

# ESTEE LAUDER COMPANIES INC (EL)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filed on 11/1/2010

Filed Period 9/30/2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549-1004

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from      to

Commission file number: 1-14064

**The Estée Lauder Companies Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11-2408943**  
(I.R.S. Employer Identification No.)

**767 Fifth Avenue, New York, New York**  
(Address of principal executive offices)

**10153**  
(Zip Code)

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

**Not Applicable**  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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THE ESTÉE LAUDER COMPANIES INC.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**THE ESTÉE LAUDER COMPANIES INC.**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
**(Unaudited)**

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

See notes to consolidated financial statements.

**THE ESTÉE LAUDER COMPANIES INC.**  
**CONSOLIDATED BALANCE SHEETS**

	September 30 2010 (Unaudited)	June 30 2010
	(\$ in millions)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 693.5	\$ 1,120.7
Accounts receivable, net	1,155.4	746.2
Inventory and promotional merchandise, net	905.2	826.6
Prepaid expenses and other current assets	444.3	427.5
<b>Total current assets</b>	<b>3,198.4</b>	<b>3,121.0</b>
<b>Property, Plant and Equipment, net</b>	<b>1,043.8</b>	<b>1,023.6</b>
<b>Other Assets</b>		
Investments, at cost or market value	13.7	12.2
Goodwill	896.7	752.5
Other intangible assets, net	245.0	109.5
Other assets	239.9	316.8
<b>Total other assets</b>	<b>1,395.3</b>	<b>1,191.0</b>
<b>Total assets</b>	<b>\$ 5,637.5</b>	<b>\$ 5,335.6</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Current debt	\$ 30.6	\$ 23.4
Accounts payable	379.2	425.2
Accrued income taxes	76.4	5.6
Other accrued liabilities	1,200.7	1,118.0
<b>Total current liabilities</b>	<b>1,686.9</b>	<b>1,572.2</b>
<b>Noncurrent Liabilities</b>		
Long-term debt	1,204.5	1,205.0
Accrued income taxes	163.5	163.3
Other noncurrent liabilities	444.6	429.7
<b>Total noncurrent liabilities</b>	<b>1,812.6</b>	<b>1,798.0</b>
<b>Contingencies (Note 8)</b>		
<b>Equity</b>		
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued: 191,572,221 at September 30, 2010 and 190,767,435 at June 30, 2010; 240,000,000 shares Class B authorized; shares issued and outstanding: 76,732,041 at September 30, 2010 and 77,082,041 at June 30, 2010	2.7	2.7
Paid-in capital	1,477.8	1,428.7
Retained earnings	3,755.1	3,564.0
Accumulated other comprehensive loss	(121.1)	(196.7)
	5,114.5	4,798.7
Less: Treasury stock, at cost; 72,553,771 Class A shares at September 30, 2010 and 70,125,805 Class A shares at June 30, 2010	(2,993.5)	(2,850.3)
<b>Total stockholders' equity — The Estée Lauder Companies Inc.</b>	<b>2,121.0</b>	<b>1,948.4</b>
<b>Noncontrolling interests</b>	<b>17.0</b>	<b>17.0</b>
<b>Total equity</b>	<b>2,138.0</b>	<b>1,965.4</b>
<b>Total liabilities and equity</b>	<b>\$ 5,637.5</b>	<b>\$ 5,335.6</b>

See notes to consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities</b>		
Net earnings	\$ 189.6	\$ 137.8
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	68.8	65.3
Deferred income taxes	6.1	(21.8)
Non-cash stock-based compensation	30.6	19.2
Excess tax benefits from stock-based compensation arrangements	(0.9)	—
Loss on disposal of property, plant and equipment	0.4	5.4
Non-cash charges associated with restructuring activities	0.9	9.7
Pension and post-retirement benefit expense	16.9	14.3
Pension and post-retirement benefit contributions	(8.7)	(17.2)
Other non-cash items	0.4	0.4
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(369.2)	(218.7)
Increase in inventory and promotional merchandise, net	(34.6)	(42.6)
Increase in other assets, net	(12.9)	(24.5)
Increase (decrease) in accounts payable	(63.8)	6.1
Increase in accrued income taxes	71.5	36.0
Increase in other liabilities	65.8	33.3
<b>Net cash flows provided by (used for) operating activities</b>	<b>(39.1)</b>	<b>2.7</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(57.7)	(45.4)
Acquisition of businesses and other intangible assets, net of cash acquired	(258.5)	(9.3)
<b>Net cash flows used for investing activities</b>	<b>(316.2)</b>	<b>(54.7)</b>
<b>Cash Flows from Financing Activities</b>		
Increase (decrease) in short-term debt, net	7.1	(6.3)
Repayments and redemptions of long-term debt	(9.5)	(13.9)
Net settlement of interest rate derivatives	47.4	—
Net proceeds from stock-based compensation transactions	14.6	0.4
Excess tax benefits from stock-based compensation arrangements	0.9	—
Payments to acquire treasury stock	(143.8)	(0.4)
Dividends paid to stockholders	(0.1)	(0.1)
<b>Net cash flows used for financing activities</b>	<b>(83.4)</b>	<b>(20.3)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11.5	7.0
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(427.2)</b>	<b>(65.3)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,120.7</b>	<b>864.5</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 693.5</b>	<b>\$ 799.2</b>

