleansers, sun screens and self-tanning products, a number of which are developed for use on particular areas of the body, such as the face or the hands or around the eyes. Skin care products accounted for approximately 41% of our net sales in fiscal 2010.

**Makeup** - We manufacture, market and sell a full array of makeup products, including lipsticks, lip glosses, mascaras, foundations, eyeshadows, nail polishes and powders. Many of the products are offered in an extensive array of shades and colors. We also sell related items such as compacts, brushes and other makeup tools. Makeup products accounted for approximately 38% of our net sales in fiscal 2010.

**Fragrance** - We offer a variety of fragrance products for women and men. The fragrances are sold in various forms, including eau de parfum sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance. Fragrance products accounted for approximately 15% of our net sales in fiscal 2010.

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**Hair Care** - Hair care products are offered mainly in salons and in freestanding retail stores and include hair color and styling products, shampoos, conditioners and finishing sprays. In fiscal 2010, hair care products accounted for approximately 5% of our net sales.

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

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

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

- **Aramis** - We pioneered the marketing of prestige men's fragrance, grooming and skin care products with the introduction of Aramis products in 1964.
- **Lab Series** - Lab Series Skincare for Men, introduced in 1987, offers a full range of products for cleansing, shaving, treatment and body that are especially formulated to answer the unique needs of men's skin.
- **Tommy Hilfiger** - We have an exclusive global license arrangement for a line of men's and women's fragrances and cosmetics under the Tommy Hilfiger brand name. We launched the line in 1995 with a men's fragrance, *tommy*. Today, we manufacture and sell a variety of fragrances and ancillary products for men and women.
- **Donna Karan Cosmetics** - In November 1997, we obtained the exclusive global license for a line of fragrances and other cosmetics under the Donna Karan New York and DKNY brand names, including certain products that were originally sold by The Donna Karan Company. We launched the first DKNY women's fragrance in fiscal 2000 and the first DKNY men's fragrance in fiscal 2001. Under this license, fragrances have been expanded to include extensive lines of companion bath and body products.
- **Michael Kors** - In May 2003, we entered into an exclusive global license agreement for fragrances and beauty products under the Michael Kors brand name. The fragrances, as well as ancillary bath and body products, are sold primarily in department stores, specialty stores and freestanding Michael Kors boutiques.
- **Sean John Fragrances** - In 2005, we entered into an exclusive license agreement to develop fragrances and other beauty products under the Sean John brand name. Sean "Diddy" Combs played an active role in creating the signature scent, *Unforgivable*. The *Unforgivable* fragrance, as well as other fragrances and ancillary products, are primarily available at select department and specialty stores as well as travel retail outlets around the world.
- **Missoni** - In 2006, we launched fragrance and ancillary products under our exclusive global licensing arrangement with Milan-based fashion house, Missoni. Missoni products are sold in select distribution channels worldwide.



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- **Kiton** - We have been marketing and selling Kiton fragrances under an exclusive global license agreement we first signed in 1995. Kiton is a prestigious Italian menswear company that combines the traditions of fine Italian tailoring with a reverence for luxury and elegance.

- **Coach** - In 2006, we began creating fragrances and related products for Coach which were sold exclusively in Coach stores. In 2010, we converted the arrangement to a license. The collection is available in department stores, Coach stores in the United States, retail stores in Japan and Hong Kong, and online at coach.com. We launched the first Coach fragrance in Spring 2007 which embodies the many personalities of the Coach woman--timeless, chic and sophisticated. The signature fragrance launch has since been followed with ancillary beauty products.

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

**Prescriptives** - Prescriptives was introduced in 1979 featuring custom color for women. In the third quarter of fiscal 2010, we closed the global wholesale distribution of the brand. Select Prescriptives makeup and skin care products remain available for sale at Prescriptives.com.

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**Origins** - Origins was introduced in 1990. Origins seeks to create high-performance natural skin care that is powered by nature and proven by science. Origins sells its products at our freestanding Origins stores and through stores-within-stores (which are designed to replicate the Origins store environment within a department store), at traditional retail counters and in perfumeries. Origins also has a license agreement to develop and sell products using the name of Dr. Andrew Weil.

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

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

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

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

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

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

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

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

- **American Beauty** - Launched in 2004, the luxurious fragrance, makeup and advanced skin care line celebrates the beauty of American style. These products, which are sold in the United States at Kohl's Department Stores and Kohls.com, have been developed to meet the needs of the modern American woman, with a straightforward makeup and skin care appeal.
- **Flirt!** - Launched in 2004 and sold in the United States at Kohl's Department Stores and Kohls.com, this makeup line is all about experimenting with color, pop culture and trends.
- **GoodSkin Labs** - Launched initially as Good Skin in 2004 and sold in the United States at Kohl's Department Stores and Kohls.com, this line of skin care products was created with the expertise of a dermatologist. Select products of this brand are now available in a number of countries around the world.
- **grassroots research labs** - Introduced in March 2008, grassroots research labs uses natural ingredients to develop products that are Pure, powerful and effective.
- **Daisy Fuentes** - In early fiscal 2007, we launched Dianoche, the first fragrance under our license agreement with Daisy Fuentes, which holds two scents that connect in a single bottle. Dianoche, as well as other fragrances and ancillary products, are available exclusively at Kohl's Department Stores and at Kohls.com.

**Tom Ford Beauty** - In 2006, we entered into a license agreement to develop and distribute fragrances and other beauty products under the Tom Ford brand name. In fiscal 2007, we introduced Tom Ford Black Orchid, his first signature fragrance. Tom Ford products are available in department stores, perfumeries, pharmacies and select Tom Ford retail stores.

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**Ojon** - In 2007, we acquired Ojon Corporation, a company based in Canada which markets naturally-derived, wildcrafted hair and skin care beauty products using ingredients found in the world's rainforests. Ojon products are sold through direct response television and specialty stores.

**Smashbox** - In July 2010, we acquired Smashbox Beauty Cosmetics, a privately held, photo studio inspired prestige cosmetics company based in Los Angeles. Smashbox sells its products principally in the United States through specialty stores and the Internet, as well as internationally through distributors and select retailers.

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

**Distribution**

We sell our products principally through limited distribution channels to complement the images associated with our brands. These channels include more than 30,000 points of sale in over 150 countries and territories and consist primarily of upscale department stores, specialty retailers, upscale perfumeries and pharmacies and prestige salons and spas. In addition, our products are sold in freestanding company-owned stores and spas, our own and authorized retailer websites, stores on cruise ships, DRTV, in-flight and duty-free shops and certain fragrances are sold in self-select outlets.

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

We sell Aveda products principally to independent salons and spas, cosmetology schools, third-party distributors and specialty retailers and directly to consumers at our freestanding Aveda Experience Centers and certain Aveda Institutes. There are currently about 7,700 points of sale, primarily in the United States, that sell Aveda products. Bumble and bumble products are principally sold to about 2,300 independent salons, primarily in the United States. Darphin products are principally sold through high-end independent pharmacies, principally in Europe, representing approximately 3,000 points of sale.

As part of our strategy to diversify our distribution, we have been selectively opening new single-brand, freestanding stores that we operate. The Origins, Aveda and M·A·C brands are the primary focus for this method of distribution. At this time, we operate over 600 single-brand, freestanding stores worldwide, the majority of which are in the United States, and expect that number to increase moderately over the next several years. We also operate over 100 multi-brand stores.

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We sell American Beauty, Flirt!, GoodSkin Labs, grassroots research labs and Daisy Fuentes in approximately 1,100 Kohl's Department Stores in the United States.

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

As is customary in the cosmetics industry, our practice is to accept returns of our products from retailers if properly requested, authorized and approved. In accepting returns, we typically provide a credit to the retailer against accounts receivable from that retailer. In recognition of this practice, and in accordance with U.S. generally accepted accounting principles, we report revenues on a net sales basis, which reflects the amount of actual returns received and an amount established for anticipated returns. As a percentage of gross sales, returns were 4.3%, 4.4% and 4.4% in fiscal 2010, 2009 and 2008, respectively.

### **Customers**

Our strategy is to build strong relationships with selected retailers globally. Senior management works with executives of our major retail accounts on a regular basis and we believe we are viewed as an important supplier to these customers. Our largest customer, Macy's Inc., sells products primarily within the United States and accounted for 11%, 12% and 12% of our consolidated net sales for the years ended June 30, 2010, 2009 and 2008, respectively, and 11% of our accounts receivable as of June 30, 2010 and 2009.

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**Marketing**

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

Our High-Touch approach promotes the total value we offer, by leveraging our in-person and virtual assets, as well as merchandising and education, to provide a customized consumer experience. To support this initiative, 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 have dedicated resources to implement coordinated, brand-enhancing strategies across all online activities. We use the Internet to educate and inform consumers about certain of our brands. Currently, 18 of our brands have marketing sites, 16 of which have e-commerce capabilities. In order to continue to offer unparalleled customer service and set the standard for prestige beauty shopping online, we partner with key brick and mortar retailers to strengthen their e-commerce business and drive sales of our brands on their sites, continue to innovate to better meet consumer online shopping preferences (e.g., Spanish language sites in the United States and mobile phone transactions), and support e-commerce business via digital and social marketing activities designed to build brand equity and consumer engagement.

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

Global net expenses for advertising, merchandising, sampling, promotion and product development costs were \$2,015.9 million, \$1,878.8 million and \$2,034.6 million in fiscal 2010, 2009 and 2008, respectively. These amounts include activities relating to purchase with purchase and gift with purchase promotions that are reflected in net sales and cost of sales.

**Information Systems**

Information systems support business processes including product development, marketing, sales, order processing, production, distribution and finance. Of the many systems currently being utilized, the most significant to our business needs are: (i) a centralized data repository of essential attributes for each of the products we offer, or plan to offer, which enables us to globally manufacture and market products of consistent quality; (ii) a sales analysis system to track weekly sales at the stock keeping unit (SKU) level at most significant retail sales locations (i.e., sell-through data), increasing our understanding of consumer preferences and enabling us to coordinate more effectively our product

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development, manufacturing and marketing strategies; (iii) an automated replenishment system with many of our key domestic customers, allowing us to replenish inventories for individual points of sale automatically, with minimal paperwork; and (iv) an inventory management system to provide us with a global view of finished goods availability relative to actual requirements.

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

In parallel with our SAP deployment, we are creating a more focused global information technology organization utilizing industry standard processes. We are also taking this opportunity to rebalance our information technology resources to better align with our global business growth. We plan to continue to explore opportunities to create a more efficient organization.

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**Research and Development**

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

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

As of June 30, 2010, we had approximately 440 employees engaged in research and development. Research and development expenditures totaled \$79.5 million, \$81.6 million and \$80.9 million in fiscal 2010, 2009 and 2008, respectively. We maintain research and development programs at certain of our principal facilities, see *Item 2. Properties*.

**Manufacturing, Warehousing and Raw Materials**

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

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

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



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

### **Competition**

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

Our principal competitors consist of large, well-known, multinational manufacturers and marketers of skin care, makeup, fragrance and hair care products, most of which market and sell their products under multiple brand names. They include, among others, L'Oréal S.A.; Shiseido Company, Ltd.; LVMH Moët Hennessey Louis Vuitton; Coty, Inc.; The Procter & Gamble Company; and Avon Products, Inc. We also face competition from a number of independent brands, as well as some retailers that have developed their own beauty brands. Certain of our competitors also have ownership interests in retailers that are customers of ours.

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**Trademarks, Patents and Copyrights**

The trademarks used in our business include the brand names Estée Lauder, Clinique, Aramis, Prescriptives, Lab Series, Origins, Tommy Hilfiger, Donna Karan, DKNY, M A C, Bobbi Brown, La Mer, Aveda, Jo Malone, Bumble and bumble, Darphin, Michael Kors, American Beauty, Flirt!, Good Skin Labs, grassroots research labs, Ojon, Smashbox and the names of many of the products sold under these brands. We own the material trademark rights used in connection with the manufacturing, marketing and distribution of most of our major products both in the United States and in the other principal countries where such products are sold. We are the exclusive worldwide licensee for fragrances, cosmetics and/or related products for Tommy Hilfiger, Donna Karan New York, DKNY, Kiton, Michael Kors, Sean John, Missoni, Daisy Fuentes, Tom Ford and Coach. Origins sells products using the name of Dr. Andrew Weil. For further discussion on license arrangements, including their duration, see *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies License Arrangements*. We protect our trademarks for our principal products in the United States and significant markets worldwide. We consider the protection of our trademarks to be important to our business.

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

**Employees**

At June 30, 2010, we had approximately 31,200 full-time employees worldwide (including certain demonstrators at points of sale who are employed by us), of whom approximately 11,900 are employed in the United States and Canada. None of our employees in the United States is covered by a collective bargaining agreement. In certain other countries, a limited number of employees are covered by a works council agreement or other syndicate arrangements. We believe that relations with our employees are good. We have never encountered a material strike or work stoppage in the United States or in any other country where we have a significant number of employees.

**Government Regulation**

We and our products are subject to regulation by the Food and Drug Administration and the Federal Trade Commission in the United States, as well as by various other Federal, state, local and international regulatory authorities and the regulatory authorities in the countries in which our products are produced or sold. Such regulations principally relate to the ingredients, labeling, packaging and marketing of our products. We believe that we are in substantial compliance with such regulations, as well as with applicable Federal, state, local and international and other countries' rules and regulations governing the discharge of materials hazardous to the environment or that relate to climate change. There are no significant capital expenditures for environmental control or climate change matters either planned in the current year or expected in the near future.

**Seasonality**

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

### **Availability of Reports**

We make available financial information, news releases and other information on our website at [www.elcompanies.com](http://www.elcompanies.com). There is a direct link from the website to our Securities and Exchange Commission filings via the EDGAR database at [www.sec.gov](http://www.sec.gov), where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the Securities and Exchange Commission. Stockholders may also contact Investor Relations at 767 Fifth Avenue, New York, New York 10153 or call 800-308-2334 to obtain a hard copy of these reports without charge.

Table of Contents**Corporate Governance Guidelines and Code of Conduct**

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

**Executive Officers**

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

<b>Name</b>	<b>Age</b>	<b>Position(s) Held</b>
John Demsey	54	Group President
Amy DiGeso	58	Executive Vice President Global Human Resources
Fabrizio Freda	52	President, Chief Executive Officer and a Director
Harvey Gedeon	67	Executive Vice President Research & Development and Product Innovation
Richard W. Kunes	57	Executive Vice President and Chief Financial Officer
Evelyn H. Lauder	74	Senior Corporate Vice President
Leonard A. Lauder	77	Chairman Emeritus and a Director
Ronald S. Lauder	66	Chairman of Clinique Laboratories, LLC
William P. Lauder	50	Executive Chairman and a Director
Sara E. Moss	63	Executive Vice President and General Counsel
Gregory F. Polcer	55	Executive Vice President Global Supply Chain
Cedric Prouvé	50	Group President International
Alexandra C. Trower	46	Executive Vice President Global Communications

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

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

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Since June 2003, Ms. DiGesio has been engaged in various philanthropic activities.

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

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

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

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

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

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

**William P. Lauder** is Executive Chairman and, in such role, he is Chairman of the Board of Directors. He was Chief Executive Officer of the Company from March 2008 through June 2009 and President and Chief Executive Officer from July 2004 through February 2008. From January 2003 through June 2004, he was Chief Operating Officer. From July 2001 through 2002, he was Group President responsible for the worldwide business of Clinique and Origins and the Company's retail store and on-line operations. From 1998 to 2001, he was President of Clinique Laboratories, LLC. Prior to 1998, he was President of Origins Natural Resources Inc., and he had been the senior officer of that division since its inception in 1990. Prior thereto, he served in various positions since joining the Company in 1986. He is a member of the Boards of Trustees of The University of Pennsylvania and The Trinity School in New York City and the Boards of Directors of the Fresh Air Fund, the 92nd Street Y, the Partnership for New York City, GLG Partners Inc. (since 2006) and the Advisory Board of Zelnick Media. He was a director of True Temper Sports Inc. from 2004 to 2009.

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

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

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

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

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

**Item 1A. Risk Factors.**

There are risks associated with an investment in our securities.

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

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

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

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



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Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to changes in consumer tastes for skin care, makeup, fragrance and hair care products, their attitudes toward our industry and brands, as well as to where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products, and refine our approach as to how and where we market and sell our products. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, we recognize that consumer tastes cannot be predicted with certainty and can change rapidly. The issue is compounded by the increasing use of social and digital media by consumers and the speed by which information and opinions are shared. If we are unable to anticipate and respond to sudden challenges that we may face in the marketplace, trends in the market for our products and changing consumer demands and sentiment, our financial results will suffer.

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

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

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*Acquisitions may expose us to additional risks.*

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

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

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

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

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

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

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

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

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

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

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

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business, including changes in accounting standards, tax laws and regulations, 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 could adversely affect our financial results.

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

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

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

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

***We are subject to risks related to our international operations.***

We operate on a global basis, with approximately 62% of our fiscal 2010 net sales generated outside the United States. We maintain offices in over 40 countries and have key operational facilities located outside the United States that manufacture, warehouse or distribute goods for sale throughout the world. Foreign operations are subject to many risks and uncertainties, including:

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

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

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

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

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

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

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

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

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

Our business planning process is designed to maximize our long-term strength, growth and profitability, not to achieve an earnings target in any particular fiscal quarter. We believe that this longer-term focus is in the best interests of the Company and our stockholders. At the same time, however, we recognize that it may be helpful to provide investors with guidance as to our forecast of net sales and earnings per share. Accordingly, when we announced our year-end financial results for fiscal 2010, we provided guidance as to our expected net sales and earnings per share for the fiscal year ending June 30, 2011 and the quarter ending September 30, 2010. While we generally expect to provide updates to our guidance when we report our results each fiscal quarter, we assume no responsibility to update any of our forward-looking statements at such times or otherwise. In addition, the longer-term guidance we provide is based on goals that we believe, at the time guidance is given, are reasonably attainable for growth and performance over a number of years. Such targets are more difficult to predict than our current quarter and fiscal year expectations.

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

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

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

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

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

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

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*We are controlled by the Lauder family. As a result of their control of us, the Lauder family has the ability to prevent or cause a change in control or approve, prevent or influence certain actions by us.*

As of August 13, 2010, members of the Lauder family beneficially own, directly or indirectly, shares of Class A Common Stock (with one vote per share) and Class B Common Stock (with 10 votes per share) having approximately 87.1% of the outstanding voting power of the Common Stock. In addition, there are six members of the Lauder family who are employees, including four who are members of our Board of Directors. As a result of the stock ownership and their positions at the Company, the Lauder family has the ability to exercise significant control and influence over our business, including, without limitation, all matters requiring stockholder approval, including the election of directors, amendments to the certificate of incorporation and significant corporate transactions, such as a merger or other sale of our Company or its assets, for the foreseeable future.

*We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, are relying on exemptions from certain corporate governance requirements that are designed to provide protection to stockholders of companies that are not controlled companies.*

The Lauder family and their related entities own more than 50% of the total voting power of our common shares and, as a result, we are a controlled company under the New York Stock Exchange corporate governance standards. As a controlled company, we are exempt under the New York Stock Exchange standards from the obligation to comply with certain New York Stock Exchange corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors;
- that we have a nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

While we have voluntarily caused our Board to have a majority of independent directors and the written charters of our Nominating and Board Affairs Committee and the Compensation Committee to have the required provisions, we are not requiring our Nominating and Board Affairs Committee and Compensation Committee to be comprised solely of independent directors. As a result of our use of the controlled company exemptions, investors will not have the same protection afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

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

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





Table of Contents**Item 2. Properties.**

The following table sets forth our principal owned and leased manufacturing, assembly, research and development and distribution facilities as of August 13, 2010. The leases expire at various times through 2026 subject to certain renewal options.

Location	Use	Approximate Square Footage
<b>The Americas</b>		
Blaine, Minnesota (owned)	Manufacturing and R&D	275,000
Blaine, Minnesota (leased)	Distribution	126,000
Oakland, New Jersey (leased)	Manufacturing	148,000
Hauppauge, New York (leased)	Manufacturing / Assembly	140,000
Melville, New York (owned)	Manufacturing	353,000
Melville, New York (owned)	R&D	134,000
Bristol, Pennsylvania (leased)	Manufacturing	67,000
Bristol, Pennsylvania (leased)	Distribution	243,000
Bristol, Pennsylvania (leased)	Distribution	243,000
Treose, Pennsylvania (leased)	Manufacturing / Assembly	140,000
Agincourt, Ontario, Canada (owned)	Manufacturing	96,000
Markham, Ontario, Canada (leased)	Manufacturing	58,000
Markham, Ontario, Canada (leased)	R&D	26,000
Markham, Ontario, Canada (leased)	Manufacturing	79,000
Toronto, Ontario, Canada (leased)	Distribution	186,000
<b>Europe, the Middle East &amp; Africa</b>		
Oevel, Belgium (owned)	Manufacturing	113,000
Oevel, Belgium (leased)	Manufacturing and R&D	70,000
Oevel, Belgium (leased)	Distribution	100,000
Kerpen, Germany (leased)	Distribution	98,000
Sandton, South Africa (leased)	Distribution	63,750
Madrid, Spain (leased)	Distribution	90,000
Lachen, Switzerland (owned)	Manufacturing	53,000
Lachen, Switzerland (owned)	Distribution	125,000
Hampshire, United Kingdom (leased)	Distribution	203,000
Petersfield, United Kingdom (owned)	Manufacturing	225,000
<b>Asia/Pacific</b>		
Rosebury, Australia (leased)	Distribution	104,000
Shanghai, China (leased)	Distribution and R&D	57,000
Tokyo, Japan (leased)	Distribution and R&D	147,600
Yongin, Korea (leased)	Distribution	160,000
Tanjong Penjuru, Singapore (leased)	Distribution	56,000

We own, lease and occupy numerous offices, assembly and distribution facilities and warehouses in the United States and abroad. We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. We lease approximately 280,000 square feet of rentable space for our principal offices in New York, New York and own an office building of approximately 57,000 square feet in Melville, New York. As of August 13, 2010, we operated over 700 freestanding retail stores.