See notes to consolidated financial statements.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

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

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

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

*Management Estimates*

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

*Currency Translation and Transactions*

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

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

*Accounts Receivable*

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

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

**Concentration of Credit Risk**

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

**Inventory and Promotional Merchandise**

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

**Property, Plant and Equipment**

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

The cost of assets related to projects in progress of \$150.6 million and \$160.4 million as of September 30, 2010 and June 30, 2010, respectively, is included in their respective asset categories in the table above. Depreciation and amortization of property, plant and equipment was \$65.4 million and \$62.0 million during the three months ended September 30, 2010 and 2009, respectively. Depreciation and amortization related to the Company's manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Income Taxes***

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

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

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

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

***Recently Issued Accounting Standards***

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

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

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

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

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Other intangible assets consists of the following:

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

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

**NOTE 3 — ACQUISITION OF BUSINESS**

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

**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4 — CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES**

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

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

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

**Restructuring Charges**

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

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

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

Charges Associated with Restructuring Activities

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

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

Other special charges in connection with the implementation of the Program relate to consulting, other professional services, and accelerated depreciation. The total amount of other special charges expected to be incurred to implement these initiatives, including those recorded through September 30, 2010 is approximately \$41 million.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**NOTE 5 — DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

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

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (1)	
	Three Months Ended September 30			Three Months Ended September 30	
	2010	2009		2010	2009
<b>Derivatives in Cash Flow Hedging Relationships:</b>					
Foreign currency forward contracts	\$ (13.9)	\$ (4.9)	Cost of sales Selling, general and administrative	\$ (0.3)	\$ —
Total derivatives	\$ (13.9)	\$ (4.9)		\$ (0.3)	\$ (2.3)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

**Foreign Currency Cash-Flow Hedges**

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

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

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

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***Fair Value Hedges***

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

***Credit Risk***

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

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

**NOTE 6 — FAIR VALUE MEASUREMENTS**

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

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.

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

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

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

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

***Fair Value of Financial Instruments***

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

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

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

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

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

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

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

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

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

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

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

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

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

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**NOTE 8 — CONTINGENCIES**

*Legal Proceedings*

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

**NOTE 9 — COMMON STOCK**

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

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

**NOTE 10 — STOCK PROGRAMS**

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Stock Options**

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

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

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

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

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

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

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

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

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**Performance Share Units**

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

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

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

**Restricted Stock Units**

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

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

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

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**Share Units**

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

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

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

**Cash Units**

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

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

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

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

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

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

NOTE 12 — COMPREHENSIVE INCOME (LOSS)

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

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

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

NOTE 13 — CHANGES IN EQUITY

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

**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 14 — STATEMENT OF CASH FLOWS**

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

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

**NOTE 15 — SEGMENT DATA AND RELATED INFORMATION**

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

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

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

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

THE ESTÉE LAUDER COMPANIES INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**RESULTS OF OPERATIONS**

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

	Three Months Ended September 30	
	2010	2009
(In millions)		
<b>NET SALES</b>		
<b>By Region:</b>		
The Americas	\$ 997.2	\$ 892.3
Europe, the Middle East & Africa	680.9	601.9
Asia/Pacific	413.6	357.7
	2,091.7	1,851.9
Returns associated with restructuring activities	—	(18.5)
	<u>\$ 2,091.7</u>	<u>\$ 1,833.4</u>
<b>By Product Category:</b>		
Skin Care	\$ 857.7	\$ 730.3
Makeup	794.2	717.9
Fragrance	334.5	291.5
Hair Care	94.4	97.9
Other	10.9	14.3
	2,091.7	1,851.9
Returns associated with restructuring activities	—	(18.5)
	<u>\$ 2,091.7</u>	<u>\$ 1,833.4</u>
<b>OPERATING INCOME (LOSS)</b>		
<b>By Region:</b>		
The Americas	\$ 103.1	\$ 113.9
Europe, the Middle East & Africa	138.6	93.3
Asia/Pacific	60.9	55.5
	302.6	262.7
Total charges associated with restructuring activities	(4.6)	(42.3)
	<u>\$ 298.0</u>	<u>\$ 220.4</u>
<b>By Product Category:</b>		
Skin Care	\$ 149.9	\$ 114.3
Makeup	103.2	107.8
Fragrance	50.3	28.2
Hair Care	1.8	9.6
Other	(2.6)	2.8
	302.6	262.7
Total charges associated with restructuring activities	(4.6)	(42.3)
	<u>\$ 298.0</u>	<u>\$ 220.4</u>

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

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

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

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

### Overview

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

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

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

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

### ***Charges Associated with Restructuring Activities***

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

We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately \$500 million to \$550 million (program inception through the end of fiscal 2011 estimated to be approximately \$500 million to \$525 million) including the reduction of certain costs relative to an assumed normalized spending pattern. Our long-range forecast for operating margin reflects these anticipated savings, net of strategic reinvestments.

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

- **Resize and Reorganize the Organization** — We continued the realignment and optimization of our organization to better leverage scale, improve productivity and reduce complexity in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions through a combination of normal attrition and job eliminations.
- **Turnaround or Exit Unprofitable Operations** — To improve the profitability in certain of our brands and regions, we have selectively exited certain channels of distribution, categories and markets, and have made changes to turnaround others. This included the exit from the global wholesale distribution of our Prescriptives brand and the reformulation of Ojon brand products. In connection with these activities, we recorded a reserve for anticipated product returns, wrote off inventory and incurred costs to reduce workforce and terminate contracts.

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

Restructuring Charges

The following table presents restructuring charges related to the Program:

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

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

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

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

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

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

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

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Charges Associated with Restructuring Activities

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

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

Other special charges in connection with the implementation of the Program relate to consulting, other professional services, and accelerated depreciation. The total amount of other special charges expected to be incurred to implement these initiatives, including those recorded through September 30, 2010 is approximately \$41 million.

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

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

**NET SALES**

Net sales increased 14%, or \$258.3 million, to \$2,091.7 million, primarily reflecting strong growth in all of our geographic regions. Net sales increases in the skin care, fragrance and makeup product categories were partially offset by a decline in the hair care category. Excluding the impact of foreign currency translation, net sales increased 15%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of \$18.5 million recorded during the prior-year period. We believe the following analysis of net sales better reflects the manner in which we conduct and view our business.

**Product Categories**

**Skin Care**

Net sales of skin care products increased 17%, or \$127.4 million, to \$857.7 million, primarily reflecting the success of our strategic focus on growing this category. The recent launches of Even Better Clinical Dark Spot Corrector, Repairwear Laser Focus Wrinkle & UV Damage Corrector, All About Eyes Serum De-Puffing Night Massage and Youth Surge Night Age Decelerating Night Moisturizer from Clinique contributed incremental sales of approximately \$62 million, combined. Also contributing incremental sales to the category were the recent launches of Advanced Night Repair Eye Synchronized Complex and Hydrationist Maximum Moisture Crème and Lotion from Estée Lauder, of approximately \$50 million combined, and The Regenerating Serum and The Eye Balm Intense from La Mer, of approximately \$14 million, combined. Higher sales from existing products in the Time Zone and Re-Nutriv lines of products from Estée Lauder contributed approximately \$12 million to the increase. These increases were partially offset by approximately \$30 million of lower sales from existing products in the Advanced Night Repair and Repairwear lines from Estée Lauder. Excluding the impact of foreign currency translation, skin care net sales increased 18%.