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

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

**Item 4. *Removed and Reserved.***

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market for Registrant's Common Equity and Related Stockholder Matters**

Our Class A Common Stock is publicly traded on the New York Stock Exchange under the symbol EL. The following table shows the high and low sales prices as reported on the New York Stock Exchange Composite Tape and the cash dividends per share declared in fiscal 2010 and fiscal 2009:

	Fiscal 2010			Fiscal 2009		
	High	Low	Cash Dividends	High	Low	Cash Dividends
First Quarter	\$ 38.21	\$ 30.00	\$ .55	\$ 54.75	\$ 40.75	\$ .55
Second Quarter	50.57	35.60	.55	50.89	24.24	.55
Third Quarter	65.75	47.65		32.83	19.81	
Fourth Quarter	71.29	54.17		37.00	24.03	
Fiscal Year	71.29	30.00	\$ .55	54.75	19.81	\$ .55

We expect to continue the payment of cash dividends in the future, but there can be no assurance that the Board of Directors will continue to declare them. In November 2009 and 2008, the Board of Directors declared an annual dividend of \$.55, which was paid in December 2009 and 2008, respectively.

As of August 13, 2010, there were approximately 8,235 record holders of Class A Common Stock and 17 record holders of Class B Common Stock.

**Share Repurchase Program**

We are authorized by the Board of Directors to repurchase up to 88.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2010, the cumulative total of acquired shares pursuant to the authorization was 70.0 million, reducing the remaining authorized share repurchase balance to 18.0 million. During fiscal 2010, we purchased approximately 4.7 million shares pursuant to the authorization for \$257.7 million as outlined in the following table:

**Period**

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	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 2009				22,734,432
August 2009				22,734,432
September 2009	11,688(2) \$	34.21		22,734,432
October 2009				22,734,432
November 2009	526,386(3) \$	46.06	330,000	22,404,432
December 2009	1,098,463 \$	48.61	1,098,463	21,305,969
January 2010	450,000 \$	49.20	450,000	20,855,969
February 2010	635,000 \$	57.55	635,000	20,220,969
March 2010	180,300 \$	60.61	180,300	20,040,669
April 2010				20,040,669
May 2010	1,169,600 \$	60.53	1,169,600	18,871,069
June 2010	830,400 \$	58.06	830,400	18,040,669
Year-to-date	4,901,837 \$	54.40	4,693,763	18,040,669

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- (1) The initial program covering the repurchase of 8.0 million shares was announced in September 1998 and increased by 20.0 million shares each in November 2007, February 2007 and May 2005 and 10.0 million shares in both May 2004 and October 2002.
- (2) Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the settlement of performance share units earned as of June 30, 2009.
- (3) Represents shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of restricted stock units.

Subsequent to June 30, 2010, we purchased approximately 1.0 million additional shares of Class A Common Stock for \$60.7 million pursuant to our share repurchase program.

Table of Contents**Sales of Unregistered Securities**

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

During the three months ended June 30, 2010, the stockholders set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the dates set forth below:

<b>Stockholder That Converted Class B Common Stock to Class A Common Stock</b>	<b>Date of Conversion</b>	<b>Number of Shares Converted/ Received</b>
Ronald S. Lauder	May 6, 2010	420,000
The Estee Lauder 2002 Trust	May 20, 2010	40,220
Ronald S. Lauder	June 3, 2010	125,000

**Item 6. Selected Financial Data.**

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

	<b>2010 (a)</b>	<b>2009 (a)</b>	<b>Year Ended or at June 30</b>		<b>2006(b)</b>
			<b>2008</b>	<b>2007</b>	
	<b>(In millions, except per share data)</b>				
<b>Statement of Earnings Data:</b>					
Net sales	\$ 7,795.8	\$ 7,323.8	\$ 7,910.8	\$ 7,037.5	\$ 6,463.8
Gross profit	5,966.4	5,442.2	5,914.0	5,262.7	4,777.2
Operating income	789.9	418.4	810.7	749.9	619.6
Interest expense, net (c)	74.3	75.7	66.8	38.9	23.8
Interest expense on debt extinguishment (d)	27.3				
Earnings before income taxes and discontinued operations	688.3	342.7	743.9	711.0	595.8
Provision for income taxes	205.9	115.9	259.9	255.2	259.7
Net earnings from continuing operations	482.4	226.8	484.0	455.8	336.1
Discontinued operations, net of tax (e)				0.5	(80.3)
Net earnings attributable to noncontrolling interests	(4.1)	(8.4)	(10.2)	(7.1)	(11.6)
Net earnings attributable to The Estée Lauder Companies Inc.	478.3	218.4	473.8	449.2	244.2
<b>Cash Flow Data:</b>					
Net cash flows provided by operating activities	\$ 956.7	\$ 696.0	\$ 690.1	\$ 661.6	\$ 709.8

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Net cash flows used for investing activities	(281.4)	(339.5)	(478.5)	(373.8)	(303.2)
Net cash flows provided by (used for) financing activities	(406.1)	125.8	(78.1)	(411.6)	(594.6)
<b>Per Share Data:</b>					
Net earnings per common share from continuing operations (e):					
Basic	\$ 2.44	\$ 1.16	\$ 2.50	\$ 2.23	\$ 1.56
Diluted	\$ 2.40	\$ 1.15	\$ 2.46	\$ 2.19	\$ 1.55
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic	\$ 2.42	\$ 1.11	\$ 2.44	\$ 2.20	\$ 1.14
Diluted	\$ 2.38	\$ 1.10	\$ 2.40	\$ 2.16	\$ 1.12
Weighted average common shares outstanding (f):					
Basic	197.7	196.3	193.9	204.3	215.0
Diluted	200.7	197.7	197.1	207.8	217.4
Cash dividends declared per common share	\$ .55	\$ .55	\$ .55	\$ .50	\$ .40
<b>Balance Sheet Data:</b>					
Working capital	\$ 1,548.8	\$ 1,453.3	\$ 1,088.0	\$ 738.7	\$ 738.7
Total assets	5,335.6	5,176.6	5,011.2	4,125.7	3,784.1
Total debt (c) (d)	1,228.4	1,421.4	1,196.9	1,088.5	521.5
Stockholders' equity - The Estée Lauder Companies Inc. (f)	1,948.4	1,640.0	1,653.2	1,199.0	1,622.3

(a) Fiscal 2010 results included \$55.9 million, after tax, or \$.28 per diluted share related to total charges associated with restructuring activities. Fiscal 2009 results included \$61.7 million, after tax, or \$.31 per diluted share related to total charges associated with restructuring activities.

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

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

(d) On May 24, 2010, we completed a cash tender offer for \$130.0 million principal amount of our 2012 Senior Notes at a price of 108.500% of the principal amount and for \$69.9 million principal amount of our 2013 Senior Notes at a tender price of 118.813% of the principal amount. During the fourth quarter of fiscal 2010, we recorded a pre-tax expense on the extinguishment of debt of \$27.3 million representing the tender premium, the pro-rata write-off of unamortized terminated interest rate swap, issuance costs and debt discount, and tender offer costs associated with both series of notes.

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

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

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The discussion and analysis of our financial condition at June 30, 2010 and our results of operations for the three fiscal years ended June 30, 2010 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 amounts of assets,



liabilities, revenues and expenses reported in those financial statements. These estimates and assumptions can be subjective and complex and, consequently, actual results could differ from those estimates. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives.

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

### ***Revenue Recognition***

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

Revenues are reported on a net sales basis, which is computed by deducting from gross sales the amount of actual product returns received, discounts, incentive arrangements with retailers and an amount established for anticipated product returns. Our practice is to accept product returns from retailers only if properly requested, authorized and approved. In accepting returns, we typically provide a credit to the retailer against accounts receivable from that retailer. As a percentage of gross sales, returns were 4.3%, 4.4% and 4.4% in fiscal 2010, 2009 and 2008, respectively.

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

In the ordinary course of business, we have established an allowance for doubtful accounts and customer deductions based upon the evaluation of accounts receivable aging, specific exposures and historical trends. Our allowance for doubtful accounts and customer deductions is a subjective critical estimate that has a direct impact on reported net earnings. The allowance for doubtful accounts was \$34.3 million and \$41.4 million as of June 30, 2010 and 2009, respectively. The allowance for doubtful accounts was reduced by \$15.8 million, \$14.1 million and \$10.2 million for customer deductions and write-offs in fiscal 2010, 2009 and 2008, respectively, and increased by \$8.7 million, \$29.2 million and \$13.2 million for additional provisions in fiscal 2010, 2009 and 2008, respectively.

***Inventory***

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

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

***Pension and Other Post-retirement Benefit Costs***

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

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

The discount rate for each plan used for determining future net periodic benefit cost is based on a review of highly rated long-term bonds. For fiscal 2010, we used a discount rate for our Domestic Plans of 6.50% and varying rates on our international plans of between 1.75% and 8.75%. The discount rate for our Domestic Plans is based on a bond portfolio that includes only long-term bonds with an Aa rating, or equivalent, from a major rating agency. We believe the timing and amount of cash flows related to the bonds included in this portfolio is expected to match the estimated defined benefit payment streams of our Domestic Plans. For fiscal 2010, we used an expected return on plan assets of 7.75% for our U.S. Qualified Plan and varying rates of between 2.75% and 8.75% for our international plans. In determining the long-term rate of return for a plan, we consider the historical rates of return, the nature of the plan's investments and an expectation for the plan's investment strategies, see *Item 8. Financial Statements and Supplementary Data Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans* for details regarding the nature of our pension and post-retirement plan investments. The difference between actual and expected return on plan assets is reported as a component of accumulated other comprehensive income. Those gains/losses that are subject to amortization over future periods will be recognized as a component of the net periodic benefit cost in such future periods. For fiscal 2010, our pension plans had actual return on assets of approximately \$101 million as compared with expected return on assets of approximately \$52 million, which resulted in a net deferred gain of approximately \$49 million, substantially all of which is currently subject to be amortized over periods ranging from approximately 4 to 26 years. The actual return on assets was primarily related to the performance of equity markets during the past fiscal year.

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A 25 basis-point change in the discount rate or the expected rate of return on plan assets would have had the following effect on fiscal 2010 pension expense:

(In millions)	25 Basis-Point Increase		25 Basis-Point Decrease	
Discount rate	\$	(1.5)	\$	3.3
Expected return on assets	\$	(1.9)	\$	1.9

Our post-retirement plans are comprised of health care plans that could be impacted by health care cost trend rates, which may have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates for fiscal 2010 would have had the following effects:

(In millions)	One-Percentage-Point Increase		One-Percentage-Point Decrease	
Effect on total service and interest costs	\$	1.1	\$	(1.0)
Effect on post-retirement benefit obligations	\$	9.4	\$	(9.0)

For fiscal 2011, we are using a discount rate for the Domestic Plans of 5.30% and varying rates for our international plans of between 1.25% and 8.00%. We are using an expected return on plan assets of 7.75% for the U.S. Qualified Plan and varying rates for our international pension plans of between 2.50% and 8.00%. The net change in these assumptions from those used in fiscal 2010 will result in an increase in pension expense of approximately \$11.4 million in fiscal 2011. We will continue to monitor the market conditions relative to these assumptions and adjust them accordingly.

***Goodwill, Other Intangible Assets and Long-Lived Assets***

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

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

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

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

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

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The key estimates and factors used in these two approaches include, but are not limited to, revenue growth rates and profit margins based on internal forecasts, terminal value, the weighted-average cost of capital used to discount future cash flows and comparable market multiples. The fiscal 2010 compound annual growth rate of sales for the first four to eight years of our projections, as considered appropriate for the individual reporting units, ranged between 3% and 24% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2010. The fiscal 2009 compound annual growth rate of sales for the first eight years of our projections ranged between 6% and 19% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2009. For reporting units with positive earnings, growth in the corresponding earnings before interest and taxes ranged from 9% to 161% in fiscal 2010 as compared with 6% to 46% in fiscal 2009. The terminal growth rates were projected at 3% after four to eight years in fiscal 2010 as compared with 3% after eight years in fiscal 2009, which reflects our estimate of long term market and gross domestic product growth. The weighted-average cost of capital used to discount future cash flows ranged from 9% to 17% in fiscal 2010 as compared with 11% to 17% in fiscal 2009. The range of market multiples used in our fiscal 2010 impairment testing was from 0.5 to 3 times trailing-twelve-month sales and 9 to 12 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. The range of market multiples used in our fiscal 2009 impairment testing was from 2 to 3 times trailing-twelve-month sales and 10 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. Future changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill. However, a decrease of 30 basis points in our terminal growth rate or an increase of 30 basis points in our weighted-average cost of capital would still result in a fair value calculation exceeding our book value for each of our reporting units, except for the Ojon reporting unit, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Goodwill, Other Intangible Assets and Long-Lived Assets*. Changes in the valuation assumptions from those used in the prior year primarily reflect the impact of the current economic environment on the reporting units and their projected future results of operations.

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

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

***Income Taxes***

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. As of June 30, 2010, we have current net deferred tax assets of \$269.0 million and non-current net deferred tax assets of \$104.8 million. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance of \$38.5 million for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. Based on our assessments, no additional valuation allowance is required. If we determine that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time.

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

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*Derivatives*

We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward and option contracts to reduce the effects of fluctuating foreign currency exchange rates and interest rate derivatives to manage the effects of interest rate movements on our aggregate liability portfolio. We also enter into foreign currency forward 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. We do not utilize derivative financial instruments for trading or speculative purposes. Hedge effectiveness is documented, assessed and monitored by employees who are qualified to make such assessments and monitor the instruments. Variables that are external to us such as social, political and economic risks may have an impact on our hedging program and the results thereof.

Our derivative financial instruments are recorded as either assets or liabilities on the balance sheet and measured at fair value. All derivatives outstanding as of June 30, 2010 are (i) designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ( fair-value hedge), (ii) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ( foreign currency cash-flow hedge), or (iii) not designated as a hedging instrument. Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge that is highly effective are recorded in current-period earnings, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on unrecognized firm commitments). Changes in the fair value of a derivative that is designated and qualifies as a foreign currency cash-flow hedge of a foreign-currency-denominated forecasted transaction that is highly effective are recorded in other comprehensive income (loss) ( OCI ). Gains and losses deferred in OCI are then recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged foreign-currency-denominated forecasted transaction (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative instruments not designated as hedging instruments are reported in current-period earnings.

For a discussion on the quantitative impact of market risks related to our derivative financial instruments, see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Market Risk*.

*Quantitative Analysis*

During the three-year period ended June 30, 2010 there have not been material changes in the assumptions underlying these critical accounting policies, nor to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

While we believe that the estimates that we have made are proper and the related results of operations for the period are presented fairly in all material respects, other assumptions could reasonably be justified that would change the amount of reported net sales, cost of sales, operating expenses or our provision for income taxes as they relate to the provisions for anticipated sales returns, allowance for doubtful accounts, inventory obsolescence reserve and income taxes. For fiscal 2010, had these estimates been changed simultaneously by 2.5% in either direction, our reported gross profit would have increased or decreased by approximately \$4.8 million, operating expenses would have changed by approximately \$0.9 million and the provision for income taxes would have increased or decreased by approximately \$1.3 million. The collective impact of these changes on operating income, net earnings attributable to The Estée Lauder Companies Inc., and net earnings attributable to The Estée Lauder Companies Inc. per diluted common share would be an increase or decrease of approximately \$5.7 million, \$7.0 million and \$.03, respectively.





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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 from continuing operations for fiscal 2010, 2009 and 2008 and reflects the basis of presentation described in *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies and Note 20 Segment Data and Related Information* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance and hair care have been included in the other category.

	2010	Year Ended June 30 2009 (In millions)		2008
<b>NET SALES</b>				
<b>By Region:</b>				
The Americas	\$ 3,442.1	\$ 3,421.2	\$ 3,711.5	
Europe, the Middle East & Africa	2,859.3	2,611.3	3,006.7	
Asia/Pacific	1,510.1	1,299.4	1,192.6	
	7,811.5	7,331.9	7,910.8	
Returns associated with restructuring activities	(15.7)	(8.1)		
	\$ 7,795.8	\$ 7,323.8	\$ 7,910.8	
<b>By Product Category:</b>				
Skin Care	\$ 3,227.1	\$ 2,886.0	\$ 2,996.8	
Makeup	2,978.2	2,830.9	3,000.4	
Fragrance	1,136.9	1,150.9	1,432.0	
Hair Care	413.9	402.4	427.1	
Other	55.4	61.7	54.5	
	7,811.5	7,331.9	7,910.8	
Returns associated with restructuring activities	(15.7)	(8.1)		
	\$ 7,795.8	\$ 7,323.8	\$ 7,910.8	
<b>OPERATING INCOME (LOSS)</b>				
<b>By Region:</b>				
The Americas	\$ 161.5	\$ 115.2	\$ 228.3	
Europe, the Middle East & Africa	500.8	229.7	433.1	
Asia/Pacific	212.3	165.2	149.7	
	874.6	510.1	811.1	
Total charges associated with restructuring activities	(84.7)	(91.7)	(0.4)	
	\$ 789.9	\$ 418.4	\$ 810.7	
<b>By Product Category:</b>				
Skin Care	\$ 434.3	\$ 294.1	\$ 405.6	
Makeup	416.8	279.8	359.4	
Fragrance	26.3	(60.8)	36.2	
Hair Care	(6.2)	1.1	11.5	
Other	3.4	(4.1)	(1.6)	
	874.6	510.1	811.1	
Total charges associated with restructuring activities	(84.7)	(91.7)	(0.4)	
	\$ 789.9	\$ 418.4	\$ 810.7	



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

	2010	Year Ended June 30 2009	2008
Net sales	100.0%	100.0%	100.0%
Cost of sales	23.5	25.7	25.2
Gross profit	76.5	74.3	74.8
<b>Operating expenses:</b>			
Selling, general and administrative	65.0	66.7	64.3
Restructuring and other special charges	0.8	1.0	
Goodwill impairment	0.2	0.2	
Impairment of other intangible and long-lived assets	0.4	0.7	0.2
	66.4	68.6	64.5
Operating income	10.1	5.7	10.3
Interest expense, net	1.0	1.0	0.9
Interest expense on debt extinguishment	0.3		
Earnings before income taxes	8.8	4.7	9.4
Provision for income taxes	2.6	1.6	3.3
Net earnings	6.2	3.1	6.1
Net earnings attributable to noncontrolling interests	(0.1)	(0.1)	(0.1)
Net earnings attributable to The Estée Lauder Companies Inc.	6.1%	3.0%	6.0%

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

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

### **Overview**

We believe that the best way to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing their changing shopping habits. To achieve our goal to be the global leader in prestige beauty, we are implementing a long-term strategy to guide the Company through fiscal 2013. The plan has numerous initiatives across regions, product categories, brands and functions that are designed to leverage our strengths, make us more cost efficient and grow our sales.

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

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During fiscal 2010, the first year of our strategy, our business continued to rebound from the global economic challenges and uncertainties that had a significant impact on our results during the prior fiscal year. Despite these conditions, some of which continue to exist, our results for the year ended June 30, 2010 exceeded our net sales and profitability expectations that we had at the beginning of the fiscal year. These results, in part, stem from stronger net sales, and savings achieved in connection with our multi-faceted cost savings program, including favorable product mix (which reflects our strategic emphasis on skin care products), resizing, restructuring and other cost containment initiatives. The improved net sales reflected growth in our three largest brands, continued strong growth in Asia, a substantial rebound in the Company's travel retail business and a better-than-expected holiday selling season in the United States and the United Kingdom. Net sales also benefited from further favorability in foreign currency translation.

During most of fiscal 2010, we engaged in a more strategically focused approach to spending in light of the global economic downturn and the management of several external potential risks which did not materialize in the current year. This was accomplished, in part, by executing on certain initiatives designed to drive out non-value added costs, optimize productivity and increase financial discipline. Although we remain cautious regarding global economic uncertainties and other risks that may affect our business, we accelerated investment spending behind our brands and key priorities during the latter part of the fiscal year.

In the Americas region, the increase in net sales during the current-year period was primarily attributable to growth in Canada and Latin America. Net sales in the United States benefited from new skin care and makeup product offerings and an increase in sales of certain designer fragrances through self-select outlets. We have also seen an improvement in the net sales of many of our higher-end prestige products, which were negatively impacted by a change in spending patterns of consumers as a result of the economic downturn in the prior year. Offsetting these improvements were lower net sales due to our exit from the global wholesale distribution of the Prescriptives brand. In addition, the U.S. department store channel continues to be negatively impacted by a soft retail environment, low store traffic and competitive pressures, particularly in the fragrance product category. Net sales results in alternative channels within the region were generally mixed. In our freestanding retail stores, net sales growth was fueled by new product launches from M A C, partially offset by lower sales resulting from the closing of certain underperforming stores for various brands. We had strong growth in net sales of our products sold over the Internet, while direct response television sales declined.

Our business in Europe, the Middle East & Africa generated a strong net sales increase during fiscal 2010, aided by the favorable impact of foreign currency translation. Sales and profits in our travel retail business have exceeded our expectations as a result of successful product launches, higher global airline passenger traffic, select trade re-stocking and new points of distribution. The travel retail business has also begun to reap the benefits of the implementation of many programs designed to enhance the consumer's High-Touch experience. Our High-Touch approach promotes the total value we offer, by leveraging our in-person and virtual assets, as well as merchandising and education, to provide a customized consumer experience. Net sales in most markets also increased during the current year, reflecting an improving retail environment, new product launches and rebounding sales from many of our higher-end prestige products. Despite these positive results, the impact of the global economic uncertainties are still being felt in certain countries where there remain soft retail environments, select retailer destocking and tight working capital management activities by retailers.

At this time, our business in the Asia/Pacific region has been least affected by the global economic uncertainties, with net sales growing in all countries in the region, several of which reflected significant favorable impact of foreign currency translation. Net sales in China rose at a fast pace as we continue our growth in this emerging market. New skin care product launches and an improving retail environment helped most countries in the region generate strong net sales increases during fiscal 2010. Our business in Japan continued to be challenging due to difficult economic conditions, as reported net sales increases were generated by the strengthening of the Japanese yen.

Looking ahead to fiscal 2011, we believe we have a strong, diverse brand portfolio with global reach and potential. We have a history of outstanding creativity, innovation and entrepreneurship, and initial successes in expanding our High-Touch service model beyond department

stores, and believe we have a passionate, highly-talented workforce to help us achieve our long-term strategy. Our balance sheet, cash flows and gross margin are strong. However, we continue to operate in a challenging environment. We have a number of areas to improve, including further enhancements to our cost structure, sharing operational best practices internally, increasing traffic to where our products are sold, and further diversification of distribution channels.

*Charges Associated with Restructuring Activities*

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

We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately \$450 million to \$550 million (beginning with approximately \$360 million of savings in fiscal 2010) including the reduction of certain costs relative to an assumed normalized spending pattern. Our long-range forecast for operating margin reflects these anticipated savings, net of strategic investments.

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

- **Resize and Reorganize the Organization** We continued the realignment and optimization of our organization to better leverage scale, improve productivity and reduce complexity in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions through a combination of normal attrition and job eliminations.
- **Turnaround or Exit Unprofitable Operations** To improve the profitability in certain of our brands and regions, we have selectively exited certain channels of distribution, categories and markets. During the first quarter of fiscal 2010, we approved the exit from the global wholesale distribution of our Prescriptives brand, which was completed during the fiscal year. In connection with these activities, we recorded a reserve for product returns, wrote off inventory and incurred costs to reduce workforce and other exit costs. Also during fiscal 2010, we approved a restructuring initiative that included the reformulation of Ojon brand products.
- **Outsourcing** In order to balance the growing need for information technology support with our efforts to provide the most efficient and cost effective solutions, we continued the outsourcing of certain information technology processes. We incurred costs to transition services to an outsource provider.

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
Charges recorded through June 30, 2010	\$ 90.2	\$ 15.2	\$ 5.7	\$ 8.0	\$ 119.1

The total amount of restructuring charges expected to be incurred (including those recorded as set forth in the table above), plus other initiatives approved through August 17, 2010, include approximately \$112 million to \$113 million for employee-related costs, approximately \$18 million in asset write-offs, which includes \$8.8 million related to the impairment of other intangible assets, and approximately \$23 million of contract terminations and other exit costs.

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

(In millions)	Employee- Related	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
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Costs

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

Accrued restructuring charges at June 30, 2010 are expected to result in cash expenditures funded from cash provided by operations of approximately \$25 million and \$6 million in fiscal 2011 and 2012, respectively.

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We recorded other special charges in connection with the implementation of the Program for the years ended June 30, 2010 and 2009 of \$12.3 million and \$10.1 million, respectively, related to consulting, other professional services, and accelerated depreciation. The total amount of other special charges expected to be incurred to implement these initiatives, including those recorded through June 30, 2010 plus other initiatives approved through August 17, 2010 is approximately \$41 million. For the year ended June 30, 2010, and primarily related to the exit from the global wholesale distribution of Prescriptives products, we recorded \$15.7 million reflecting sales returns (less a related cost of sales of \$2.5 million) and a write-off of inventory associated with exiting unprofitable operations of \$10.4 million. For the year ended June 30, 2009, we recorded \$8.1 million reflecting sales returns (less a related cost of sales of \$1.2 million) and a write-off of inventory of \$8.0 million associated with exiting unprofitable operations. The total amounts expected to be incurred, including those recorded through June 30, 2010 plus other initiatives approved through August 17, 2010 is between \$35 million and \$39 million related to sales returns and approximately \$15 million related to inventory write-offs.

Total charges associated with restructuring activities included in operating income for the years ended June 30, 2010 and 2009 was \$84.7 million and \$91.7 million, respectively.

***Goodwill, Other Intangible Asset and Long-Lived Asset Impairments***

During the second quarter of fiscal 2010, the Darphin reporting unit identified issues related to the planned streamlining of its distribution process, resulting in revisions to its internal forecasts. We concluded that these changes in circumstances in the Darphin reporting unit triggered the need for an interim impairment test of its trademark and goodwill. We determined that the trademark was impaired, with fair value estimated based upon the relief-from-royalty method, and therefore recorded an impairment charge of \$5.8 million, at the exchange rate in effect at that time, in the skin care product category and in the Europe, the Middle East & Africa region. After adjusting the carrying value of the trademark, we completed step one of the impairment test for goodwill and concluded that the fair value of the Darphin reporting unit was substantially in excess of its carrying value including goodwill. The fair value of the reporting unit was based upon the income approach, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows.

During the second quarter of fiscal 2010, the Ojon reporting unit altered and delayed certain components of its future expansion plans, resulting in revisions to its internal forecasts. We concluded that these changes in circumstances in the Ojon reporting unit triggered the need for an interim impairment review of its goodwill and trademark. Additionally, these changes in circumstances were also an indicator that the carrying amount of the product formulation intangible asset and customer list may not be recoverable. We performed an interim impairment test for the trademark and a recoverability test for the product formulation intangible asset and customer list as of December 31, 2009. For the product formulation intangible asset, we concluded that the carrying amount of this asset was recoverable. However, for the Ojon trademark and customer list, we concluded that the carrying values exceeded their estimated fair values, which were determined based on the application of a royalty rate to discounted projected future cash flows ( relief-from-royalty method ) for the trademark and discounted projected future cash flows for the customer list. As a result, we recognized asset impairment charges of \$6.0 million for the trademark and \$17.2 million for the customer list, at the exchange rate in effect at that time. After adjusting the carrying value of the trademark and customer list, we completed an interim impairment test for goodwill and recorded a goodwill impairment charge related to the Ojon reporting unit of \$16.6 million at the exchange rate in effect at that time. The fair value of the reporting unit was based upon weighting of the income and market approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. These impairment charges were reflected in the hair care and skin care product categories and in the Americas region.

During the fourth quarter of fiscal 2010, we approved a restructuring initiative that included the reformulation of Ojon brand products. We concluded that this change in the formulation was an indicator that the carrying amount of the product formulation intangible asset may not be recoverable. We performed an impairment test of the product formulation intangible asset and concluded that the carrying value of this

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intangible asset exceeded its estimated fair value, which was determined based on discounted projected future cash flows. As a result, we recognized an asset impairment charge of \$8.8 million, which is included in Restructuring and other special charges in the consolidated statement of earnings.

As of our annual step-one goodwill impairment test on April 1, 2010, the closest margin for fair value exceeding carrying value was approximately 1% for the Ojon reporting unit. As of June 30, 2010, the carrying value of goodwill related to the Ojon reporting unit was \$28.0 million. The fair value of the reporting unit was based upon weighting of the income and market approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. The key assumptions that were used to determine the estimated fair value of the reporting unit were predicated on planned new market initiatives, including the rollout of reformulated product lines and expanded international distribution. 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 in which this reporting unit operates, a resulting change in the key assumptions, including a decrease in the terminal value or increase in the discount rate, could have a negative impact on the estimated fair value of the reporting unit and it is possible we could recognize an impairment charge in the future. All other reporting units' fair values substantially exceeded their respective carrying values.

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As of our annual indefinite-lived asset impairment test on April 1, 2010, we determined that the fair values of two trademarks were equal to their carrying values. As of June 30, 2010, the carrying values of these trademarks were \$19.0 million and \$17.0 million. The fair values of these trademarks were based upon the relief-from-royalty method. The key assumptions that were used to determine the estimated fair value of one trademark were predicated on expanded distribution in the salon channel and into other channels. The key assumptions that were used to determine the estimated fair value of the other trademark were predicated on planned new market initiatives, including the rollout of reformulated product lines and expanded international distribution. 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 values of these trademarks and it is possible we could recognize an impairment charge in the future. The fair values of all other indefinite-lived intangible assets substantially exceeded their respective carrying values.

During the fourth quarter of fiscal 2010, we recorded non-cash impairment charges of \$2.7 million to reduce the net carrying value of certain retail store and counter assets to their estimated fair value, which was determined based on discounted projected future cash flows. Lower than expected operating cash flow performance relative to the affected assets, revisions in internal forecasts and the impact of the current economic environment on their projected future results of operations indicated that the carrying value of the related long-lived assets were not recoverable. These long-lived asset impairment charges primarily related to the Company's skin care and makeup businesses in the Americas and the Europe, Middle East and Africa regions and are included in Impairment of other intangible and long-lived assets in the consolidated statements of earnings.

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

***Impact of Recent Economic Events in Venezuela***

Cumulative inflation in Venezuela has exceeded 100% over the three-year period ended December 31, 2009, as measured using the blended Consumer Price Index/National Consumer Price Index. As a result, Venezuela has been designated as a highly inflationary economy effective January 1, 2010 and, as such, the U.S. dollar has become the functional currency of our subsidiary in Venezuela. Prior to being designated as highly inflationary, we translated the financial statements of our subsidiary in Venezuela using the official exchange rate of 2.15. Beginning January 1, 2010, currency remeasurement adjustments for this subsidiary's financial statements and other transactional foreign exchange gains and losses were reflected in earnings. Translation adjustments that were recorded through December 31, 2009 (prior to being designated as highly inflationary) remain in equity as part of other comprehensive income.

On January 8, 2010, the Venezuelan government announced the devaluation of its currency from an official exchange rate of 2.15 bolivars per U.S. dollar to a dual-rate regime of 2.60 bolivars per U.S. dollar for goods deemed essential and 4.30 bolivars per U.S. dollar for most other imports and repatriation of dividends by foreign investors (the official rate). From January 2010 through May 2010, we remeasured bolivar-denominated monetary assets and liabilities at the official exchange rate of 4.30 bolivars per U.S. dollar, as none of our transactions fell into the essential classification. In June 2010, the Venezuelan government created a third, officially-sanctioned exchange rate based on trading bands determined by the Central Bank of Venezuela. In light of the Venezuelan government's recent actions, we determined that the settlement of bolivar-denominated transactions could only be achieved using the third officially-sanctioned rate. Accordingly, beginning June 1, 2010, the bolivar-denominated monetary assets and liabilities of our subsidiary in Venezuela were remeasured at the third officially-sanctioned rate, which was 5.30 bolivars per U.S. dollar at June 30, 2010. Concurrent with the establishment of the third officially-sanctioned rate, the Venezuelan government also instituted a cap on companies exchanging bolivars for U.S. dollars of \$350,000 per month. While these sanctions do not have an immediate significant impact on our ability to do business in Venezuela, they may limit our growth opportunities there in the future.

As a result of the change to highly inflationary accounting, the prior use of different translating and remeasuring exchange rates for U.S. dollar-denominated net liabilities, and the devaluation of the bolivar and remeasurement at the third officially-sanctioned rate, we recorded higher costs and net charges of approximately \$9 million for the year ended June 30, 2010. This amount includes increased cost of sales associated with historical dollar costs of inventory. As of June 30, 2010, our subsidiary in Venezuela had approximately \$4 million of net monetary assets denominated in bolivars. We do not expect the change to highly inflationary accounting to have a significant impact on our ongoing future consolidated net sales or operating income since we expect to derive less than 1% of our future consolidated net sales and operating income from our business in Venezuela.

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***Impact of New Federal Legislation***

The Patient Protection and Affordable Care Act (the PPACA) became law on March 23, 2010, and on March 30, 2010 the Health Care and Education Reconciliation Act of 2010 ( H.R. 4872 ) became law, which makes various amendments to certain aspects of the PPACA. Certain of the provisions of this legislation that became effective during fiscal 2010 did not have a material impact on our consolidated financial statements. The potential impact of other facets of the legislation that are not yet effective, but applicable to our post-retirement benefit plans, was evaluated and determined to not have a material impact to our consolidated financial statements. We will continue to monitor the issuance of further health care reform guidance from regulators to determine the potential impact on our business and consolidated financial statements, if any.

***Compliance Assurance Program***

During the third quarter of fiscal 2010, we accepted an invitation from the U.S. Internal Revenue Service (the IRS) to join the Compliance Assurance Program ( CAP ) beginning with the fiscal year ending June 30, 2011. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of income tax returns prior to filing, thereby reducing or eliminating the need for post-filing examinations.

***Fiscal 2010 as Compared with Fiscal 2009***

**NET SALES**

Net sales increased 6%, or \$472.0 million, to \$7,795.8 million, reflecting increases in Asia/Pacific and Europe, the Middle East & Africa, and, to a lesser extent, the Americas. Net sales increases in the skin care, makeup and hair care product categories were partially offset by declines in the fragrance category. Excluding the impact of foreign currency translation, net sales increased 5%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of \$15.7 million recorded during the current year. 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 12%, or \$341.1 million, to \$3,227.1 million, primarily reflecting our strategic focus on growing this category through creativity and innovation, particularly high growth segments, such as products that address the visible signs of aging. The recent launches of Advanced Night Repair Synchronized Recovery Complex, Advanced Night Repair Eye Synchronized Complex, and

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Hydrationist Maximum Moisture Crème and Lotion from Estée Lauder contributed incremental sales of approximately \$247 million, combined. Also contributing to the category were the introductions of Even Better Clinical Dark Spot Corrector, Youth Surge Night Age Decelerating Night Moisturizer, and Even Better Skin Tone Correcting Moisturizer SPF 20 from Clinique, and The Regenerating Serum from La Mer, of approximately \$88 million, combined. Higher sales from existing products in Clinique's 3-Step Skin Care System and the Re-Nutriv line of products from Estée Lauder contributed approximately \$31 million to the increase. These increases were partially offset by approximately \$92 million of lower sales from existing products in the Advanced Night Repair and Perfectionist lines from Estée Lauder and in the Superdefense line from Clinique. Excluding the impact of foreign currency translation, skin care net sales increased 9%.

### *Makeup*

Makeup net sales increased 5%, or \$147.3 million, to \$2,978.2 million, primarily reflecting an increase of approximately \$135 million from our makeup artist brands, driven by higher net sales outside the United States. The recent launches of Even Better Makeup SPF 15 and Superbalanced Powder Makeup SPF 15 from Clinique and Resilience Lift Extreme Radiant Lifting Makeup SPF 15 from Estée Lauder, as well as higher sales of Double Wear Foundation from Estée Lauder and Vitamin C Lip Smoothie Antioxidant Lip Colour from Clinique, contributed approximately \$74 million, combined, to the increase. These increases were partially offset by lower sales of Prescriptives products due to the exit from the global wholesale distribution of the brand, as well as lower sales of High Impact Lip Color SPF 15 from Clinique and Artist's Eye Pencils from Estée Lauder of approximately \$50 million, combined. During the current year, we undertook an initiative to identify certain underperforming stock keeping units (SKU) for the purposes of evaluating their relevance to our long-term perfumery strategy in the Europe, the Middle East & Africa region. Based on this evaluation, we decided to discontinue certain of these products in perfumeries and recorded a charge of approximately \$27 million to reflect the anticipated returns of makeup products from participating retailers, subject to our returns approval policy. Excluding the impact of foreign currency translation, makeup net sales increased 4%.

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***Fragrance***

Net sales of fragrance products decreased 1%, or \$14.0 million, to \$1,136.9 million. This decline was largely due to lower sales of certain designer fragrances, of which approximately \$54 million was attributable to DKNY Delicious Night, Hilfiger Men, Sean John Unforgivable Woman, Sean John Unforgivable and DKNY Men. Also contributing to the decrease were lower sales of Estée Lauder Sensuous and Clinique Happy of approximately \$15 million, combined. These declines were partially offset by incremental sales from the recent launches of pure DKNY, Very Hollywood Michael Kors and DKNY Delicious Candy Apples, as well as higher sales of DKNY Be Delicious Fresh Blossom, of approximately \$53 million, combined. The decrease in net sales was due in part to a more strategically focused approach to investment spending in this category. Excluding the impact of foreign currency translation, fragrance net sales decreased 2%.

***Hair Care***

Hair care net sales increased 3%, or \$11.5 million, to \$413.9 million, primarily reflecting an increase in net sales of certain styling and hair color products, the recent launches of Smooth Infusion Glossing Straightener and Control Force from Aveda and sales generated from expanded distribution outside the United States. This increase was partially offset by lower net sales in North America resulting from a soft salon retail environment and the closing of certain underperforming freestanding retail stores. Excluding the impact of foreign currency translation, hair care net sales increased 2%.

***Geographic Regions***

Net sales in the Americas increased 1%, or \$20.9 million, to \$3,442.1 million. This increase was primarily attributable to higher net sales of approximately \$39 million in Canada and Latin America, reflecting a better-than-expected holiday selling season, new points of distribution and the favorable impact of foreign currency translation. In the United States, net sales increases of Clinique skin care products, various designer fragrances and from our makeup artist brands were partially offset by lower sales of various Estée Lauder fragrances and from our hair care brands. Together with the impact of the exit from the global wholesale distribution of the Prescriptives brand, all of these factors resulted in lower net sales in the United States of approximately \$10 million. Despite restocking to more normal levels by certain retailers, economic conditions in the Americas region, particularly in the department store channel, have negatively impacted our business. Ongoing challenges faced by certain of our department store customers in the United States may continue to affect our net sales for the short and medium term. To address these concerns, we are introducing new High-Touch concepts and working with retailers in the channel to improve consumer traffic. Excluding the impact of foreign currency translation, net sales in the Americas were flat as compared with the prior year.

In Europe, the Middle East & Africa, net sales increased 9%, or \$248.0 million, to \$2,859.3 million, reflecting growth from travel retail and from virtually all countries in the region and in each product category. This reflects our strategy to strengthen our geographic presence and to succeed in the travel retail channel. The region also benefited from the favorable impact of foreign currency translation. Net sales increases of approximately \$250 million were driven by our travel retail business, the United Kingdom, Russia, South Africa, Germany and Turkey, reflecting an improved retail environment, successful launches of skin care products and higher combined sales from our makeup artist brands. The net sales improvement in our travel retail business also reflected a favorable comparison to the prior year due to an increase in global airline passenger traffic, new points of distribution, select customer restocking and benefits of programs designed to enhance the consumer's High-Touch experience. Partially offsetting these increases were lower net sales of approximately \$13 million in the Balkans, primarily reflecting the economic situation in Greece. We continue to experience select customer destocking in continental Europe. During the current year, we undertook an initiative to identify certain underperforming SKUs for the purposes of evaluating their relevance to our long-term perfumery strategy. Based on this evaluation, we decided to discontinue certain of these products in perfumeries and recorded a charge of



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approximately \$31 million to reflect the anticipated returns of these products from participating retailers, subject to our returns approval policy. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 8%.

Net sales in Asia/Pacific increased 16%, or \$210.7 million, to \$1,510.1 million, reflecting growth from all countries in the region and each product category. This reflects our strategy to strengthen and expand our geographic presence in Asia particularly in China. The region also benefited from the favorable impact of foreign currency translation. Approximately \$184 million of this increase was generated in China, Korea, Hong Kong, Australia and Taiwan primarily reflecting strong sales of skin care products. Australia and Korea also benefited significantly from foreign currency translation. Our business in Japan continued to be challenged due to difficult economic conditions, as reported net sales increases were generated from the strengthening of the Japanese yen. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 10%.

Although our financial performance reflected improved economic conditions in certain geographies, we expect the global economic uncertainties to continue to impact our business. We cannot predict with certainty the magnitude or duration of the impact or how it will vary across each of our geographic regions.

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

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**COST OF SALES**

Cost of sales as a percentage of total net sales decreased to 23.5% as compared with 25.7% in the prior year. This improvement primarily reflected our efforts in connection with the Program, including favorable changes in the mix of our business of approximately 70 basis points, a decrease in obsolescence charges of approximately 60 basis points and favorable manufacturing variances of 40 basis points. Also contributing to the improvement in cost of sales margin were the favorable comparison to the prior year when we recorded excess overhead costs that were not expected to be recovered of approximately 30 basis points, and the favorable effect of exchange rates and a decrease in the timing and level of promotional activities of approximately 10 basis points, each.

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 66.4% as compared with 68.6% in the prior year, and reflects the impact of the strong growth in net sales during fiscal 2010. This improvement primarily reflected lower selling, shipping, general and administrative costs as a percentage of net sales of approximately 180 basis points due to various cost containment efforts implemented as part of the Program and a strategically focused approach to spending, lower charges associated with restructuring activities of 30 basis points, the favorable comparison to the prior year related to other intangible asset impairment charges of approximately 20 basis points and lower net losses from foreign exchange transactions of approximately 10 basis points. Partially offsetting these improvements were higher strategic investment spending of approximately 10 basis points and higher advertising, sampling and merchandising costs of approximately 10 basis points.

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

**OPERATING RESULTS**

Operating income increased 89%, or \$371.5 million, to \$789.9 million. Operating margin improved to 10.1% of net sales as compared with 5.7% in the prior year, reflecting our strategy to drive out non-value-added costs and increase financial discipline. This, along with relatively strong net sales growth, resulted in a higher gross margin and the decrease in our operating expense margin as previously discussed. While operating results improved dramatically from fiscal 2009, we do not expect the same levels of year-over-year improvements to continue. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges associated with restructuring activities of \$84.7 million, or 1.1% of net sales, in fiscal 2010 and \$91.7 million, or 1.3% of net sales, in fiscal 2009. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

*Product Categories*

All product categories benefited from initiatives we implemented as part of the Program including a more strategically focused approach to spending, as well as significant improvement in cost of sales from favorable product mix and enhanced inventory management. Skin care operating income increased 48%, or \$140.2 million, to \$434.3 million, primarily reflecting improved results from certain of our heritage brands driven by increased net sales primarily from recently-launched products with higher margins. While the current year skin care results reflected charges of approximately \$11 million related to goodwill, other intangible asset and long-lived asset impairments, it was a favorable comparison to the prior year when we recorded similar charges of approximately \$36 million. Makeup operating income increased 49%, or \$137.0 million, to \$416.8 million, primarily reflecting improved results from certain of our heritage brands and from our makeup artist brands. The operating results for the makeup category also reflected the majority of the impact of the charge related to the discontinuation of certain SKUs, as previously discussed, which reflects the anticipated returns, as well as the write-off of related inventory on hand of approximately \$30 million, combined. Fragrance operating results improved over 100%, or \$87.1 million, from a loss in the prior fiscal year to \$26.3 million, primarily reflecting higher net sales of designer fragrances, a more strategically focused approach to spending reflecting our strategy to improve profitability, and a favorable comparison to the prior year when we recorded approximately \$13 million of other intangible asset impairment charges. Hair care operating results decreased over 100% or \$7.3 million, to a loss of \$6.2 million, primarily reflecting higher goodwill and other intangible asset impairments of approximately \$27 million, partially offset by net sales growth outside the United States, the closing of certain underperforming retail stores in the prior year and savings generated from cost containment initiatives.