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### **Makeup**

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

### **Fragrance**

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

### **Hair Care**

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

### **Geographic Regions**

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

In Europe, the Middle East & Africa, net sales increased 13%, or \$79.0 million, to \$680.9 million, reflecting strong growth in our travel retail business and from substantially all countries in the region and in each major product category. This reflects our strategy to strengthen our geographic presence and to succeed in the travel retail channel. The region was impacted by an unfavorable foreign currency translation. Net sales increase of approximately \$69 million were driven by our travel retail business, the United Kingdom, the Middle East, Russia, South Africa and Turkey, reflecting improved retail environments, successful launches of skin care products and higher combined sales from our makeup artist brands and the benefit garnered during the current period from our investment spending and advertising support of products during the fourth quarter of fiscal 2010. The net sales improvement in our travel retail business also reflected a favorable comparison to the prior year due to successful product launches, our efforts to improve the High-Touch consumer experience and an increase in global airline passenger traffic. During the third quarter of fiscal 2010, we undertook an initiative to identify underperforming SKU's for the purpose of evaluating their relevance to our long-term perfumery strategy. The impact of this initiative benefited the current quarter as customers used the opportunity to purchase higher demand products. We do not expect the level of activity to continue during the remainder of the current fiscal year. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 18%.

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

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

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

### **COST OF SALES**

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

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

### **OPERATING EXPENSES**

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

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

### *Product Categories*

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

### *Geographic Regions*

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

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

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

## INTEREST EXPENSE, NET

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

## **PROVISION FOR INCOME TAXES**

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

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

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

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

## **FINANCIAL CONDITION**

### **LIQUIDITY AND CAPITAL RESOURCES**

#### ***Overview***

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At September 30, 2010, we had cash and cash equivalents of \$693.5 million compared with \$1,120.7 million at June 30, 2010. Our cash and cash equivalents are maintained at a number of financial institutions in the United States and abroad. As of September 30, 2010, less than 10% of the total balance is insured by governmental agencies. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and perform ongoing evaluations of these institutions to limit our concentration risk exposure.

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

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

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

[Table of Contents](#)**Credit Ratings**

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

**Debt**

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

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

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

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

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

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

(5) Consists of \$120.0 million principal, unamortized debt discount of \$0.1 million and a \$1.3 million adjustment to reflect the remaining termination value of an interest rate swap that is being amortized to interest expense over the life of the debt.

(6) Consists of \$3.4 million face value and unamortized premium of \$0.3 million.

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

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

We have an undrawn \$750.0 million senior unsecured revolving credit facility that expires on April 26, 2012. This facility may be used primarily to provide credit support for our commercial paper program, to repurchase shares of our common stock and for general corporate purposes. Up to the equivalent of \$250 million of the credit facility is available for multi-currency loans. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on our current credit ratings. This facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$50.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. As of September 30, 2010, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance. The financial covenant of this facility requires an interest expense coverage ratio of greater than 3:1 as of the last day of each fiscal quarter. The interest expense coverage ratio is defined in the credit agreement as the ratio of Consolidated EBITDA (which does not represent a measure of our operating results as defined under U.S. generally accepted accounting principles) to Consolidated Interest Expense and is calculated as stipulated in the agreement as follows:

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	<b>Twelve Months Ended</b>
	<b>September 30, 2010 (1)</b>
	<b>(\$ in millions)</b>
<b>Consolidated EBITDA:</b>	
Net earnings	\$ 528.7
Add:	
Provision for income taxes	235.2
Interest expense, net (2)	98.1
Depreciation and amortization (3)	265.4
Extraordinary non-cash charges (4) (5)	61.0
Less:	
Extraordinary non-cash gains (5)	—
	<u>\$ 1,188.4</u>
<b>Consolidated Interest Expense:</b>	
Interest expense, net	<u>\$ 98.1</u>
Interest expense coverage ratio	<u>12 to 1</u>

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

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

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

We have a 1.5 billion Japanese yen (\$17.7 million at the exchange rate at September 30, 2010) revolving credit facility that expires on March 31, 2011 and a 1.5 billion Japanese yen (\$17.7 million at the exchange rate at September 30, 2010) revolving credit facility that expires on March 31, 2012. The interest rates on borrowings under these credit facilities are based on TIBOR (Tokyo Interbank Offered Rate) plus .45% and .75%, respectively and the facility fees incurred on undrawn balances are 15 basis points and 25 basis points, respectively. At September 30, 2010, no borrowings were outstanding under these facilities.