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***Geographic Regions***

Operating results in each of our geographic regions benefited from the initiatives we implemented as part of the Program and a more strategically focused approach to spending, as well as significant improvement in cost of sales from favorable product mix and enhanced inventory management, resulting in significant improvements in their operating income.

Operating income in the Americas increased 40%, or \$46.3 million, to \$161.5 million, driven by the Program and a more measured approach to spending, particularly from our heritage brands and our makeup artist brands. The increase also reflected a favorable comparison to the prior year when we recorded an excess overhead charge and a charge related to the degradation of a certain retailer of approximately \$27 million, combined. The increase in profitability was partially offset by lower net sales from the exit of the wholesale distribution of Prescriptives products, higher charges for goodwill, other intangible asset and long-lived asset impairments, and the impact of the recent economic events in Venezuela, as previously discussed.

In Europe, the Middle East & Africa, operating income increased over 100%, or \$271.1 million, to \$500.8 million, reflecting improvements in travel retail and virtually all countries in the region. Higher results from our travel retail business and in Spain, Russia, the United Kingdom, Italy, France and Germany totaled approximately \$243 million. While the current year results reflected a charge of approximately \$6 million related to other intangible asset impairment, it was a favorable comparison to the prior year when we recorded goodwill and other intangible asset impairment charges of approximately \$25 million. In addition, as previously discussed, we recorded a charge in fiscal 2010 related to the discontinuation of certain SKUs which reflects the anticipated returns, as well as the write-off of related inventory on hand of approximately \$34 million, combined.

In Asia/Pacific, operating income increased 29%, or \$47.1 million, to \$212.3 million. Virtually all countries in the region reported higher operating results, led by Hong Kong, China, Japan, Taiwan, and Australia, which combined for approximately \$39 million of the improvement.

**INTEREST EXPENSE, NET**

Net interest expense was \$74.3 million as compared with \$75.7 million in the prior year. Interest expense decreased primarily due to lower average debt balances and lower average interest rates on borrowings. This change was partially offset by lower interest income due to lower average investment rates, partially offset by higher average investment balances.

**INTEREST EXPENSE ON DEBT EXTINGUISHMENT**

During the fourth quarter of fiscal 2010, we completed a cash tender offer for \$130.0 million principal amount of our 2012 Senior Notes at a price of 108.500% of the principal amount and for \$69.9 million principal amount of our 2013 Senior Notes at a tender price of 118.813% of the principal amount. We recorded a pre-tax expense on the extinguishment of debt of \$27.3 million representing the tender premium of \$24.2 million, the pro-rata write-off of \$2.4 million of unamortized terminated interest rate swap, issuance costs and debt discount, and \$0.7 million in tender offer costs associated with both series of notes.

**PROVISION FOR INCOME TAXES**

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from statutory rates primarily due to the effect of state and local income taxes, tax rates in foreign jurisdictions and income tax reserve adjustments, which represent changes in our net liability for unrecognized tax benefits including tax settlements and lapses of the applicable statutes of limitations. Our effective tax rate will change from year to year based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax reserve adjustments, the ultimate disposition of deferred tax assets relating to stock-based compensation and the interaction of various global tax strategies.

The effective rate for income taxes for the year ended June 30, 2010 was 29.9% as compared with 33.8% in the prior year. The decrease in the effective income tax rate of 390 basis points was primarily attributable to tax reserve adjustments including favorable tax settlements as well as lapses of statutes of limitations partially offset by a higher effective tax rate related to our foreign operations.

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

Net earnings attributable to The Estée Lauder Companies Inc. as compared with fiscal 2009 increased over 100%, or \$259.9 million, to \$478.3 million and diluted net earnings per common share increased over 100% from \$1.10 to \$2.38. The results in the current year include the impact of total charges associated with restructuring activities of \$55.9 million, after tax, or \$.28 per diluted common share and interest expense on debt extinguishment of \$17.5 million, after tax, or \$.09 per diluted common share. The results in fiscal 2009 include the impact of total charges associated with restructuring activities of \$61.7 million, after tax, or \$.31 per diluted common share.

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*Fiscal 2009 as Compared with Fiscal 2008*

**NET SALES**

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

*Product Categories*

*Skin Care*

Net sales of skin care products decreased 4%, or \$110.8 million, to \$2,886.0 million, primarily reflecting declines in net sales from our heritage brands. Despite the difficult economic environment and the unfavorable impact of foreign currency translation, we continued to enhance select product lines to address the needs of our consumers. The fiscal 2009 launches of Perfectionist [CP+] Wrinkle Lifting Serum and the new Time Zone line of moisturizing products from Estée Lauder and Superdefense SPF 25 Age Defense Moisturizer and Youth Surge SPF 15 Age Decelerating Moisturizer from Clinique contributed incremental sales of approximately \$181 million, combined. While these product launches contributed favorably to the category, they were partially offset by lower sales from other existing products in the Perfectionist, Idealist and Re-Nutriv lines from Estée Lauder and the Superdefense and Repairwear lines from Clinique of approximately \$163 million, combined. Net sales of most other product lines in this category also experienced declines, particularly in Europe, the Middle East & Africa and the Americas, partially offset by double-digit growth in Asia/Pacific. Excluding the impact of foreign currency translation, skin care net sales increased 2%.

*Makeup*

Makeup net sales decreased 6%, or \$169.5 million, to \$2,830.9 million, primarily reflecting lower net sales from our heritage brands of approximately \$162 million. Lower net sales in the makeup product category also reflected a net decrease from our makeup artist brands of approximately \$14 million, driven by the Americas region, partially offset by additional points of distribution internationally. These declines were mitigated in part by fiscal 2009 product launches of reformulated Superfit Makeup and High Impact Lip Colour SPF 15 from Clinique, as well as Estée Lauder Signature Blush, which contributed incremental sales to the category of approximately \$82 million, combined. Excluding the impact of foreign currency translation, makeup net sales decreased 1%.

*Fragrance*

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Net sales of fragrance products decreased 20%, or \$281.1 million, to \$1,150.9 million. This decline was largely due to lower sales of designer fragrances, of which approximately \$181 million was attributable to certain DKNY, Tommy Hilfiger and Sean John fragrances. Also contributing to the decrease were lower sales of certain Estée Lauder and Clinique fragrances of approximately \$132 million, combined. The fiscal 2009 launches of Estée Lauder Sensuous, Hilfiger Men, the new DKNY Men fragrance and I Am King Sean John partially offset these declines by collectively contributing sales of approximately \$88 million to the category. Excluding the impact of foreign currency translation, fragrance net sales decreased 14%.

### *Hair Care*

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

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***Geographic Regions***

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

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

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

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

**COST OF SALES**

Cost of sales as a percentage of total net sales increased to 25.7% as compared with 25.2% in fiscal 2008. This change reflected an increase in obsolescence charges of approximately 40 basis points, excess overhead costs that were not recovered due to lower production levels of approximately 30 basis points and the negative effect of exchange rates of approximately 20 basis points. The increase in cost of sales margin also reflected the fiscal 2009 impact of charges associated with restructuring activities and an increase in the level and timing of promotional activities of approximately 10 basis points, each. Partially offsetting these increases were favorable changes in the mix of our business and from other manufacturing variances of approximately 50 basis points and 10 basis points, respectively.

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



## OPERATING EXPENSES

Operating expenses increased to 68.6% of net sales as compared with 64.5% of net sales in fiscal 2008. In light of the then current economic conditions, we applied various cost-containment measures to maintain expenses in line with our business needs. While the implementation of these initiatives helped reduce total operating expenses as compared with fiscal 2008, the dramatic decline in net sales during fiscal 2009 was the principal factor that negatively impacted our operating expense margin. In addition to the decline in net sales, operating expense margin increased by approximately 110 basis points due to charges associated with restructuring activities, as previously discussed.

During fiscal 2009, we evaluated our goodwill, other intangible assets and long-lived assets based upon certain triggering events as well as our annual impairment test of goodwill and other indefinite-lived intangible assets. Inclusive of the impairment charges incurred during the third quarter of fiscal 2009, we recorded impairment charges of approximately \$14 million related to goodwill, approximately \$23 million related to trademarks with indefinite lives, approximately \$17 million related to other amortizable intangible assets and approximately \$9 million related to property, plant and equipment for the fiscal year ended June 30, 2009. The principal factors that contributed to these impairment charges were lower than expected operating cash flow performance relative to the reporting unit and/or affected assets being tested and the impact of the current economic environment on their projected future results of operations. Collectively, these charges resulted in an increase to our operating expense margin of approximately 90 basis points. For further detailed discussion, refer to *Item 8. Financial Statements and Supplementary Data Note 4 Property, Plant and Equipment and Note 5 Goodwill and Other Intangible Assets.*

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Despite a reduction in actual selling, advertising, merchandising and sampling spending, operating expense margin increased by approximately 60 basis points driven by the decline in consumer demand in the economic environment. Changes in advertising, merchandising and sampling spending result from the type, timing and level of activities related to product launches and rollouts, as well as the markets being emphasized.

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

**OPERATING RESULTS**

Operating income decreased 48%, or \$392.3 million, to \$418.4 million. Operating margin decreased to 5.7% of net sales as compared with 10.3% in fiscal 2008, reflecting our lower gross margin and the increase in our operating expense margin as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges associated with restructuring activities of \$91.7 million, or 1.3% of net sales. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

***Product Categories***

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

***Geographic Regions***

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

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

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

#### **INTEREST EXPENSE, NET**

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

#### **PROVISION FOR INCOME TAXES**

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year to year based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax audit settlements and the interaction of various global tax strategies.

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The effective rate for income taxes for the year ended June 30, 2009 was 33.8% as compared with 34.9% in fiscal 2008. The decrease in the effective income tax rate of 110 basis points was primarily attributable to a favorable settlement with the Appeals Division of the IRS (560 basis points), partially offset by an increase in non-deductible expenses and an increase in state and local income tax expense (450 basis points).

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

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

**FINANCIAL CONDITION**

**LIQUIDITY AND CAPITAL RESOURCES**

*Overview*

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At June 30, 2010, we had cash and cash equivalents of \$1,120.7 million compared with \$864.5 million at June 30, 2009. Our cash and cash equivalents are maintained at a number of financial institutions. As of June 30, 2010, less than 10% of our total cash 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.

On May 24, 2010, we completed a cash tender offer for \$130.0 million principal amount of our 2012 Senior Notes at a price of 108.500% of the principal amount and for \$69.9 million principal amount of our 2013 Senior Notes at a tender price of 118.813% of the principal amount. During the fourth quarter of fiscal 2010, we recorded a pre-tax expense on the extinguishment of debt of \$27.3 million representing the tender premium, the pro-rata write-off of unamortized terminated interest rate swap, issuance costs and debt discount, and tender offer costs associated with both series of notes.

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Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis.

The effects of inflation have not been significant to our overall operating results in recent years. Generally, we have been able to introduce new products at higher prices or increase prices sufficiently to 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 August 13, 2010, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's and our long-term debt is rated A with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's.

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

	<b>Long-term Debt</b>		<b>Short-term Debt (In millions)</b>		<b>Total Debt</b>
6.00% Senior Notes, due May 15, 2037 ( 2037 Senior Notes(1) (7) )	\$ 296.3			\$	296.3
5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes(2) )	197.6				197.6
5.55% Senior Notes, due May 15, 2017 ( 2017 Senior Notes(3) (7) )	338.3				338.3
7.75% Senior Notes, due November 1, 2013 ( 2013 Senior Notes (4) (7) )	230.0				230.0
6.00% Senior Notes, due January 15, 2012 ( 2012 Senior Notes(5) )	118.3				118.3
Promissory note due August 31, 2012 (6) )	7.3				7.3
Turkish lira overdraft facility			4.6		4.6
Other borrowings	17.2		18.8		36.0
	\$ 1,205.0		\$ 23.4	\$	1,228.4

(1) Consists of \$300.0 million principal and unamortized debt discount of \$3.7 million.

(2) Consists of \$200.0 million principal and unamortized debt discount of \$2.4 million.

(3) Consists of \$300.0 million principal, unamortized debt discount of \$0.4 million and a \$38.7 million adjustment to reflect the fair value of outstanding interest rate swaps.

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

(5) Consists of \$120.0 million principal, unamortized debt discount of \$0.1 million and a \$1.6 million adjustment to reflect the remaining termination value of an interest rate swap that is being amortized to interest expense over the life of the debt.

(6) Consists of \$6.8 million face value and unamortized premium of \$0.5 million. On July 30, 2010, we repaid \$3.4 million (plus \$0.7 million of accrued interest) at the request of the holder.

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

We have a \$750.0 million commercial paper program under which we may issue commercial paper in the United States. At June 30, 2010, there was no commercial paper outstanding. We also have \$189.5 million in additional uncommitted credit facilities, of which \$10.3 million was used as of June 30, 2010. We do not anticipate difficulties in securing this form of working capital financing.

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We have an undrawn \$750.0 million senior unsecured revolving credit facility that expires on April 26, 2012. This facility may be used primarily to provide credit support for our commercial paper program, to repurchase shares of our common stock and for general corporate purposes. Up to the equivalent of \$250 million of the credit facility is available for multi-currency loans. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or  $\frac{1}{2}\%$  plus the Federal funds rate. We incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on our current credit ratings. This facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$50.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. As of June 30, 2010, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance. The financial covenant of this facility requires an interest expense coverage ratio of greater than 3:1 as of the last day of each fiscal quarter. The interest expense coverage ratio is defined in the credit agreement as the ratio of Consolidated EBITDA (which does not represent a measure of our operating results as defined under U.S. generally accepted accounting principles) to Consolidated Interest Expense and is calculated as stipulated in the agreement as follows:

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	<b>Twelve Months Ended</b>	
	<b>June 30, 2010 (1)</b>	
	<b>(\$ in millions)</b>	
<b>Consolidated EBITDA:</b>		
Net earnings attributable to The Estee Lauder Companies Inc.	\$	478.3
Add:		
Provision for income taxes		205.9
Interest expense, net (2)		101.6
Depreciation and amortization (3)		260.9
Extraordinary non-cash charges (4) (5)		69.8
Less:		
Extraordinary non-cash gains (5)		
	\$	1,116.5
<b>Consolidated Interest Expense:</b>		
Interest expense, net	\$	101.6
Interest expense coverage ratio		11 to 1

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

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

We have an overdraft borrowing agreement with a financial institution pursuant to which our subsidiary in Turkey may be credited to satisfy outstanding negative daily balances arising from its business operations. The total balance outstanding at any time shall not exceed 40.0 million Turkish lira (\$25.3 million at the exchange rate at June 30, 2010). The interest rate applicable to each such credit shall be up to a maximum of 175 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by us at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at June 30, 2010 (\$4.6 million at the exchange rate at June 30, 2010) is classified as short-term debt in our consolidated balance sheet.

We have a 1.5 billion Japanese yen (\$16.9 million at the exchange rate at June 30, 2010) revolving credit facility that expires on March 31, 2011 and a 1.5 billion Japanese yen (\$16.9 million at the exchange rate at June 30, 2010) revolving credit facility that expires on March 31, 2012. The interest rates on borrowings under these credit facilities are based on TIBOR (Tokyo Interbank Offered Rate) plus .45% and .75%, respectively and the facility fees incurred on undrawn balances are 15 basis points and 25 basis points, respectively. At June 30, 2010, no borrowings were



outstanding under these facilities.

Total debt as a percent of total capitalization (excluding noncontrolling interest) decreased to 39% at June 30, 2010 from 46% at June 30, 2009, primarily as a result of the debt extinguishment, as previously discussed, coupled with an increase in stockholders' equity, driven by higher net earnings during fiscal 2010.

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***Cash Flows***

Net cash provided by operating activities was \$956.7 million, \$696.0 million and \$690.1 million in fiscal 2010, 2009 and 2008, respectively. The increase in operating cash flows in fiscal 2010 as compared with fiscal 2009 primarily reflected higher net earnings, an increase in accounts payable due to the timing of payments and, to a lesser extent, a decrease in accounts receivable. This increase also reflected higher accrued employee compensation and advertising, merchandising and sampling, partially offset by higher cash paid in fiscal 2010 for restructuring and severance. These changes were partially offset by the building of safety stock for the April 2010 implementation of SAP at our North American manufacturing plants and the prior-year period impact of significant inventory reductions. Also partially offsetting the improvements were higher discretionary pension contributions as described in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Pension and Post-retirement Plan Funding*. Approximately \$60 million of the change in deferred income taxes was offset by a correlative change in noncurrent accrued income taxes, reflecting the balance sheet presentation of unrecognized tax benefits. The increase in operating cash flows in fiscal 2009 as compared with fiscal 2008 primarily reflected a decrease in inventory, due in part to then-planned reductions in SKUs, as well as lower accounts receivable as a result of lower sales and an improvement in days sales outstanding. These activities were partially offset by lower net earnings and an increase in income tax receivables as compared with fiscal 2008, as well as a reduction in cash provided by certain working capital components, including payments for accounts payable and other liabilities.

Net cash used for investing activities was \$281.4 million, \$339.5 million and \$478.5 million in fiscal 2010, 2009 and 2008, respectively. The decrease in investing cash outflows during fiscal 2010 primarily reflected lower acquisition activity in the current year as compared with the acquisitions of Applied Genetics Incorporated Dermatics ( AGI ) and businesses engaged in the wholesale distribution and retail sale of Aveda products in the prior year. The change also reflected lower cash payments in the current year related to counters and leasehold improvements. The decrease in investing activities during fiscal 2009 primarily reflected lower capital expenditure activity and the fiscal 2008 acquisition of Ojon Corporation, partially offset by the fiscal 2009 acquisitions of AGI and Aveda distributors.

Net cash used for financing activities was \$406.1 million in fiscal 2010, net cash provided by financing activities was \$125.8 million in fiscal 2009 and net cash used for financing activities was \$78.1 million in fiscal 2008. The change in net cash flows used for financing activities as compared with net cash flows provided by financing activities in fiscal 2009 was primarily driven by the prior year's net proceeds from the issuance of the 2013 Senior Notes and the current year's partial redemption of the 2012 and 2013 Senior Notes. Also contributing to this change was an increase in treasury stock purchases and repayments related to Ojon promissory notes, partially offset by higher cash inflows from stock option exercises and the prior year's repayment of commercial paper borrowings. The fiscal 2009 increase in cash provided by financing activities primarily reflected the issuance of the 2013 Senior Notes and a decrease in treasury stock purchases, partially offset by repayments of outstanding commercial paper.

***Dividends***

On November 13, 2009, the Board of Directors declared an annual dividend of \$.55 per share on our Class A and Class B common stock, of which an aggregate of \$109.1 million was paid on December 16, 2009 to stockholders of record at the close of business on November 30, 2009. The annual common stock dividend declared during fiscal 2009 was \$.55 per share, of which an aggregate of \$108.4 million was paid on December 17, 2008 to stockholders of record at the close of business on December 1, 2008.

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

Several factors influence the annual funding requirements for our pension plans. For the U.S. Qualified Plan, our funding policy consists of annual contributions at a rate that provides for future plan benefits and maintains appropriate funded percentages. Such contribution is not less than the minimum required by the Employee Retirement Income Security Act of 1974, as amended ( ERISA ), and subsequent pension legislation, and is not more than the maximum amount deductible for income tax purposes. For each international plan, our funding policies are determined by local laws and regulations. In addition, amounts necessary to fund future obligations under these plans could vary depending on estimated assumptions as detailed in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates*. The effect of our pension plan funding on future operating results will depend on economic conditions, employee demographics, mortality rates, the number of participants electing to take lump-sum distributions, investment performance and funding decisions.

The unprecedented economic downturn that started in fiscal 2009 created a difficult investment environment. For the U.S. Qualified Plan, we maintain an investment strategy of matching the duration of a substantial portion of the plan assets with the duration of the underlying plan liabilities. This strategy, as well as the recovery of equity investments in fiscal 2010, helped mitigate the negative effects of the downturn and assisted in maintaining a funded ratio of more than 100% as of June 30, 2010. For fiscal 2010 and 2009, there was no minimum contribution to the U.S. Qualified Plan required by ERISA. We made discretionary contributions totaling \$39.0 million and \$17.0 million to the U.S. Qualified Plan during fiscal 2010 and 2009, respectively. We made a discretionary contribution to our post-retirement plan in the United States of \$6.0 million during fiscal 2010. At this time, we do not expect to make cash contributions to the U.S. Qualified Plan or our post-retirement plan in the United States during fiscal 2011. However, as we continue to monitor the performance of our plan assets, we may decide to make discretionary contributions.

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For fiscal 2010 and 2009, we made benefit payments under our non-qualified domestic noncontributory pension plan of \$7.7 million and \$8.1 million, respectively. We expect to make benefit payments under this plan during fiscal 2011 of approximately \$8 million. For fiscal 2010 and 2009, we made cash contributions to our international defined benefit pension plans of \$68.2 million and \$41.8 million, respectively. We expect to make contributions under these plans during fiscal 2011 of approximately \$21 million.

**Commitments and Contingencies**

Certain of our business acquisition agreements include earn-out provisions. These provisions generally require that we pay to the seller or sellers of the business additional amounts based on the performance of the acquired business. Since the size of each payment depends upon performance of the acquired business, we do not expect that such payments will have a material adverse impact on our future results of operations or financial condition.

For additional contingencies refer to *Item 3. Legal Proceedings*.

**Contractual Obligations**

The following table summarizes scheduled maturities of our contractual obligations for which cash flows are fixed and determinable as of June 30, 2010:

	Total	2011	2012	Payments Due in Fiscal 2013 (In millions)	2014	2015	Thereafter
Debt service (1)	\$ 2,072.6	\$ 84.1	\$ 188.7	\$ 67.2	\$ 277.5	\$ 35.1	\$ 1,420.0
Operating lease commitments (2)	1,203.3	200.2	175.7	152.3	131.9	115.8	427.4
Unconditional purchase obligations (3)	2,212.9	1,302.3	214.6	204.1	94.8	96.2	300.9
Gross unrecognized tax benefits and interest current(4)	41.3	41.3					
Total contractual obligations	\$ 5,530.1	\$ 1,627.9	\$ 579.0	\$ 423.6	\$ 504.2	\$ 247.1	\$ 2,148.3

(1) Includes long-term and short-term debt and the related projected interest costs, and to a lesser extent, capital lease commitments. Interest costs on long-term and short-term debt are projected to be \$60.6 million in fiscal 2011, \$60.8 million in fiscal 2012, \$53.6 million in fiscal 2013, \$44.0 million in fiscal 2014, \$35.0 million in fiscal 2015 and \$619.8 million thereafter. Projected interest costs on variable rate instruments were calculated using market rates at June 30, 2010. Refer to *Item 8. Financial Statements and Supplementary Data Note 10 - Debt*.

(2) Minimum operating lease commitments only include base rent. Certain leases provide for contingent rents that are not measurable at inception and primarily include rents based on a percentage of sales in excess of stipulated levels, as well as common area maintenance. These

amounts are excluded from minimum operating lease commitments and are included in the determination of total rent expense when it is probable that the expense has been incurred and the amount is reasonably measurable.

(3) Unconditional purchase obligations primarily include inventory commitments, estimated future earn-out payments, estimated royalty payments pursuant to license agreements, advertising commitments, capital improvement commitments, planned funding of pension and other post-retirement benefit obligations, commitments pursuant to executive compensation arrangements, obligations related to our cost savings initiatives and acquisitions. In July 2010, we acquired Smashbox Beauty Cosmetics for a purchase price of approximately \$250 million, which was funded by cash provided by operations. Future earn-out payments and future royalty and advertising commitments were estimated based on planned future sales for the term that was in effect at June 30, 2010, without consideration for potential renewal periods.

(4) Refer to *Item 8. Financial Statements and Supplementary Data Note 8 Income Taxes* for information regarding unrecognized tax benefits. During the fourth quarter of fiscal 2010, we made a cash payment of \$20.5 million to the U.S. Treasury as an advance deposit, which is not reflected as a reduction to the \$41.3 million. As of June 30, 2010, the noncurrent portion of our unrecognized tax benefits, including related accrued interest and penalties was \$152.7 million. At this time, the settlement period for the noncurrent portion of the unrecognized tax benefits, including related accrued interest and penalties, cannot be determined and therefore was not included.

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

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

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For each derivative contract entered into where we look to obtain special hedge accounting treatment, we formally document all relationships between hedging instruments and hedged items, as well as our 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. We also formally assess, 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, we will be required to discontinue hedge accounting with respect to that derivative prospectively.

***Foreign Exchange Risk Management***

We enter into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that we receive from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. We may also enter into foreign currency option contracts to hedge anticipated transactions. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2011. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology. The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income (loss) are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of June 30, 2010, these foreign currency cash-flow hedges were highly effective in all material respects.

At June 30, 2010, we had foreign currency forward contracts in the amount of \$1,348.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$257.5 million), British pound (\$241.9 million), Canadian dollar (\$152.2 million), Euro (\$148.0 million), Hong Kong dollar (\$97.3 million), Australian dollar (\$88.3 million) and Japanese yen (\$62.3 million).

***Interest Rate Risk Management***

We enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on our funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. We have interest rate swap agreements, with a notional amount totaling \$250.0 million, to effectively convert the fixed rate interest on our 2017 Senior Notes to variable interest rates based on six-month LIBOR. These interest rate swap agreements are designated as fair-value hedges of the related long-term debt and meet the accounting criteria that permit changes in the fair values of the interest rate swap agreements to exactly offset changes in the fair value of the underlying long-term debt. As of June 30, 2010, these fair-value hedges were highly effective in all material respects.

***Credit Risk***

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As a matter of policy, we only enter into derivative contracts with counterparties that have at least an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$57.7 million at June 30, 2010. To manage this risk, we have 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 our derivative financial instruments contain credit-risk-related contingent features. As of June 30, 2010, we were in compliance with such features and there were no derivative financial instruments with credit-risk-related contingent features that were in a net liability position.

### *Market Risk*

We use a value-at-risk model to assess the market risk of our derivative financial instruments. Value-at-risk represents the potential losses for an instrument or portfolio from adverse changes in market factors for a specified time period and confidence level. We estimate value-at-risk across all of our derivative financial instruments using a model with historical volatilities and correlations calculated over the past 250-day period. The high, low and average measured value-at-risk for the twelve months ended June 30, 2010 and 2009 related to our foreign exchange and interest rate contracts are as follows:

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(In millions)	June 30, 2010			June 30, 2009		
	High	Low	Average	High	Low	Average
Foreign exchange contracts	\$ 31.7	\$ 19.0	\$ 22.7	\$ 28.4	\$ 14.2	\$ 21.6
Interest rate contracts	31.3	10.5	18.1	34.3	23.0	29.5

The change in the average value-at-risk measures from the prior year related to our foreign exchange contracts reflected a different size and mix of the portfolio. The change in the average value-at-risk measures from the prior year related to our interest rate contracts reflected lower interest rate volatilities. The model estimates were made assuming normal market conditions and a 95 percent confidence level. We used a statistical simulation model that valued our derivative financial instruments against one thousand randomly generated market price paths.

Our calculated value-at-risk exposure represents an estimate of reasonably possible net losses that would be recognized on our portfolio of derivative financial instruments assuming hypothetical movements in future market rates and is not necessarily indicative of actual results, which may or may not occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated, based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in our portfolio of derivative financial instruments during the year.

We believe, however, that any such 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.

**RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING STANDARDS**

Refer to *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies* for discussion regarding the impact of recently adopted accounting standards, as well as the impact of accounting standards that were recently issued but not yet effective, on our consolidated financial statements.

**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 a



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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;

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(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;

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

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

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

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

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

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

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

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

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

### **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.***

The information required by this item is set forth in Item 7 of this Annual Report on Form 10-K under the caption *Liquidity and Capital Resources - Market Risk* and is incorporated herein by reference.

### **Item 8. *Financial Statements and Supplementary Data.***

The information required by this item appears beginning on page F-1 of this Annual Report on Form 10-K and is incorporated herein by reference.

### **Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.***

None.

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**Item 9A. 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 June 30, 2010 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

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

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's report on internal control over financial reporting and the report of independent registered public accounting firm on our internal control over financial reporting are incorporated herein from pages F-2 and F-3, respectively.

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item, not already provided herein under *Item 1. Business - Executive Officers*, will be included in our Proxy Statement for the 2010 Annual Meeting of Stockholders (the 2010 Proxy Statement ). The 2010 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2010 and such information is incorporated herein by reference.

**Item 11. *Executive Compensation.***

The information required by this Item 11 (Executive Compensation) of Form 10-K will be included in the 2010 Proxy Statement. The 2010 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2010 and such information is incorporated herein by reference.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.***

The information required by this Item will be included in the 2010 Proxy Statement. The 2010 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2010 and such information is incorporated herein by reference.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item will be included in the 2010 Proxy Statement. The 2010 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2010 and such information is incorporated herein by reference.

**Item 14. *Principal Accounting Fees and Services.***

The information required by this Item will be included in the 2010 Proxy Statement. The 2010 Proxy Statement will be filed within 120 days after the close of the fiscal year ended June 30, 2010 and such information is incorporated herein by reference.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) 1 and 2. Financial Statements and Schedules - See index on Page F-1.

3. Exhibits:

Exhibit Number	Description
3.1	Restated Certificate of Incorporation, dated November 16, 1995 (filed as Exhibit 3.1 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).*
3.2	Certificate of Amendment to Restated Certificate of Incorporation (filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q filed on January 27, 2000) (SEC File No. 1-14064).*
3.3	Certificate of Designations for the Series A Cumulative Redeemable Preferred Stock (filed as Exhibit 3.1 to our Quarterly Report on Form 10-Q filed on January 29, 2004) (SEC File No. 1-14064).*
3.4	Amended and Restated Bylaws (filed as Exhibit 3.1 to our Current Report on Form 8-K filed on May 12, 2009) (SEC File No. 1-14064).*
4.1	Indenture, dated November 5, 1999, between the Company and State Street Bank and Trust Company, N.A. (filed as Exhibit 4 to Amendment No. 1 to our Registration Statement on Form S-3 (No. 333-85947) filed on November 5, 1999) (SEC File No. 1-14064).*
4.2	Officers Certificate, dated January 10, 2002, defining certain terms of the 6% Senior Notes due 2012 (filed as Exhibit 4.2 to our Quarterly Report on Form 10-Q filed on January 31, 2002) (SEC File No. 1-14064).*
4.3	Global Note for the 6% Senior Notes due 2012 (filed as Exhibit 4.3 to our Quarterly Report on Form 10-Q filed on January 31, 2002) (SEC File No. 1-14064).*
4.4	Officers Certificate, dated September 29, 2003, defining certain terms of the 5.75% Senior Notes due 2033 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on September 29, 2003) (SEC File No. 1-14064).*
4.5	Global Note for 5.75% Senior Notes due 2033 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on September 29, 2003) (SEC File No. 1-14064).*
4.6	Officers Certificate, dated May 1, 2007, defining certain terms of the 5.550% Senior Notes due 2017 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.7	Global Note for 5.550% Senior Notes due 2017 (filed as Exhibit 4.3 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.8	Officers Certificate, dated May 1, 2007, defining certain terms of the 6.000% Senior Notes due 2037 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*
4.9	Global Note for 6.000% Senior Notes due 2037 (filed as Exhibit 4.4 to our Current Report on Form 8-K filed on May 1, 2007) (SEC File No. 1-14064).*

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- 4.10 Officers Certificate, dated November 4, 2008, defining certain terms of the 7.750% Senior Notes due 2013 (filed as Exhibit 4.1 to our Current Report on Form 8-K filed on November 4, 2008) (SEC File No. 1-14064).\*
- 4.11 Global Note for 7.750% Senior Notes due 2013 (filed as Exhibit 4.2 to our Current Report on Form 8-K filed on November 4, 2008) (SEC File No. 1-14064).\*
- 10.1 Stockholders Agreement, dated November 22, 1995 (filed as Exhibit 10.1 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).\*
- 10.1a Amendment No. 1 to Stockholders Agreement (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 30, 1996) (SEC File No. 1-14064).\*
- 10.1b Amendment No. 2 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 28, 1997) (SEC File No. 1-14064).\*
- 10.1c Amendment No. 3 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on April 29, 1997) (SEC File No. 1-14064).\*

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10.1d	Amendment No. 4 to Stockholders Agreement (filed as Exhibit 10.1d to our Annual Report on Form 10-K filed on September 18, 2000) (SEC File No. 1-14064).*
10.1e	Amendment No. 5 to Stockholders Agreement (filed as Exhibit 10.1e to our Annual Report on Form 10-K filed on September 17, 2002) (SEC File No. 1-14064).*
10.1f	Amendment No. 6 to Stockholders Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 27, 2005) (SEC File No. 1-14064).*
10.1g	Amendment No. 7 to Stockholders Agreement (filed as Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.2	Registration Rights Agreement, dated November 22, 1995 (filed as Exhibit 10.2 to our Annual Report on Form 10-K filed on September 15, 2003) (SEC File No. 1-14064).*
10.2a	First Amendment to Registration Rights Agreement (filed as Exhibit 10.3 to our Annual Report on Form 10-K filed on September 10, 1996) (SEC File No. 1-14064).*
10.2b	Second Amendment to Registration Rights Agreement (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on April 29, 1997) (SEC File No. 1-14064).*
10.2c	Third Amendment to Registration Rights Agreement (filed as Exhibit 10.2c to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*
10.2d	Fourth Amendment to Registration Rights Agreement (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 29, 2004) (SEC File No. 1-14064).*
10.3	Fiscal 1999 Share Incentive Plan dated November 5, 1998 (filed as Exhibit 4(c) to our Registration Statement on Form S-8 (No. 333-66851) filed on November 5, 1998) (SEC File No. 1-14064).*
10.3a	Form of Stock Option Agreement under Fiscal 1999 Share Incentive Plan (filed as Exhibit 10.3b to our Annual Report on Form 10-K filed on September 3, 2004) (SEC File No. 1-14064).*
10.4	The Estee Lauder Companies Retirement Growth Account Plan, as amended.
10.5	The Estee Lauder Inc. Retirement Benefits Restoration Plan.
10.6	Executive Annual Incentive Plan (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on November 14, 2008) (SEC File No. 1-14064).*
10.7	Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).*
10.7a	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8a to our Annual Report on Form 10-K filed on September 17, 2002) (SEC File No. 1-14064).*
10.7b	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on November 10, 2005) (SEC File No. 1-14064).*
10.7c	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on February 5, 2009) (SEC File No. 1-14064).*
10.7d	Amendment to Employment Agreement with Leonard A. Lauder (filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.8	



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Employment Agreement with William P. Lauder (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on July 3, 2007) (SEC File No. 1-14064).\*

- 10.8a Amendment to Employment Agreement with William P. Lauder (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on November 14, 2007) (SEC File No. 1-14064).\*
- 10.8b Amendment to Employment Agreement with William P. Lauder (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on March 27, 2009) (SEC File No. 1-14064).\*

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- 10.9 Employment Agreement with Fabrizio Freda (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on November 14, 2007) (SEC File No. 1-14064).\*
- 10.9a Amendment to Employment Agreement with Fabrizio Freda (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on March 27, 2009) (SEC File No. 1-14064).\*
- 10.10 Employment Agreement with Richard W. Kunes (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on July 2, 2009) (SEC File No. 1-14064).\*
- 10.11 Employment Agreement with John Demsey (filed as Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).\*
- 10.12 Employment Agreement with Cedric Prouvé (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).\*
- 10.12a Amendment to Employment Agreement with Cedric Prouvé (filed as Exhibit 10.9 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).\*
- 10.13 Form of Deferred Compensation Agreement (interest-based) with Outside Directors (filed as Exhibit 10.14 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).\*
- 10.14 Form of Deferred Compensation Agreement (stock-based) with Outside Directors (filed as Exhibit 10.15 to our Annual Report on Form 10-K filed on September 17, 2001) (SEC File No. 1-14064).\*
- 10.15 The Estee Lauder Companies Inc. Non-Employee Director Share Incentive Plan (as amended and restated on November 9, 2007) (filed as Exhibit 99.1 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).\*
- 10.16 Form of Stock Option Agreement for Annual Stock Option Grants under Non-Employee Director Share Incentive Plan (filed as Exhibit 99.2 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).\*
- 10.16a Form of Stock Option Agreement for Elective Stock Option Grants under Non-Employee Director Share Incentive Plan (filed as Exhibit 99.3 to our Registration Statement on Form S-8 filed on November 9, 2007) (SEC File No. 1-14064).\*
- 10.17 The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (filed as Exhibit 10.2 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).\*
- 10.17a Form of Stock Option Agreement under Amended and Restated Fiscal 2002 Share Incentive Plan (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on May 4, 2006) (SEC File No. 1-14064).\*
- 10.17b Form of Performance Share Unit Award Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 25, 2006) (SEC File No. 1-14064).\*
- 10.17c Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 25, 2006) (SEC File No. 1-14064).\*
- 10.17d Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on September 25, 2006) (SEC File No. 1-14064).\*
- 10.17e Form of Stock Option Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.3 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).\*
- 10.17f

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Form of Performance Share Unit Award Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.4 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).\*

10.17g

Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.5 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).\*

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10.17h	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.6 to our Current Report on Form 8-K filed on September 25, 2007) (SEC File No. 1-14064).*
10.17i	Form of Stock Option Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).*
10.17j	Form of Performance Share Unit Award Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).*
10.17k	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).*
10.17l	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on October 28, 2008) (SEC File No. 1-14064).*
10.17m	Form of Stock Option Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.17n	Form of Performance Share Unit Award Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.17o	Form of Performance Share Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.17p	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.17q	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers for grants related to bonuses (including Form of Notice of Grant) (filed as Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.17r	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on October 30, 2009) (SEC File No. 1-14064).*
10.18	Summary of Compensation For Non-Employee Directors of the Company (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on May 17, 2005) (SEC File No. 1-14064).*
10.19	\$750 Million Credit Agreement, dated April 26, 2007, by and among The Estée Lauder Companies Inc., Estee Lauder Inc., the Eligible Subsidiaries, as defined therein, the lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent ( JPMCB ), Bank of America, N.A. and Citibank, N.A., as syndication agents, Bank of Tokyo-Mitsubishi Trust Company and BNP Paribas, as documentation agents and Citigroup Global Markets Inc. and JPMCB, as joint book runners and joint lead arrangers (filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC File No. 1-14064).*
10.20	Services Agreement, dated January 1, 2003, among Estee Lauder Inc., Melville Management Corp., Leonard A. Lauder, and William P. Lauder (filed as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC file No. 1014064)*

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10.21 Services Agreement, dated November 22, 1995, between Estee Lauder Inc. and RSL Investment Corp. (filed as Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on January 28, 2010) (SEC file No. 1014064).\*

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10.22	Agreement of Sublease and Guarantee of Sublease, dated April 1, 2005, among Aramis Inc., RSL Management Corp., and Ronald S. Lauder (filed as Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on January 28, 2010).*
10.22a	First Amendment to Sublease, dated February 28, 2007, between Aramis Inc. and RSL Management Corp. (filed as Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on January 28, 2010).*
10.22b	Second Amendment to Sublease, dated January 27, 2010, between Aramis Inc. and RSL Management Corp. (filed as Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on January 28, 2010).*
10.23	Form of Art Loan Agreement between Lender and Estee Lauder Inc. (filed as Exhibit 10.7 to our Quarterly Report on Form 10-Q filed on January 28, 2010).*
21.1	List of significant subsidiaries.
23.1	Consent of KPMG LLP.
24.1	Power of Attorney.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CEO).
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (CFO).
32.1	Certification pursuant to 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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)

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\* Incorporated herein by reference.

Exhibit is a management contract or compensatory plan or arrangement.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

By /s/ RICHARD W. KUNES  
Richard W. Kunes  
Executive Vice President  
and Chief Financial Officer

Date: August 19, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title (s)	Date
FABRIZIO FREDA* Fabrizio Freda	President, Chief Executive Officer and a Director (Principal Executive Officer)	August 19, 2010
WILLIAM P. LAUDER* William P. Lauder	Executive Chairman and a Director	August 19, 2010
LEONARD A. LAUDER* Leonard A. Lauder	Director	August 19, 2010
CHARLENE BARSHEFSKY* Charlene Barshefsky	Director	August 19, 2010
ROSE MARIE BRAVO* Rose Marie Bravo	Director	August 19, 2010
PAUL J. FRIBOURG* Paul J. Fribourg	Director	August 19, 2010
MELLODY HOBSON* Melody Hobson	Director	August 19, 2010
IRVINE O. HOCKADAY, JR.* Irvine O. Hockaday, Jr.	Director	August 19, 2010
AERIN LAUDER*	Director	August 19, 2010

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Aerin Lauder

JANE LAUDER*	Director	August 19, 2010
Jane Lauder		

RICHARD D. PARSONS*	Director	August 19, 2010
Richard D. Parsons		

LYNN FORESTER DE ROTHSCHILD*	Director	August 19, 2010
Lynn Forester de Rothschild		

BARRY S. STERNLICHT*	Director	August 19, 2010
Barry S. Sternlicht		

RICHARD F. ZANNINO*	Director	August 19, 2010
Richard F. Zannino		

/s/ RICHARD W. KUNES	Executive Vice President and	August 19, 2010
Richard W. Kunes	Chief Financial Officer	
	(Principal Financial and	
	Accounting Officer)	

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\* By signing his name hereto, Richard W. Kunes signs this document in the capacities indicated above and on behalf of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed herewith.

By /s/ RICHARD W. KUNES  
Richard W. Kunes  
(Attorney-in-Fact)



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**THE ESTÉE LAUDER COMPANIES INC.**

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All other schedules are omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

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**Management's Report on Internal Control over Financial Reporting**

Management of The Estée Lauder Companies Inc. (including its subsidiaries) (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934, as amended).

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of and with the participation of the Chief Executive Officer and the Chief Financial Officer, the Company's management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management has concluded that, as of June 30, 2010, the Company's internal control over financial reporting was effective.

/s/ Fabrizio Freda  
Fabrizio Freda  
President and Chief Executive Officer

/s/ Richard W. Kunes  
Richard W. Kunes  
Executive Vice President and Chief Financial Officer

August 19, 2010

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**Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting**

The Board of Directors and Stockholders  
The Estée Lauder Companies Inc.:

We have audited The Estée Lauder Companies Inc.'s (the Company) internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The Estée Lauder Companies Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The Estée Lauder Companies Inc. and subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of earnings, equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended June 30 2010, and our report dated August 19, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York  
August 19, 2010

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
The Estée Lauder Companies Inc.:

We have audited the accompanying consolidated balance sheets of The Estée Lauder Companies Inc. and subsidiaries ( the Company ) as of June 30, 2010 and 2009, and the related consolidated statements of earnings, equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended June 30, 2010. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed on the index on page F-1. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Estée Lauder Companies Inc. and subsidiaries as of June 30, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The Estée Lauder Companies Inc.'s internal control over financial reporting as of June 30, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated August 19, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in the notes to the consolidated financial statements, the Company changed its methods of accounting for business combinations and non-controlling interests in fiscal 2010. The Company changed its method of accounting for uncertainty in income taxes in fiscal 2008.

/s/ KPMG LLP

New York, New York  
August 19, 2010



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF EARNINGS**

	2010	Year Ended June 30 2009		2008
	(In millions, except per share data)			
<b>Net Sales</b>	\$ 7,795.8	\$ 7,323.8	\$ 7,910.8	\$ 7,910.8
Cost of sales	1,829.4	1,881.6	1,996.8	1,996.8
<b>Gross Profit</b>	5,966.4	5,442.2	5,914.0	5,914.0
Operating expenses:				
Selling, general and administrative	5,067.0	4,883.9	5,088.9	5,088.9
Restructuring and other special charges	61.1	76.8	0.4	0.4
Goodwill impairment	16.6	14.3		
Impairment of other intangible and long-lived assets	31.8	48.8	14.0	14.0
	5,176.5	5,023.8	5,103.3	5,103.3
<b>Operating Income</b>	789.9	418.4	810.7	810.7
Interest expense, net	74.3	75.7	66.8	66.8
Interest expense on debt extinguishment	27.3			
<b>Earnings before Income Taxes</b>	688.3	342.7	743.9	743.9
Provision for income taxes	205.9	115.9	259.9	259.9
<b>Net Earnings</b>	482.4	226.8	484.0	484.0
Net earnings attributable to noncontrolling interests	(4.1)	(8.4)	(10.2)	(10.2)
<b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>	\$ 478.3	\$ 218.4	\$ 473.8	\$ 473.8
Net earnings attributable to The Estée Lauder Companies Inc. per common share:				
Basic	\$ 2.42	\$ 1.11	\$ 2.44	\$ 2.44
Diluted	\$ 2.38	\$ 1.10	\$ 2.40	\$ 2.40
Weighted average common shares outstanding:				
Basic	197.7	196.3	193.9	193.9
Diluted	200.7	197.7	197.1	197.1
Cash dividends declared per common share	\$ .55	\$ .55	\$ .55	\$ .55

See notes to consolidated financial statements.