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

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### **Cash Flows**

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

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

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

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

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

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

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

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

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

### **Foreign Exchange Risk Management**

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

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

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

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**Interest Rate Risk Management**

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

**Credit Risk**

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

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

**Market Risk**

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

<u>(In millions)</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
Foreign exchange contracts	\$ 31.7	\$ 19.0	\$ 22.7

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

**Off–Balance Sheet Arrangements**

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

**CRITICAL ACCOUNTING POLICIES**

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

**RECENTLY ISSUED ACCOUNTING STANDARDS**

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

## **FORWARD-LOOKING INFORMATION**

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

- (1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses, some of which have greater resources than we do;
- (2) our ability to develop, produce and market new products on which future operating results may depend and to successfully address challenges in our business;
- (3) consolidations, restructurings, bankruptcies and reorganizations in the retail industry causing a decrease in the number of stores that sell our products, an increase in the ownership concentration within the retail industry, ownership of retailers by our competitors or ownership of competitors by our customers that are retailers and our inability to collect receivables;
- (4) destocking and tighter working capital management by retailers;
- (5) the success, or changes in timing or scope, of new product launches and the success, or changes in the timing or the scope, of advertising, sampling and merchandising programs;
- (6) shifts in the preferences of consumers as to where and how they shop for the types of products and services we sell;
- (7) social, political and economic risks to our foreign or domestic manufacturing, distribution and retail operations, including changes in foreign investment and trade policies and regulations of the host countries and of the United States;
- (8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products, changes in accounting standards, tax laws and regulations, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;
- (9) foreign currency fluctuations affecting our results of operations and the value of our foreign assets, the relative prices at which we and our foreign competitors sell products in the same markets and our operating and manufacturing costs outside of the United States;
- (10) changes in global or local conditions, including those due to the volatility in the global credit and equity markets, natural or man-made disasters, real or perceived epidemics, or energy costs, that could affect consumer purchasing, the willingness or ability of consumers to travel and/or purchase our products while traveling, the financial strength of our customers, suppliers or other contract counterparties, our operations, the cost and availability of capital which we may need for new equipment, facilities or acquisitions, the returns that we are able to generate on our pension assets and the resulting impact on funding obligations, the cost and availability of raw materials and the assumptions underlying our critical accounting estimates;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

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

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

We are authorized by the Board of Directors to repurchase up to 88.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of September 30, 2010, the cumulative total of acquired shares pursuant to the authorization was 72.4 million, reducing the remaining authorized share repurchase balance to 15.6 million. During the three months ended September 30, 2010, we purchased approximately 2.4 million shares pursuant to the authorization for \$141.5 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2010	1,018,233 <sup>(2)</sup>	\$ 60.57	1,000,000	17,040,669
August 2010	360,000	56.69	360,000	16,680,669
September 2010	1,061,537 <sup>(3)</sup>	58.12	1,040,000	15,640,669
	<u>2,439,770</u>	\$ 58.93	<u>2,400,000</u>	15,640,669

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

**Sales of Unregistered Securities**

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

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

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

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**Item 6. Exhibits.**

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

† Exhibit is a management contract or compensatory plan or arrangement.

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



**INDEX TO EXHIBITS**

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**Stock Option Agreement**  
**Under**  
**The Estée Lauder Companies Inc.**  
**Amended and Restated Fiscal 2002 Share Incentive Plan (the "Plan")**

This STOCK OPTION AGREEMENT (the "Agreement") provides for the granting of options by The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), to the participant, an employee of the Company or one of its subsidiaries (the "Employee" or the "Participant"), to purchase shares of the Company's Class A Common Stock, par value \$0.01 (the "Shares"), subject to the terms below (the "Stock Options" or "Options"). The name of the "Participant," the "Grant Date," the aggregate number of Shares that may be purchased pursuant to this Agreement, and the "Exercise Price" per Share are stated in the attached "Notice of Grant," and are incorporated by reference. The other terms of the Options are stated in this Agreement and in the Plan. Terms not defined in this Agreement are defined in the Plan, as amended.

The Stock Options described in this Agreement are granted pursuant to the Company's Amended and Restated Fiscal 2002 Share Incentive Plan, as may be amended from time to time (the "Plan"), and are subject in all respects to the provisions of the Plan. The Stock Options granted under this Agreement are not Incentive Stock Options (as defined in Section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code")).

1. **Payment of Exercise Price.** The Company will provide and communicate to the Employee various methods of exercise. In all cases, upon exercise, the Employee must deliver or cause to be delivered to the Company (or its agent designated for the purpose) upon settlement of the exercise sufficient cash or sufficient number of Shares with value equal to or exceeding the Exercise Price per Share. The Employee also is required to deliver or cause to be delivered sufficient cash to cover the applicable tax withholding in accordance with Section 5 of this Agreement and fees in connection with the exercise. To facilitate exercise, the Company may enter into agreements for coordinated procedures with one or more brokerage firms or financial institutions.