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

	2010	June 30 (In millions)	2009
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,120.7		\$ 864.5
Accounts receivable, net	746.2		853.3
Inventory and promotional merchandise, net	826.6		795.0
Prepaid expenses and other current assets	427.5		399.7
<b>Total current assets</b>	<b>3,121.0</b>		<b>2,912.5</b>
<b>Property, Plant and Equipment, net</b>	<b>1,023.6</b>		<b>1,026.7</b>
<b>Other Assets</b>			
Investments, at cost or market value	12.2		12.7
Goodwill	752.5		759.9
Other intangible assets, net	109.5		150.1
Other assets	316.8		314.7
<b>Total other assets</b>	<b>1,191.0</b>		<b>1,237.4</b>
<b>Total assets</b>	<b>\$ 5,335.6</b>		<b>\$ 5,176.6</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term debt	\$ 23.4		\$ 33.8
Accounts payable	425.2		329.8
Accrued income taxes	5.6		33.2
Other accrued liabilities	1,118.0		1,062.4
<b>Total current liabilities</b>	<b>1,572.2</b>		<b>1,459.2</b>
<b>Noncurrent Liabilities</b>			
Long-term debt	1,205.0		1,387.6
Accrued income taxes	163.3		259.1
Other noncurrent liabilities	429.7		406.7
<b>Total noncurrent liabilities</b>	<b>1,798.0</b>		<b>2,053.4</b>
<b>Commitments and Contingencies (Note 14)</b>			
<b>Equity</b>			
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued: 190,767,435 at June 30, 2010 and 183,921,350 at June 30, 2009; 240,000,000 shares Class B authorized; shares issued and outstanding: 77,082,041 at June 30, 2010 and 78,067,261 at June 30, 2009		2.7	2.6
Paid-in capital		1,428.7	1,145.6
Retained earnings		3,564.0	3,195.0
Accumulated other comprehensive loss		(196.7)	(117.1)
		4,798.7	4,226.1
Less: Treasury stock, at cost; 70,125,805 Class A shares at June 30, 2010 and 65,294,477 Class A shares at June 30, 2009		(2,850.3)	(2,586.1)



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<b>Total stockholders' equity</b>	<b>The Estée Lauder Companies Inc.</b>	1,948.4		1,640.0
<b>Noncontrolling interests</b>		17.0		24.0
<b>Total equity</b>		1,965.4		1,664.0
<b>Total liabilities and equity</b>		\$ 5,335.6	\$	5,176.6

See notes to consolidated financial statements.

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## THE ESTÉE LAUDER COMPANIES INC.

## CONSOLIDATED STATEMENTS OF EQUITY

	2010	Year Ended June 30 2009 (In millions)	2008
<b>Common stock, beginning of year</b>	\$ 2.6	\$ 2.6	\$ 2.6
Stock-based compensation	0.1		
<b>Common stock, end of year</b>	2.7	2.6	2.6
<b>Paid-in capital, beginning of year</b>	1,145.6	979.0	801.7
Stock-based compensation	283.7	166.6	172.7
Settlement of accelerated share repurchase program			4.6
Purchase of noncontrolling interest	(0.6)		
<b>Paid-in capital, end of year</b>	1,428.7	1,145.6	979.0
<b>Retained earnings, beginning of year</b>	3,195.0	3,085.1	2,731.5
Cumulative effect of adjustments resulting from adoption of new accounting standards			(13.1)
<b>Adjusted retained earnings, beginning of year</b>	3,195.0	3,085.1	2,718.4
Common stock dividends	(109.3)	(108.5)	(106.8)
Stock-based compensation			(0.3)
Net earnings attributable to The Estée Lauder Companies Inc.	478.3	218.4	473.8
<b>Retained earnings, end of year</b>	3,564.0	3,195.0	3,085.1
<b>Accumulated other comprehensive income, beginning of year</b>	(117.1)	110.8	54.7
Other comprehensive income (loss)	(79.4)	(227.9)	56.1
Purchase of noncontrolling interest	(0.2)		
<b>Accumulated other comprehensive income (loss), end of year</b>	(196.7)	(117.1)	110.8
<b>Treasury stock, beginning of year</b>	(2,586.1)	(2,524.3)	(2,391.5)
Acquisition of treasury stock	(257.8)	(55.2)	(129.1)
Stock-based compensation	(6.4)	(6.6)	(3.7)
<b>Treasury stock, end of year</b>	(2,850.3)	(2,586.1)	(2,524.3)
<b>Total stockholders equity The Estée Lauder Companies Inc.</b>	1,948.4	1,640.0	1,653.2
<b>Noncontrolling interests, beginning of year</b>	24.0	26.6	21.3
Net earnings attributable to noncontrolling interests	4.1	8.4	10.2
Distributions to noncontrolling interest holders	(7.7)	(8.3)	(9.2)
Other comprehensive income (loss)	(3.4)	(2.7)	4.3
<b>Noncontrolling interests, end of year</b>	17.0	24.0	26.6
<b>Total equity</b>	\$ 1,965.4	\$ 1,664.0	\$ 1,679.8

See notes to consolidated financial statements.



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	2010	Year Ended June 30 2009 (In millions)	2008
<b>Net earnings</b>	\$ 482.4	\$ 226.8	\$ 484.0
<b>Other comprehensive income (loss):</b>			
Net unrealized investment gain (loss), net of tax	0.4	(0.5)	(0.5)
Net derivative instrument gain (loss), net of tax	12.8	(6.4)	(0.3)
Net actuarial gain (loss), net of tax	(32.4)	(87.4)	(17.8)
Net prior service credit (cost), net of tax	5.5	5.5	(23.7)
Net transition asset (obligation), net of tax			0.1
Translation adjustments, net of tax	(69.3)	(141.8)	102.6
	(83.0)	(230.6)	60.4
<b>Comprehensive income (loss)</b>	399.4	(3.8)	544.4
<b>Comprehensive (income) loss attributable to noncontrolling interests:</b>			
Net earnings	(4.1)	(8.4)	(10.2)
Translation adjustments, net of tax	3.4	2.7	(4.3)
	(0.7)	(5.7)	(14.5)
<b>Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.</b>	\$ 398.7	\$ (9.5)	\$ 529.9

See notes to consolidated financial statements.

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## THE ESTÉE LAUDER COMPANIES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	2010	Year Ended June 30 2009 (In millions)	2008
<b>Cash Flows from Operating Activities</b>			
Net earnings	\$ 482.4	\$ 226.8	\$ 484.0
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	263.7	254.0	250.7
Deferred income taxes	(24.7)	(108.2)	(115.6)
Non-cash stock-based compensation	57.0	51.5	47.2
Excess tax benefits from stock-based compensation arrangements	(10.8)	(1.4)	(1.1)
Loss on disposal of property, plant and equipment	23.0	11.4	12.5
Goodwill, other intangible asset and long-lived asset impairments	48.4	63.1	14.0
Non-cash charges associated with restructuring activities	21.4	12.2	
Non-cash charge on debt extinguishment	2.4		
Pension and post-retirement benefit expense	61.6	52.0	51.8
Pension and post-retirement benefit contributions	(125.7)	(71.3)	(71.5)
Other non-cash items	0.6	1.2	1.7
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, net	79.2	103.8	(86.5)
Decrease (increase) in inventory and promotional merchandise, net	(60.8)	125.7	(70.7)
Decrease (increase) in other assets, net	29.3	(72.2)	(5.7)
Increase (decrease) in accounts payable	103.6	(11.9)	17.1
Increase (decrease) in accrued income taxes	(78.8)	24.5	122.6
Increase in other liabilities	84.9	34.8	39.6
<b>Net cash flows provided by operating activities</b>	<b>956.7</b>	<b>696.0</b>	<b>690.1</b>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(270.6)	(279.8)	(357.8)
Acquisition of businesses and other intangible assets, net of cash acquired	(10.7)	(68.5)	(116.0)
Proceeds from the disposition of long-term investments		9.2	
Purchases of long-term investments	(0.1)	(0.4)	(4.7)
<b>Net cash flows used for investing activities</b>	<b>(281.4)</b>	<b>(339.5)</b>	<b>(478.5)</b>
<b>Cash Flows from Financing Activities</b>			
Increase (decrease) in short-term debt, net	(7.5)	(93.5)	54.8
Proceeds from issuance of long-term debt, net		297.7	
Repayments and redemptions of long-term debt	(227.2)	(10.1)	(5.9)
Net proceeds from stock-based compensation transactions	205.0	109.6	117.3
Excess tax benefits from stock-based compensation arrangements	10.8	1.4	1.1
Payments to acquire treasury stock	(266.7)	(62.6)	(129.6)
Dividends paid to stockholders	(109.1)	(108.4)	(106.6)
Payments to noncontrolling interest holders	(11.4)	(8.3)	(9.2)
<b>Net cash flows provided by (used for) financing activities</b>	<b>(406.1)</b>	<b>125.8</b>	<b>(78.1)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(13.0)	(19.5)	14.5
<b>Net Increase in Cash and Cash Equivalents</b>	<b>256.2</b>	<b>462.8</b>	<b>148.0</b>

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<b>Cash and Cash Equivalents at Beginning of Year</b>		864.5		401.7		253.7
<b>Cash and Cash Equivalents at End of Year</b>	\$	1,120.7	\$	864.5	\$	401.7

See notes to consolidated financial statements.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 DESCRIPTION OF BUSINESS**

The Estée Lauder Companies Inc. manufactures, markets and sells skin care, makeup, fragrance and hair care products around the world. Products are marketed under the following brand names: Estée Lauder, Aramis, Clinique, Prescriptives, Lab Series, Origins, M A C, Bobbi Brown, La Mer, Aveda, Jo Malone, Bumble and bumble, Darphin, American Beauty, Flirt!, GoodSkin Labs, grassroots research labs and Ojon. The Estée Lauder Companies Inc. is also the global licensee of the Tommy Hilfiger, Kiton, Donna Karan, Michael Kors, Sean John, Missoni, Daisy Fuentes, Tom Ford and Coach brand names for fragrances and/or cosmetics.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation*

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.

In accordance with recently adopted accounting guidance, net earnings attributable to The Estée Lauder Companies Inc. and net earnings attributable to noncontrolling interests are disclosed separately on the face of the accompanying consolidated statements of earnings. In addition, noncontrolling interests are reported as a separate component of equity in the consolidated balance sheets and consolidated statements of equity.

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

*Management Estimates*

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ( 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

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revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives. 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 resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

### *Currency Translation and Transactions*

All assets and liabilities of foreign subsidiaries and affiliates are translated at year-end rates of exchange, while revenue and expenses are translated at weighted average rates of exchange for the year. Unrealized translation gains or losses are reported as cumulative translation adjustments through other comprehensive income (loss). Such adjustments amounted to \$65.9 and \$139.1 million of unrealized translation losses, net of tax, in fiscal 2010 and 2009, respectively, and \$98.3 million of unrealized translation gains, net of tax, in fiscal 2008. For the Company's subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings.

The Company enters into foreign currency forward and option contracts to hedge foreign currency transactions for periods consistent with its identified exposures. Accordingly, the Company categorizes these instruments as entered into for purposes other than trading.

The accompanying consolidated statements of earnings include net exchange gains (losses) of \$(33.3) million, \$(20.0) million and \$3.9 million in fiscal 2010, 2009 and 2008, respectively.

### *Cash and Cash Equivalents*

Cash and cash equivalents include \$534.5 million and \$239.8 million of short-term time deposits at June 30, 2010 and 2009, respectively. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Approximately 16% and 14% of the Company's cash and cash equivalents are held by two counterparties.



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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Accounts Receivable***

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions of \$34.3 million and \$41.4 million as of June 30, 2010 and 2009, respectively. This reserve is based upon the evaluation of accounts receivable aging, specific exposures and historical trends.

***Inventory and Promotional Merchandise***

Inventory and promotional merchandise only includes inventory considered saleable or usable in future periods, and is stated at the lower of cost or fair-market value, with cost being determined on the first-in, first-out method. Cost components include raw materials, componentry, direct labor and overhead (e.g., indirect labor, utilities, depreciation, purchasing, receiving, inspection and warehousing) as well as inbound freight. Manufacturing overhead is allocated to the cost of inventory based on the normal production capacity. Unallocated overhead during periods of abnormally low production levels are recognized as cost of sales in the period in which they are incurred. Promotional merchandise is charged to expense at the time the merchandise is shipped to the Company's customers. Included in inventory and promotional merchandise is an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, specific reserves for future known or anticipated events may be established.

***Derivative Financial Instruments***

The Company's derivative financial instruments are recorded as either assets or liabilities on the balance sheet and measured at fair value. All derivatives outstanding as of June 30, 2010 are (i) designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), (ii) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (foreign currency cash-flow hedge), or (iii) not designated as a hedging instrument. Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge that is highly effective are recorded in current-period earnings, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on unrecognized firm commitments). Changes in the fair value of a derivative that is designated and qualifies as a foreign currency cash-flow hedge of a foreign-currency-denominated forecasted transaction that is highly effective are recorded in other comprehensive income (loss) (OCI). Gains and losses deferred in OCI are then recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged foreign-currency-denominated forecasted transaction (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative instruments not designated as hedging instruments are reported in current-period earnings.

***Property, Plant and Equipment***

Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are carried at cost less accumulated depreciation and amortization. Costs incurred for computer software developed or obtained for internal use are capitalized as part of machinery and equipment during the application development stage and expensed as incurred during the preliminary project and post-implementation stages. For financial statement purposes, depreciation is provided principally on the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lives of the respective leases or the expected useful lives of those improvements.

***Investments***

The Company's investments consist principally of available-for-sale securities and equity-method investments. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of stockholders' equity until realized. Investments in affiliated companies, which are not controlled by the Company but where the Company has the ability to exercise significant influence over, are accounted for using the equity-method where the earnings and losses attributable to the investment are recorded in the accompanying consolidated statements of earnings.

***Goodwill and Other Indefinite-lived Intangible Assets***

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

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

Under the income approach, the Company determines fair value using a discounted cash flow method, projecting future cash flows of each reporting unit, as well as terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows. Under the market approach, the Company utilizes information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, which creates valuation multiples that are applied to the operating performance of the reporting unit being tested, to value the reporting unit. The key estimates and factors used in these two approaches include, but are not limited to, revenue growth rates and profit margins based on internal forecasts, terminal value, the weighted-average cost of capital used to discount future cash flows and comparable market multiples.

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

*Long-Lived Assets*

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

*Concentration of Credit Risk*

The Company is a worldwide manufacturer, marketer and distributor of skin care, makeup, fragrance and hair care products. Domestic and international 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 \$876.3 million or 11%, \$907.3 million, or 12%, and \$951.4 million, or 12%, of the Company's consolidated net sales in fiscal 2010, 2009 and 2008, respectively. This customer accounted for \$84.3 million and \$97.1 million, or 11%, of the Company's accounts receivable at June 30, 2010 and 2009, respectively.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Revenue Recognition***

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

Revenues are reported on a net sales basis, which is computed by deducting from gross sales the amount of actual product returns received, discounts, incentive arrangements with retailers and an amount established for anticipated product returns. The Company's practice is to accept product returns from retailers only if properly requested, authorized and approved. In accepting returns, the Company typically provides a credit to the retailer against accounts receivable from that retailer. As a percentage of gross sales, returns were 4.3%, 4.4% and 4.4% in fiscal 2010, 2009 and 2008, respectively.

***Payments to Customers***

The Company records revenues generated from purchase with purchase promotions as sales and the costs of its purchase with purchase and gift with purchase promotions as cost of sales. Certain other incentive arrangements require the payment of a fee to customers based on their attainment of pre-established sales levels. These fees have been recorded as a reduction of Net sales in the accompanying consolidated statements of earnings and were not material to the results of operations in any period presented.

The Company enters into transactions related to advertising, product promotions and demonstrations, some of which involve cooperative relationships with customers. These activities may be arranged either with unrelated third parties or in conjunction with the customer. The Company's share of the cost of these transactions (regardless of to whom they were paid) are reflected in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and were approximately \$1,070 million, \$1,074 million and \$1,098 million in fiscal 2010, 2009 and 2008, respectively.

***Advertising and Promotion***

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Global net expenses for advertising, merchandising, sampling, promotion and product development costs were \$2,015.9 million, \$1,878.8 million and \$2,034.6 million in fiscal 2010, 2009 and 2008, respectively, and are expensed as incurred. These amounts include activities relating to purchase with purchase and gift with purchase promotions that are reflected in Net sales and Cost of sales. Excluding the impact of purchase with purchase and gift with purchase promotions, advertising, merchandising, sampling and promotion expenses included in operating expenses were \$1,818.5 million, \$1,693.1 million and \$1,836.1 million in fiscal 2010, 2009 and 2008, respectively.

### *Research and Development*

Research and development costs amounted to \$79.5 million, \$81.6 million and \$80.9 million in fiscal 2010, 2009 and 2008, respectively. Research and development costs are expensed as incurred.

### *Shipping and Handling*

Shipping and handling expenses of \$263.3 million, \$268.6 million and \$284.4 million in fiscal 2010, 2009 and 2008, respectively, are recorded in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and include distribution center costs, third-party logistics costs and outbound freight.

### *Operating Leases*

The Company recognizes rent expense from operating leases with periods of free and scheduled rent increases on a straight-line basis over the applicable lease term. The Company considers lease renewals in the useful life of its leasehold improvements when such renewals are reasonably assured. From time to time, the Company may receive capital improvement funding from its lessors. These amounts are recorded as deferred liabilities and amortized over the remaining lease term as a reduction of rent expense.

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***License Arrangements***

The Company's license agreements provide the Company with worldwide rights to manufacture, market and sell beauty and beauty-related products (or particular categories thereof) using the licensors' trademarks. The licenses typically have an initial term of approximately 3 years to 11 years, and are renewable subject to the Company's compliance with the license agreement provisions. The remaining terms, including the potential renewal periods, range from approximately 2 years to 20 years. Under each license, the Company is required to pay royalties to the licensor, at least annually, based on net sales to third parties.

Most of the Company's licenses were entered into to create new business. In some cases, the Company acquired, or entered into, a license where the licensor or another licensee was operating a pre-existing beauty products business. In those cases, other intangible assets are capitalized and amortized over their useful lives.

Certain license agreements may require minimum royalty payments, incremental royalties based on net sales levels and minimum spending on advertising and promotional activities. Royalty expenses are accrued in the period in which net sales are recognized while advertising and promotional expenses are accrued at the time these costs are incurred.

***Stock-Based Compensation***

The Company records stock-based compensation, measured at the fair value of the award, as an expense in the consolidated financial statements. Upon the exercise of stock options or the vesting of restricted stock units and performance share units, the resulting excess tax benefits, if any, are credited to additional paid-in capital. Any resulting tax deficiencies will first be offset against those cumulative credits to additional paid-in capital. If the cumulative credits to additional paid-in capital are exhausted, tax deficiencies will be recorded to the provision for income taxes. Excess tax benefits are required to be reflected as financing cash inflows in the accompanying consolidated statements of cash flows.

***Income Taxes***

The Company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in its financial statements or tax returns. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in

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net deferred tax assets is a valuation allowance for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. Based on the Company's assessments, no additional valuation allowance is required. If the Company determines that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time.

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



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***Recently Adopted Accounting Standards***

In May 2010, the Financial Accounting Standards Board ( FASB ) amended its authoritative guidance related to foreign currency issues that were discussed at the FASB 's Emerging Issues Task Force ( EITF ) meeting in March 2010 where the staff of the U.S. Securities and Exchange Commission ( SEC ) announced temporary guidance on certain exchange rate issues. Prompted by the use of multiple currency exchange rates in Venezuela, the use of different rates for remeasurement and translation purposes has caused reported balances for financial reporting purposes and the actual U.S. dollar denominated balances to be different. The SEC staff indicated that any differences between the amounts reported for financial reporting purposes and actual U.S. dollar denominated balances that may have existed prior to the application of highly inflationary accounting requirements on January 1, 2010 should be recognized in the income statement upon adoption, unless the issuer can document that the difference was previously recognized as a cumulative translation adjustment ( CTA ), in which case the difference should be recognized as an adjustment to CTA. The adoption of this guidance, effective March 31, 2010, did not have a material impact on the Company 's consolidated financial statements.

In February 2010, the FASB amended its authoritative guidance related to subsequent events to alleviate potential conflicts with current SEC guidance. Effective immediately, these amendments remove the requirement that an SEC filer disclose the date through which it has evaluated subsequent events. The adoption of this guidance did not have a material impact on the Company 's consolidated financial statements.

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, including (i) the amounts of significant transfers between Level 1 and Level 2 fair-value measurements and the reasons for the transfers, (ii) the reasons for any transfers in or out of Level 3, and (iii) information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of recurring Level 3 fair value measurements. The FASB also clarified existing fair-value measurement disclosure guidance about the level of disaggregation of assets and liabilities, and information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair-value measurements. Except for certain detailed Level 3 disclosures, which are effective for fiscal years beginning after December 15, 2010 and interim periods within those years, the new guidance became effective for the Company 's fiscal 2010 third quarter. The Company did not have transfers of assets and liabilities in or out of Level 1 and Level 2 fair-value measurements. The adoption of this disclosure-only guidance is included in Note 12 Fair Value Measurements and Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans and did not have an impact on the Company 's consolidated financial results.

In August 2009, the FASB issued authoritative guidance to provide clarification on measuring liabilities at fair value when a quoted price in an active market is not available. In these circumstances, a valuation technique should be applied that uses either the quote of the liability when traded as an asset, the quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique consistent with existing fair value measurement guidance, such as an income approach or a market approach. The new guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This guidance became effective for the Company 's fiscal 2010 second quarter and did not have an impact on the Company 's consolidated financial statements.

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In June 2009, the FASB established the FASB Accounting Standards Codification<sup>TM</sup> (the Codification ) as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification did not have a material impact on the Company's consolidated financial statements upon adoption. Accordingly, the Company's notes to consolidated financial statements will explain accounting concepts rather than cite the topics of specific U.S. GAAP.

In April 2009, the FASB issued authoritative guidance that principally requires publicly traded companies to provide disclosures about fair value of financial instruments in interim financial information. The adoption of this disclosure-only guidance in the Company's fiscal 2010 first quarter did not have an impact on the Company's consolidated financial results.

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In April 2009, the FASB issued authoritative guidance to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably determined. If the fair value of such assets or liabilities cannot be reasonably determined, then they would generally be recognized in accordance with certain other pre-existing accounting standards. This guidance also amends the subsequent accounting for assets and liabilities arising from contingencies in a business combination and certain other disclosure requirements. This guidance became effective for assets or liabilities arising from contingencies in business combinations that are consummated on or after the beginning of the Company's fiscal 2010 and did not have an impact on the Company's consolidated financial statements.

In December 2008, the FASB issued authoritative guidance to require employers to provide additional disclosures about plan assets of a defined benefit pension or other post-retirement plan. These disclosures should principally include information detailing investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets and an understanding of significant concentrations of risk within plan assets. While earlier application of this guidance is permitted, the required disclosures shall be provided for fiscal years ending after December 15, 2009 (i.e., the Company's fiscal 2010). Upon initial application, this guidance is not required to be applied to earlier periods that are presented for comparative purposes. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements. See Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans.

In November 2008, the FASB issued authoritative guidance regarding the accounting for defensive intangible assets. Defensive intangible assets are assets acquired in a business combination that the acquirer (a) does not intend to use or (b) intends to use in a way other than the assets highest and best use as determined by an evaluation of market participant assumptions. While defensive intangible assets are not being actively used, they are likely contributing to an increase in the value of other assets owned by the acquiring entity. This guidance will require defensive intangible assets to be accounted for as separate units of accounting at the time of acquisition and the useful life of such assets would be based on the period over which the assets will directly or indirectly affect the entity's cash flows. This guidance is to be applied prospectively for defensive intangible assets acquired on or after the beginning of the Company's fiscal 2010 and did not have an impact on the Company's consolidated financial statements.

In November 2008, the FASB issued authoritative guidance to address questions about equity-method accounting. The primary issues include how the initial carrying value of an equity method investment should be determined, how to account for any subsequent purchases and sales of additional ownership interests, and whether the investor must separately assess its underlying share of the investee's indefinite-lived intangible assets for impairment. This guidance became effective beginning in the Company's fiscal 2010 and did not have an impact on the Company's consolidated financial statements.

In April 2008, the FASB issued authoritative guidance to amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and to require additional disclosures. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date. This guidance became effective for fiscal years, and interim periods within those fiscal years, beginning in the Company's fiscal 2010 and did not have a material impact on the Company's consolidated financial statements.

In February 2008, the FASB issued authoritative guidance that permitted the delayed application of fair value measurement accounting to nonrecurring nonfinancial assets and nonfinancial liabilities. The Company's nonfinancial assets and nonfinancial liabilities principally consist of (i) goodwill, other intangible assets and long-lived assets when assessing potential impairment, (ii) intangible assets acquired through business combinations, and (iii) liabilities associated with restructuring activities. This guidance became effective beginning in the Company's fiscal 2010. See Note 12 Fair Value Measurements for further discussion on the application of fair value measurements.

In December 2007, the FASB issued authoritative guidance to affirm that the acquisition method of accounting (previously referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This guidance defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Among other requirements, this guidance requires the acquiring entity in a business combination to recognize the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their acquisition-date fair values, with limited exceptions; acquisition-related costs generally will be expensed as incurred. This guidance requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. This guidance must be applied prospectively to business combinations that are consummated on or after July 1, 2009. During the year ended June 30, 2010, the Company did not have significant business combinations. Accordingly, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

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In December 2007, the FASB issued authoritative guidance to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other requirements, this guidance clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is to be reported as a separate component of equity in the consolidated financial statements. This guidance also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest and to disclose those amounts on the face of the consolidated statement of earnings. This guidance must be applied prospectively for fiscal years, and interim periods within those fiscal years, beginning in the Company's fiscal 2010, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued authoritative guidance to address accounting for collaborative arrangement activities that are conducted without the creation of a separate legal entity for the arrangement. Revenues and costs incurred with third parties in connection with the collaborative arrangement should be presented gross or net by the collaborators pursuant to pre-existing accounting standards. Payments to or from collaborators should be presented in the income statement based on the nature of the arrangement, the nature of the company's business and whether the payments are within the scope of other accounting literature. Other detailed information related to the collaborative arrangement is also required to be disclosed. The requirements under this guidance must be applied to collaborative arrangements in existence at the beginning of the Company's fiscal 2010 using a modified version of retrospective application. The Company is currently not a party to significant collaborative arrangement activities, as defined by this guidance, and therefore the adoption of this guidance did not have an impact on the Company's consolidated financial statements.

***Recently Issued Accounting Standards***

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

**NOTE 3 INVENTORY AND PROMOTIONAL MERCHANDISE**

	June 30	
2010		2009

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	(In millions)			
Inventory and promotional merchandise, net consists of:				
Raw materials	\$	206.0	\$	188.5
Work in process		78.6		43.8
Finished goods		377.8		375.6
Promotional merchandise		164.2		187.1
	\$	826.6	\$	795.0

**NOTE 4 PROPERTY, PLANT AND EQUIPMENT**

	2010	June 30		2009
		(In millions)		
<b><u>Asset (Useful Life)</u></b>				
Land	\$	14.3	\$	14.5
Buildings and improvements (10 to 40 years)		172.5		183.2
Machinery and equipment (3 to 10 years)		1,174.9		1,080.2
Furniture and fixtures (5 to 10 years)		82.1		86.1
Leasehold improvements		1,081.2		1,112.8
		2,525.0		2,476.8
Less accumulated depreciation and amortization		1,501.4		1,450.1
	\$	1,023.6	\$	1,026.7

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The cost of assets related to projects in progress of \$160.4 million and \$144.9 million as of June 30, 2010 and 2009, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was \$251.8 million, \$240.2 million and \$233.9 million in fiscal 2010, 2009 and 2008, 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.

During the fourth quarter of fiscal 2010 and 2009, the Company recorded non-cash impairment charges of \$2.7 million and \$8.5 million, respectively, to reduce the net carrying value of certain retail store and counter assets to their estimated fair value, which was determined based on discounted projected future cash flows. Lower than expected operating cash flow performance relative to the affected assets, restructuring activities, revisions in internal forecasts and the impact of the economic environment on their projected future results of operations indicated that the carrying value of the related long-lived assets were not recoverable. These asset impairment charges primarily related to the Company's skin care and makeup businesses in the Americas and the Europe, Middle East and Africa regions and are included in Impairment of other intangible and long-lived assets in the accompanying consolidated statements of earnings.

**NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS**

During fiscal 2009, the Company acquired Applied Genetics Incorporated Dermatics (AGI), a manufacturer of cosmetics ingredients. In addition, the Company acquired businesses engaged in the wholesale distribution and retail sale of Aveda products. These activities were predominantly related to the Company's skin care and hair care businesses and resulted in increases to goodwill of \$42.5 million and other intangible assets of \$19.9 million as of June 30, 2009.

**Goodwill**

The Company assigns goodwill of a reporting unit to the product category in which that reporting unit predominantly operates at the time of its acquisition. The change in the carrying amount of goodwill is as follows:

(In millions)	Skin Care	Makeup	Fragrance	Hair Care	Total
<b><u>Balance as of June 30, 2008</u></b>					
Goodwill	\$ 29.7	\$ 252.4	\$ 54.9	\$ 379.2	\$ 716.2
Accumulated impairments	(7.3)				(7.3)
	22.4	252.4	54.9	379.2	708.9

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Goodwill acquired during the year	42.6	6.1	0.1	26.2	75.0
Impairment charges	(14.3)				(14.3)
Translation and other adjustments	(1.5)	(0.4)	(0.3)	(7.5)	(9.7)
	26.8	5.7	(0.2)	18.7	51.0
<b>Balance as of June 30, 2009</b>					
Goodwill	69.5	258.1	54.7	397.9	780.2
Accumulated impairments	(20.3)				(20.3)
	49.2	258.1	54.7	397.9	759.9
Goodwill acquired during the year	0.2	7.2	0.2	1.1	8.7
Impairment charges	(1.5)			(15.1)	(16.6)
Translation and other adjustments	(0.9)	(0.2)	(0.1)	1.7	0.5
	(2.2)	7.0	0.1	(12.3)	(7.4)
<b>Balance as of June 30, 2010</b>					
Goodwill	67.9	265.1	54.8	400.6	788.4
Accumulated impairments	(20.9)			(15.0)	(35.9)
	\$ 47.0	\$ 265.1	\$ 54.8	\$ 385.6	\$ 752.5



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

Other intangible assets include trademarks and patents, as well as license agreements and other intangible assets resulting from or related to businesses and assets purchased by the Company. Indefinite-lived intangible assets (e.g., trademarks) are not subject to amortization and are assessed at least annually for impairment during the fiscal fourth quarter, or more frequently if certain events or circumstances warrant. Other intangible assets (e.g., non-compete agreements, customer lists) are amortized on a straight-line basis over their expected period of benefit, approximately 5 years to 13 years. Intangible assets related to license agreements were amortized on a straight-line basis over their useful lives based on the terms of the respective agreements. The Company did not incur costs to extend or renew the term of acquired intangible assets during fiscal 2010.

Other intangible assets consist of the following:

(In millions)	June 30, 2010			June 30, 2009		
	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	\$ 205.0	\$ 151.0	\$ 54.0	\$ 199.2	\$ 115.9	\$ 83.3
License agreements	43.0	43.0		43.2	43.0	0.2
	248.0	194.0	54.0	242.4	158.9	83.5
<b><u>Non-amortizable intangible assets:</u></b>						
Trademarks and other	61.0	5.5	55.5	73.4	6.8	66.6
Total intangible assets	\$ 309.0	\$ 199.5	\$ 109.5	\$ 315.8	\$ 165.7	\$ 150.1

The aggregate amortization expense related to amortizable intangible assets for the years ended June 30, 2010, 2009 and 2008 was \$9.1 million, \$11.5 million and \$14.0 million, respectively. The estimated aggregate amortization expense for each of the next five fiscal years is as follows:

	2011	2012	Estimated Expense in Fiscal 2013		2014	2015
			(In millions)			
Aggregate amortization expense	\$ 7.3	\$ 6.7	\$ 6.7	\$ 6.6	\$ 6.6	\$ 6.6

**Fiscal 2010 Impairments**

During the second quarter of fiscal 2010, the Darphin reporting unit identified issues related to the planned streamlining of its distribution process, resulting in revisions to its internal forecasts. The Company concluded that these changes in circumstances in the Darphin reporting unit triggered the need for an interim impairment test of its trademark and goodwill. The Company determined that the trademark was impaired, with fair value estimated based upon the relief-from-royalty method, and therefore recorded an impairment charge of \$5.8 million, at the exchange rate in effect at that time, in the skin care product category and in the Europe, the Middle East & Africa region. After adjusting the carrying value of the trademark, the Company completed step one of the impairment test for goodwill and concluded that the fair value of the Darphin reporting unit was in excess of its carrying value including goodwill. The fair value of the reporting unit was based upon the income approach, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows. As of June 30, 2010, the carrying value of goodwill related to the Darphin reporting unit was \$9.2 million.

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During the second quarter of fiscal 2010, the Ojon reporting unit altered and delayed certain components of its future expansion plans, resulting in revisions to its internal forecasts. The Company concluded that these changes in circumstances in the Ojon reporting unit triggered the need for an interim impairment review of its goodwill and trademark. Additionally, these changes in circumstances were also an indicator that the carrying amount of the product formulation intangible asset and customer list may not be recoverable. The Company performed an interim impairment test for the trademark and a recoverability test for the product formulation intangible asset and customer list as of December 31, 2009. For the product formulation intangible asset, the Company concluded that the carrying amount of this asset was recoverable. However, for the Ojon trademark and customer list, the Company concluded that the carrying values exceeded their estimated fair values, which were determined based on the application of a royalty rate to discounted projected future cash flows (relief-from-royalty method) for the trademark and discounted projected future cash flows for the customer list. As a result, the Company recognized asset impairment charges of \$6.0 million for the trademark and \$17.2 million for the customer list, at the exchange rate in effect at that time. After adjusting the carrying value of the trademark and customer list, the Company completed an interim impairment test for goodwill and recorded a goodwill impairment charge related to the Ojon reporting unit of \$16.6 million at the exchange rate in effect at that time. The fair value of the reporting unit was based upon weighting of the income and market approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. These impairment charges were reflected in the hair care and skin care product categories and in the Americas region. As of June 30, 2010, the carrying value of goodwill related to the Ojon reporting unit was \$28.0 million.

During the fourth quarter of fiscal 2010, the Company approved a restructuring initiative that included the reformulation of Ojon brand products. The Company concluded that this change in the formulation was an indicator that the carrying amount of the product formulation intangible asset may not be recoverable. The Company performed an impairment test of the product formulation intangible asset and concluded that the carrying value of this intangible asset exceeded its estimated fair value, which was determined based on discounted projected future cash flows. As a result, the Company recognized an asset impairment charge of \$8.8 million, which is included in Restructuring and other special charges in the accompanying consolidated statement of earnings.

**Fiscal 2009 Impairments**

During the third quarter of fiscal 2009, the Company concluded that the Darphin reporting unit met certain indicators triggering an interim impairment review of goodwill and trademarks. Those indicators included a decline in recent operating activities, restructuring activities, revisions in internal forecasts and an application of the Company's continued decline in market capitalization to this reporting unit. The Company performed an interim impairment test for goodwill and trademarks as of March 31, 2009 on this reporting unit. The Company concluded that the carrying value of the Darphin trademark exceeded its estimated fair value and, as a result, recognized an impairment charge of \$12.3 million at the exchange rate in effect at that time. This charge was reflected in the skin care product category and in the Europe, the Middle East & Africa region. After adjusting the carrying value of the trademark, the Company completed step one of the impairment test for goodwill and concluded that the fair value of the Darphin reporting unit was in excess of its carrying value including goodwill.

In addition, during the third quarter of fiscal 2009, the Company identified a license agreement intangible asset which was tested for impairment based upon a history of operating losses in excess of projections and revisions in internal forecasts. The Company determined that the intangible asset was impaired and therefore recorded an asset impairment charge of \$2.3 million in the fragrance product category and in the Americas

region.

During the fourth quarter of fiscal 2009, the Company identified other intangible assets related to the Michael Kors license agreement, as well as distributor relationships and core ingredients technology, to test for impairment due to lower than expected operating cash flow performances and the impact of the current economic environment on their projected future operating results. The Company determined that the other intangible assets were impaired and therefore recorded asset impairment charges of \$14.7 million in the fragrance and skin care product categories and in the Americas region.

The Company completed its annual impairment test of indefinite-lived intangible assets during the fourth quarter of fiscal 2009. Due to the economic environment and revised expectations regarding future net sales generated from the use of Ojon and Bumble and bumble trademarks, the Company determined that their carrying values exceeded the estimated fair value, by approximately \$9.8 million, predominantly in the hair care product category and in the Americas region. Additionally, during the fourth quarter of fiscal 2009, the Company wrote-off approximately \$1.2 million of trademarks, primarily in the makeup and skin care product categories and in the Americas region, which are no longer expected to generate operating cash flows.

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During the fourth quarter of fiscal 2009, the Company completed its annual goodwill impairment test and, due to a continued decline in operating results during the fourth quarter and additional revisions to internal forecasts, recorded a goodwill impairment charge related to the Darphin reporting unit of \$12.5 million at the exchange rate in effect at that time, primarily in the skin care product category and in the Europe, the Middle East & Africa region. Due to the same factors, the Company recorded other goodwill impairment charges of \$1.8 million, primarily in the skin care product category and in the Americas region.

**NOTE 6 ACQUISITION OF BUSINESSES**

During fiscal 2009, the Company acquired AGI. The purchase price was paid in cash at closing. In addition, at various times during fiscal 2010 and 2009, the Company also acquired businesses engaged in the wholesale distribution and retail sale of the Company's products in the United States and other countries and made earn-out payments related to the acquisition of the Bobbi Brown brand.

The aggregate cost for these activities, which includes purchase price, earn-out payments and acquisition costs (related to the fiscal 2009 acquisitions), was \$10.7 million and \$68.4 million in fiscal 2010 and 2009, respectively. The results of operations for each of the acquired businesses are included in the accompanying consolidated financial statements commencing with its date of original acquisition. Pro forma results of operations as if each of such businesses had been acquired as of the beginning of the year of acquisition and as of the prior-year period have not been presented, as the impact on the Company's consolidated financial results would not have been material.

**NOTE 7 CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES**

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

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

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- Resize and Reorganize the Organization The Company continued the realignment and optimization of its organization to better leverage scale, improve productivity and reduce complexity in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions through a combination of normal attrition and job eliminations.
- Turnaround or Exit Unprofitable Operations To improve the profitability in certain of the Company's brands and regions, the Company has selectively exited certain channels of distribution, categories and markets. During the first quarter of fiscal 2010, the Company approved the exit from the global wholesale distribution of the Prescriptives brand, which was completed during the fiscal year. In connection with these activities, the Company recorded a reserve for product returns, wrote off inventory and incurred costs to reduce workforce and other exit costs. Also during fiscal 2010, the Company approved a restructuring initiative that included the reformulation of Ojon brand products.
- Outsourcing In order to balance the growing need for information technology support with the Company's efforts to provide the most efficient and cost effective solutions, the Company continued the outsourcing of certain information technology processes. The Company incurred costs to transition services to an outsource provider.

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

<b>(In millions)</b>	<b>Employee-Related Costs</b>	<b>Asset Write-offs</b>	<b>Contract Terminations</b>	<b>Other Exit Costs</b>	<b>Total</b>
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Charges recorded through June 30, 2010	\$ 90.2	\$ 15.2	\$ 5.7	\$ 8.0	\$ 119.1

The total amount of restructuring charges expected to be incurred (including those recorded as set forth in the table above), plus other initiatives approved through June 30, 2010, include approximately \$111 million to \$112 million for employee-related costs, approximately \$18 million in asset write-offs, which includes \$8.8 million related to the impairment of other intangible assets, and approximately \$23 million of contract terminations and other exit costs.

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

<b>(In millions)</b>	<b>Employee-Related Costs</b>	<b>Asset Write-offs</b>	<b>Contract Terminations</b>	<b>Other Exit Costs</b>	<b>Total</b>
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

Accrued restructuring charges at June 30, 2010 are expected to result in cash expenditures funded from cash provided by operations of approximately \$25 million and \$6 million in fiscal 2011 and 2012, respectively.

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The Company recorded other special charges in connection with the implementation of the Program for the years ended June 30, 2010 and 2009 of \$12.3 million and \$10.1 million, respectively, related to consulting, other professional services, and accelerated depreciation. The total amount of other special charges expected to be incurred to implement these initiatives, including those recorded through June 30, 2010 plus other initiatives approved through June 30, 2010 is approximately \$41 million. For the year ended June 30, 2010, and primarily related to the exit from the global wholesale distribution of Prescriptives products, the Company recorded \$15.7 million reflecting sales returns (less a related cost of sales of \$2.5 million) and a write-off of inventory associated with exiting unprofitable operations of \$10.4 million. For the year ended June 30, 2009, the Company recorded \$8.1 million reflecting sales returns (less a related cost of sales of \$1.2 million) and a write-off of inventory of \$8.0 million associated with exiting unprofitable operations. The total amounts expected to be incurred, including those recorded through June 30, 2010 plus other initiatives approved through June 30, 2010 is between \$35 million and \$39 million related to sales returns and approximately \$15 million related to inventory write-offs.

Total charges associated with restructuring activities included in operating income for the years ended June 30, 2010 and 2009 was \$84.7 million and \$91.7 million, respectively.



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The provision for income taxes is comprised of the following:

	2010	Year Ended June 30 2009 (In millions)	2008
<b>Current:</b>			
Federal	\$ 16.0	\$ 42.6	\$ 141.4
Foreign	205.6	174.5	214.1
State and local	9.0	7.0	20.0
	230.6	224.1	375.5
<b>Deferred:</b>			
Federal	(16.4)	(84.0)	(110.9)
Foreign	(7.5)	(23.6)	(4.1)
State and local	(0.8)	(0.6)	(0.6)
	(24.7)	(108.2)	(115.6)
	\$ 205.9	\$ 115.9	\$ 259.9

A reconciliation of the U.S. federal statutory income tax rate to our actual effective tax rate on earnings before income taxes is as follows:

	2010	Year Ended June 30 2009	2008
Provision for income taxes at statutory rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State and local income taxes, net of federal tax benefit	1.5%	2.0%	1.0%
Effect of foreign operations	(0.9)%	(4.4)%	(0.1)%
Income tax reserve adjustments	(5.6)%	0.1%	(0.9)%
Other, net	(0.1)%	1.1%	(0.1)%
Effective tax rate	29.9%	33.8%	34.9%

Income tax reserve adjustments represent changes in the Company's net liability for unrecognized tax benefits related to prior-year tax positions including tax settlements and lapses of the applicable statutes of limitations.

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Federal income and foreign withholding taxes have not been provided on approximately \$1,068 million of undistributed earnings of international subsidiaries at June 30, 2010. The Company intends to reinvest these earnings in its foreign operations indefinitely, except where it is able to repatriate these earnings to the United States without material incremental tax provision. As of June 30, 2009 and 2008, the Company had not provided federal income and foreign withholding taxes on approximately \$975 million and \$813 million, respectively, of undistributed earnings of international subsidiaries. The determination and estimation of the future income tax consequences in all relevant taxing jurisdictions involves the application of highly complex tax laws in the countries involved, particularly in the United States, and is based on the tax profile of the Company in the year of earnings repatriation. Accordingly, it is not practicable to determine the amount of tax associated with such undistributed earnings.

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Significant components of the Company's deferred income tax assets and liabilities as of June 30, 2010 and 2009 were as follows:

	2010	(In millions)	2009
<b>Deferred tax assets:</b>			
Compensation related expenses	\$ 122.0		\$ 84.0
Inventory obsolescence and other inventory related reserves	62.0		59.5
Retirement benefit obligations	99.7		88.1
Various accruals not currently deductible	146.9		131.3
Net operating loss, credit and other carryforwards	42.3		27.1
Unrecognized state tax benefits and accrued interest	34.7		45.8
Other differences between tax and financial statement values	89.9		74.7
	597.5		510.5
Valuation allowance for deferred tax assets	(38.5)		(23.5)
<b>Total deferred tax assets</b>	<b>559.0</b>		<b>487.0</b>
<b>Deferred tax liabilities:</b>			
Depreciation and amortization	(182.8)		(127.8)
Other differences between tax and financial statement values	(2.4)		(0.5)
<b>Total deferred tax liabilities</b>	<b>(185.2)</b>		<b>(128.3)</b>
<b>Total net deferred tax assets</b>	<b>\$ 373.8</b>		<b>\$ 358.7</b>

As of June 30, 2010 and 2009, the Company had current net deferred tax assets of \$269.0 million and \$202.7 million, respectively, substantially all of which are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. In addition, the Company had noncurrent net deferred tax assets of \$104.8 million and \$156.0 million as of June 30, 2010 and 2009, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.

As of June 30, 2010 and 2009, certain subsidiaries had net operating loss and other carryforwards for tax purposes of approximately \$154 million and \$96 million, respectively. With the exception of \$135.3 million of net operating loss and other carryforwards with an indefinite carryforward period as of June 30, 2010, these carryforwards expire at various dates through fiscal 2030. Deferred tax assets, net of valuation allowances, in the amount of \$3.9 million and \$4.2 million as of June 30, 2010 and 2009, respectively, have been recorded to reflect the tax benefits of the carryforwards not utilized to date.

A full valuation allowance has been provided for those deferred tax assets for which, in the opinion of management, it is more-likely-than-not that the deferred tax assets will not be realized.

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Earnings before income taxes include amounts contributed by the Company's international operations of approximately \$966 million, \$674 million and \$905 million for fiscal 2010, 2009 and 2008, respectively. A portion of these earnings are taxed in the United States.

As of June 30, 2010 and 2009, the Company had gross unrecognized tax benefits of \$157.3 million and \$259.1 million, respectively. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$80.6 million.

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The Company classifies applicable interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes. During fiscal 2010, the Company recognized a gross interest and penalty benefit of \$11.9 million in the accompanying consolidated statement of earnings. The total gross interest and penalty expense during fiscal 2009 in the accompanying consolidated statement of earnings was \$17.2 million. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at June 30, 2010 and 2009 were \$36.7 million and \$67.9 million, respectively. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	<b>June 30, 2010</b> <b>(In millions)</b>	
Balance of gross unrecognized tax benefits as of July 1, 2009	\$	259.1
Gross amounts of increases as a result of tax positions taken during a prior period		22.3
Gross amounts of decreases as a result of tax positions taken during a prior period		(76.8)
Gross amounts of increases as a result of tax positions taken during the current period		9.4
Amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities		(51.8)
Reductions to unrecognized tax benefits as a result of a lapse of the applicable statutes of limitations		(4.9)
Balance of gross unrecognized tax benefits as of June 30, 2010	\$	157.3

Included in the balance of gross unrecognized tax benefits at June 30, 2010 are \$27.4 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

Earnings from the Company's global operations are subject to tax in various jurisdictions both within and outside the United States. The Company is routinely audited and examined in these jurisdictions. The Company provides tax reserves for U.S. federal, state, local and international unrecognized tax benefits for periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate. The Company assesses its tax positions and records tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a tax authority that has full knowledge of all relevant information. For those tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the consolidated financial statements. Where applicable, associated interest and penalties have also been recognized. Although the outcome related to these exposures is uncertain, in management's opinion, adequate provisions for income taxes have been made for estimable potential liabilities emanating from these exposures. In certain circumstances, the ultimate outcome of exposures and risks involve significant uncertainties which render them inestimable. If actual outcomes differ materially from these estimates, they could have a material impact on the Company's consolidated financial statements.

The Company is currently undergoing a U.S. federal income tax audit as well as examinations and controversies in several state, local and international jurisdictions. These matters are in various stages of completion and involve complex multi-jurisdictional issues common among multinational enterprises, including transfer pricing, that may require an extended period of time for resolution. During the fourth quarter of

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fiscal 2008, the IRS completed the examination phase of fiscal years 2002 through 2005. During fiscal 2008, the Company presented disputed computations concerning U.S. foreign tax credit determinations to the Appeals Division of the IRS and a claim was entered pursuant to an administrative process of the tax treaty between the U.S. and Belgium (commonly referred to as the "Competent Authority" process). During the fourth quarter of fiscal 2009, the Company reached a formal settlement with the Appeals Division. As a result of the settlement, the Company recognized a tax and interest benefit of \$19.2 million, net of tax. A resolution of remaining computations in dispute was subject to the outcome of the Company's Competent Authority claim. As of June 30 2010, the Company's Competent Authority claim remained unresolved. However, subsequent to June 30, 2010, the Company's Competent Authority claim was settled, thereby resolving the remaining U.S. foreign tax credit determinations formerly in dispute. The impact from the settlement is not anticipated to have a material impact on the Company's consolidated financial statements.

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During the fourth quarter of fiscal 2010, the Company reached a formal agreement with the IRS concerning the examination adjustments proposed for fiscal years 2002 through 2005. As a result, the Company has applied a prior cash payment of \$35.0 million made to the U.S. Treasury as an advance deposit toward these agreed-to adjustments. Separately, during fiscal 2010 the IRS continued their examination of fiscal years 2006 through 2008. In the fourth quarter of fiscal 2010, the Company made a cash payment of \$20.5 million to the U.S. Treasury as an advance deposit in anticipation of a formal resolution to examination adjustments proposed for fiscal years 2006 through 2008. Although the advance deposit limits the accrual of additional interest that would be due to the U.S. Treasury, there is no impact on the amount of unrecognized tax benefits until a final agreement is reached.

During the third quarter of fiscal 2010, the Company accepted an invitation from the IRS to join the Compliance Assurance Program ( CAP ) beginning with the fiscal year ending June 30, 2011. The objective of CAP is to reduce taxpayer burden and uncertainty while assuring the IRS of the accuracy of income tax returns prior to filing, thereby reducing or eliminating the need for post-filing examinations.

The Company had been notified of a disallowance of tax deductions claimed by its subsidiary in Spain for fiscal years 1999 through 2002. As a result, the subsidiary was reassessed corporate income tax of \$2.5 million for this period, at current exchange rates. An appeal against this reassessment was filed with the Chief Tax Inspector. On July 18, 2005, the final assessment made by the Chief Tax Inspector was received, confirming the reassessment made by the tax auditors. During fiscal 2006, an appeal against this final assessment was filed with the Madrid Regional Economic Administrative Tribunal ( TEAR ). In view of the TEAR 's silence, during fiscal 2007 the claim was presumed to be dismissed and an appeal was filed against it with the Central Economic-Administrative Tribunal ( TEAC ). During the fiscal 2008 fourth quarter, the TEAC dismissed the claim and, on June 10, 2008, the Company filed an appeal for judicial review with the National Appellate Court. During fiscal 2009, the Company completed the appeal proceedings with the National Appellate Court and, as of June 30, 2010, awaits the court 's decision. While no assurance can be given as to the outcome in respect of this assessment and pending appeal in the Spanish courts, management believes it is more-likely-than-not that the subsidiary will be successful in its defense against the assessment and continues to measure the full amount of the tax benefit. Accordingly, no tax reserve has been established for this potential exposure.

Notwithstanding the pending appeal in the Spanish courts, during the fourth quarter of fiscal 2010, the Company reached a favorable tentative agreement with the Spanish tax authority regarding an examination of the fiscal 2005 through calendar year 2007 tax period.

During fiscal 2010, the Company concluded various state, local and foreign income tax audits and examinations while several other matters, including those noted above, were initiated or remained pending. On the basis of the information available in this regard as of June 30, 2010, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of \$45 million to \$60 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.

The tax years subject to examination vary depending on the tax jurisdiction. As of June 30, 2010, the following tax years remain subject to examination by the major tax jurisdictions indicated:

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Major Jurisdiction	Open Fiscal Years
Belgium	2006 2010
Canada	2001 2010
France	2006 2010
Germany	1999 2002, 2004-2010
Japan	2006 2010
Korea	2009 2010
Spain	1999 2002, 2005 2010
Switzerland	2006 2010
United Kingdom	2009 2010
United States	2006 2010
State of California	2002 2010
State of Minnesota	2001 2010
State of New York	2007 2010

The Company is also subject to income tax examinations in numerous other state, local and foreign jurisdictions. The Company believes that its tax reserves are adequate for all years subject to examination.



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Other accrued liabilities consist of the following:

	2010	June 30 (In millions)	2009
Advertising, merchandising and sampling	\$	373.5	\$ 321.1
Employee compensation		366.3	280.8
Payroll and other taxes		103.6	94.8
Restructuring		25.4	48.2
Other		249.2	317.5
	\$	1,118.0	\$ 1,062.4

**NOTE 10 DEBT**

The Company's short-term and long-term debt and available financing consist of the following:

(In millions)	Debt at June 30		Available financing at June 30, 2010	
	2010	2009	Committed	Uncommitted
6.00% Senior Notes, due May 15, 2037 ( 2037 Senior Notes )	\$ 296.3	\$ 296.3	\$	\$
5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes )	197.6	197.5		
5.55% Senior Notes, due May 15, 2017 ( 2017 Senior Notes )	338.3	324.1		
7.75% Senior Notes, due November 1, 2013 ( 2013 Senior Notes )	230.0	299.8		
6.00% Senior Notes, due January 15, 2012 ( 2012 Senior Notes )	118.3	244.2		
\$13.5 million promissory note due August 31, 2012	7.3	15.2		
\$7.0 million promissory note due July 31, 2009		7.7		
Commercial paper				750.0
Turkish lira overdraft borrowing facility	4.6	12.5		20.7
Loan participation notes				150.0
March 2011 Japanese yen revolving credit facility			16.9	

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March 2012 Japanese yen revolving credit facility				16.9	
Other long-term borrowings	17.2	10.5			
Other short-term borrowings	18.8	13.6			158.5
Revolving credit facility			750.0		
	1,228.4	1,421.4	\$	783.8	\$ 1,079.2
Less short-term debt including current maturities	(23.4)	(33.8)			
	\$ 1,205.0	\$ 1,387.6			

As of June 30, 2010, the Company had outstanding \$296.3 million of 2037 Senior Notes consisting of \$300.0 million principal and unamortized debt discount of \$3.7 million. The 2037 Senior Notes, when issued in May 2007, were priced at 98.722% with a yield of 6.093%. Interest payments are required to be made semi-annually on May 15 and November 15. In April 2007, in anticipation of the issuance of the 2037 Senior Notes, the Company entered into a series of forward-starting interest rate swap agreements on a notional amount totaling \$210.0 million at a weighted average all-in rate of 5.45%. The forward-starting interest rate swap agreements were settled upon the issuance of the new debt and the Company recognized a loss in other comprehensive income of \$0.9 million that will be amortized to interest expense over the life of the 2037 Senior Notes. As a result of the forward-starting interest rate swap agreements, the debt discount and debt issuance costs, the effective interest rate on the 2037 Senior Notes will be 6.181% over the life of the debt.

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As of June 30, 2010, the Company had outstanding \$197.6 million of 2033 Senior Notes consisting of \$200.0 million principal and unamortized debt discount of \$2.4 million. The 2033 Senior Notes, when issued in September 2003, were priced at 98.645% with a yield of 5.846%. Interest payments are required to be made semi-annually on April 15 and October 15. In May 2003, in anticipation of the issuance of the 5.75% Senior Notes, the Company entered into a series of treasury lock agreements on a notional amount totaling \$195.0 million at a weighted average all-in rate of 4.53%. The treasury lock agreements were settled upon the issuance of the new debt and the Company received a payment of \$15.0 million that will be amortized against interest expense over the life of the 2033 Senior Notes. As a result of the treasury lock agreements, the debt discount and debt issuance costs, the effective interest rate on the 2033 Senior Notes will be 5.395% over the life of the debt.

As of June 30, 2010, the Company had outstanding \$338.3 million of 2017 Senior Notes consisting of \$300.0 million principal, an unamortized debt discount of \$0.4 million, and a \$38.7 million adjustment to reflect the fair value of outstanding interest rate swaps. The 2017 Senior Notes, when issued in May 2007, were priced at 99.845% with a yield of 5.570%. Interest payments are required to be made semi-annually on May 15 and November 15. In April 2007, the Company entered into interest rate swap agreements with a notional amount totaling \$250.0 million to effectively convert the fixed rate interest on its outstanding 2017 Senior Notes to variable interest rates based on six-month LIBOR.

As of June 30, 2010, the Company had outstanding \$230.0 million of 2013 Senior Notes consisting of \$230.1 million principal and an unamortized debt discount of \$0.1 million. The 2013 Senior Notes, when issued in November 2008, were priced at 99.932% with a yield of 7.767%. Interest payments are required to be made semi-annually on May 1 and November 1.

As of June 30, 2010, the Company had outstanding \$118.3 million of 2012 Senior Notes consisting of \$120.0 million principal, an unamortized debt discount of \$0.1 million, and a \$1.6 million adjustment to reflect the remaining termination value of an interest rate swap. The 2012 Senior Notes, when issued in January 2002, were priced at 99.538% with a yield of 6.062%. Interest payments are required to be made semi-annually on January 15 and July 15. In May 2003, the Company entered into an interest rate swap agreement with a notional amount of \$250.0 million to effectively convert the fixed rate interest on its outstanding 2012 Senior Notes to variable interest rates based on six-month LIBOR. In April 2007, the Company terminated this interest rate swap. The instrument, which was classified as a liability, had a fair value of \$11.1 million at cash settlement, which included \$0.9 million of accrued interest payable to the counterparty. Hedge accounting treatment was discontinued prospectively and the offsetting adjustment to the carrying amount of the related debt will be amortized to interest expense over the remaining life of the debt.

On May 24, 2010, the Company completed a cash tender offer for \$130.0 million principal amount of its 2012 Senior Notes at a price of 108.500% of the principal amount and for \$69.9 million principal amount of its 2013 Senior Notes at a tender price of 118.813% of the principal amount. During the fourth quarter of fiscal 2010, the Company recorded a pre-tax expense on the extinguishment of debt of \$27.3 million representing the tender premium of \$24.2 million, the pro-rata write-off of \$2.4 million of unamortized terminated interest rate swap, issuance costs and debt discount, and \$0.7 million in tender offer costs associated with both series of notes.

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The purchase price related to the July 2007 acquisition of Ojon Corporation included (i) a promissory note due July 31, 2009 with a notional value of \$7.0 million and capitalized interest of \$0.7 million, bearing interest at 10.00% due at maturity, which was paid as of June 30, 2010 and (ii) a promissory note due August 31, 2012 with a notional amount of \$13.5 million, of which a payment of \$6.7 million was made during January 2010, and unamortized premium of \$0.5 million (present value of \$7.3 million at June 30, 2010), bearing interest at 10.00% payable annually on July 31. These notes were recorded in the accompanying consolidated balance sheet at present value using effective rates of 5.11% and 5.42%, respectively.

The Company has a \$750.0 million commercial paper program under which it may issue commercial paper in the United States. At June 30, 2010, there was no commercial paper outstanding.

As of June 30, 2010, the Company had an overdraft borrowing agreement with a financial institution pursuant to which its 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 (\$25.3 million at the exchange rate at June 30, 2010). The interest rate applicable to each such credit shall be up to a maximum of 175 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by the Company at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at June 30, 2010 (\$4.6 million at the exchange rate at June 30, 2010) is classified as short-term debt on the Company's consolidated balance sheet.

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As of June 30, 2010, the Company had a fixed rate promissory note agreement with a financial institution pursuant to which the Company may borrow up to \$150.0 million in the form of loan participation notes through one of its 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 the Company at the date of each borrowing. At June 30, 2010, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

As of June 30, 2010, the Company had a 1.5 billion Japanese yen (\$16.9 million at the exchange rate at June 30, 2010) revolving credit facility that expires on March 31, 2011 and a 1.5 billion Japanese yen (\$16.9 million at the exchange rate at June 30, 2010) revolving credit facility that expires on March 31, 2012. The interest rates on borrowings under these credit facilities are based on TIBOR (Tokyo Interbank Offered Rate) plus .45% and .75%, respectively, and the facility fees incurred on undrawn balances are 15 basis points and 25 basis points, respectively. At June 30, 2010, no borrowings were outstanding under these facilities.

The Company has an undrawn \$750.0 million senior unsecured revolving credit facility that expires on April 26, 2012. This facility may be used primarily to provide credit support for the Company's commercial paper program, to repurchase shares of its common stock and for general corporate purposes. Up to the equivalent of \$250 million of the credit facility is available for multi-currency loans. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. The Company incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on the Company's current credit ratings. This facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$50.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. As of June 30, 2010, the Company was in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens. The financial covenant of this facility requires an interest expense coverage ratio of greater than 3:1 as of the last day of each fiscal quarter. There are no other conditions where the lender's commitments may be withdrawn, other than certain events of default, as defined in the facility, which are customary for facilities of this type.

The Company maintains uncommitted credit facilities in various regions throughout the world. Interest rate terms for these facilities vary by region and reflect prevailing market rates for companies with strong credit ratings. During fiscal 2010 and 2009, the monthly average amount outstanding was approximately \$12.6 million and \$28.2 million, respectively, and the annualized monthly weighted average interest rate incurred was approximately 10.0% and 13.4%, respectively.

Refer to Note 14 Commitments and Contingencies for the Company's projected debt service payments over the next five fiscal years.

**NOTE 11 DERIVATIVE FINANCIAL INSTRUMENTS**

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The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The Company primarily enters into foreign currency forward and option contracts to reduce the effects of fluctuating foreign currency exchange rates and interest rate derivatives to manage the effects of interest rate movements on the Company's aggregate liability portfolio. The Company also enters into foreign currency forward 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.

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.

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value (1) June 30		Fair Value (1) June 30	
		2010	2009	2010	2009
<b>Derivatives Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 17.1	\$ 13.9	Other accrued liabilities	\$ 10.5 \$ 24.9
Interest rate swap contracts	Other assets	38.7	24.5	Not applicable	
Total Derivatives Designated as Hedging Instruments		55.8	38.4	10.5	24.9
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	2.0	2.8	Other accrued liabilities	2.0 1.3
Total Derivatives		\$ 57.8	\$ 41.2	\$ 12.5	\$ 26.2

(1) See Note 12 – 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)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (1)	
	2010	2009		2010	2009
<b>Derivatives in Cash Flow Hedging</b>					

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**Relationships:**

Foreign currency forward contracts	\$	(0.2)	\$	16.5	Cost of sales	\$	(8.5)	\$	6.8
					Selling, general and administrative		(11.8)		19.3
Total derivatives	\$	(0.2)	\$	16.5		\$	(20.3)	\$	26.1

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was \$(2.5) million and \$1.4 million for the fiscal years ended June 30, 2010 and 2009, respectively. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the fiscal years ended June 30, 2010 and 2009, respectively.



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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives (1)		
		2010	June 30	2009
<b>Derivatives in Fair Value Hedging Relationships:</b>				
Interest rate swap contracts	Interest expense, net	\$	14.2	\$ 13.6

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

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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives		
		2010	June 30	2009
<b>Derivatives Not Designated as Hedging Instruments:</b>				
Foreign currency forward contracts	Selling, general and administrative	\$	(1.6)	\$ (0.7)

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

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

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The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses 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 June 30, 2010, the Company's foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain (loss) as of June 30, 2010 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings, net of tax, within the next twelve months is \$6.3 million.

At June 30, 2010, the Company had foreign currency forward contracts in the amount of \$1,348.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$257.5 million), British pound (\$241.9 million), Canadian dollar (\$152.2 million), Euro (\$148.0 million), Hong Kong dollar (\$97.3 million), Australian dollar (\$88.3 million) and Japanese yen (\$62.3 million).

At June 30, 2009, the Company had foreign currency forward contracts in the amount of \$1,260.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$239.1 million), Euro (\$212.5 million), Swiss franc (\$206.8 million), Canadian dollar (\$168.0 million), Hong Kong dollar (\$79.4 million), Japanese yen (\$76.0 million) and Australian dollar (\$69.6 million).

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Fair-Value Hedges***

The Company enters into interest rate derivative contracts to manage its exposure to interest rate fluctuations on its funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. The Company has interest rate swap agreements, with a notional amount totaling \$250.0 million, to effectively convert the fixed rate interest on its 2017 Senior Notes to variable interest rates based on six-month LIBOR. These interest rate swap agreements are designated as fair-value hedges of the related long-term debt and the 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. As of June 30, 2010, these fair-value hedges were highly effective in all material respects. Information regarding the Company's interest rate swap agreements is presented in the following table:

(\$ in millions)	Year Ended or at June 30, 2010			Year Ended or at June 30, 2009		
	Notional Amount	Weighted Average Pay Rate	Weighted Average Receive Rate	Notional Amount	Weighted Average Pay Rate	Weighted Average Receive Rate
Interest rate swaps on 2017 Senior Notes	\$ 250.0	0.96%	5.55%	\$ 250.0	1.75%	5.55%

***Credit Risk***

As a matter of policy, the Company only enters into derivative contracts with counterparties that have at least an A- (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$57.7 million at June 30, 2010, of which 40% and 35% were attributable to two counterparties. 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. As of June 30, 2010, the Company was in compliance with such features and there were no derivative financial instruments with credit-risk-related contingent features that were in a net liability position.

**NOTE 12 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

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at the measurement date. Effective beginning in the Company's fiscal 2010, the accounting for fair value measurements must be applied to nonrecurring nonfinancial assets and nonfinancial liabilities, which principally consist of assets or liabilities acquired through business combinations, goodwill, indefinite-lived intangible assets and long-lived assets for purposes of calculating potential impairment, and liabilities associated with restructuring activities. In addition, the disclosure for the accounting for the fair value measurements must be applied to the Company's defined benefit pension plans and post-retirement benefit plans. See Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans. 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.