2. **Exercise Period.**

a. **General.** Subject to other provisions contained in this Agreement and in the Plan, Stock Options granted under this Agreement will be exercisable in installments as specified under "Exercise Period" in the attached "Notice of Grant".

Stock Options awarded under this Agreement are exercisable until the close of business on the tenth anniversary of the Grant Date; after this date, the Stock Options expire.

b. **Death or Disability.** If the Employee dies or becomes totally and permanently disabled (as determined under the Company's long term disability program), each Stock Option awarded but not yet exercisable as of the Employee's date of death or disability determination will become immediately exercisable. The period during which the Stock Option may be exercised will commence on the day after the Employee's date of death or disability determination and end on the earlier of the close of business on the date of (i) the first anniversary of the Employee's death or disability determination or (ii) the tenth anniversary of the Grant Date.

c. **Retirement.** Subject to Section 3, if the Employee formally retires under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), each Stock Option awarded but not yet exercisable as of the date of retirement will become immediately exercisable. Each Stock Option awarded may thereafter be exercised until the close of business on the date of the tenth anniversary of the Grant Date. If the Employee dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Employee will have deemed to be retired as of the date of death and this

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Section 2(c) will apply rather than Section 2(b). If the Employee dies or becomes disabled after retirement as contemplated by this Section 2(c), the provisions of this section shall apply.

d. Other Termination of Employment.

(1) Subject to Section 3, if the Employee terminates voluntarily, each Stock Option exercisable but unexercised as of the effective date of such termination may be exercised until the close of business on the date first to occur of (i) ninety (90) days after the effective date of such termination and (ii) the tenth anniversary of the Grant Date. Each Stock Option awarded but unexercisable as of the date of such termination will be forfeited.

(2) Subject to Section 3, if the Employee is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) or by the Employee for Good Reason (as defined below) after a Change in Control, each Stock Option awarded but unexercisable as of the date of termination will become immediately exercisable. Each Stock Option awarded may be exercised until the close of business on the date first to occur of (i) ninety (90) days after the effective date of such termination and (ii) the tenth anniversary of the Grant Date. For this purpose, "Cause" is defined in the employment agreement in effect between the Employee and the Company or any subsidiary, including an employment agreement entered into after the Grant Date. In the absence of an employment agreement, "Cause" means any breach by the Employee of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Corporate Conduct and the Policy on Avoidance of Insider Trading.

(3) Subject to Section 3, if the Employee terminates for Good Reason (as defined below) on or following a Change in Control, each Stock Option awarded but unexercisable as of the date of termination will become immediately exercisable. Each Stock Option awarded may be exercised until the close of business on the date first to occur of (i) ninety (90) days after the effective date of such termination and (ii) the tenth anniversary of the Grant Date. "Good Reason" means the occurrence of any of the following, without the express written consent of the Participant, within three (3) years after the occurrence of a Change in Control:

(a) (i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant's position, authority or responsibilities immediately prior to the Change in Control, or (ii) any other material adverse change in such position, including title, authority or responsibilities;

(b) any failure by the Company to pay any amounts for compensation or benefits owed to the Participant or a material reduction of the overall amounts of compensation and benefits in effect prior to the Change in Control, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;

(c) the Company's requiring the Participant to be based at any office or location more than fifty (50) miles from that location at which he performed his or her services for the Company immediately prior to the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or

(d) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor, unless such assumption occurs by operation of law.

(4) In the event of termination for Cause, all outstanding Stock Options held by the Employee are forfeited.

3. **Post-Employment Exercises.** No Stock Option represented by this Agreement may be exercised after termination of the Employee's employment with the Company (or any of its subsidiaries) unless as provided for in Section 2b, 2c or 2d hereof. The exercise of any Stock Option after termination of the Employee's employment by reason of retirement in accordance with Section 2c, or due to termination

by the Employee or termination by the Company or relevant subsidiary without Cause in accordance with Section 2d, is subject to satisfaction of the conditions precedent that the Employee neither (i) competes with, takes other employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts herself or himself in a manner adversely affecting the Company. All Stock Options that cannot be exercised after termination of the Employee's employment will be forfeited.

4. **Change in Control.** Upon a Change in Control during the Exercise Period, each unexercisable Stock Option will vest and become exercisable by the Participant in accordance with the Plan and this Agreement, unless the unexercisable Stock Option is assumed by an acquirer in which case the provisions of Section 2 shall continue to apply. If an unexercisable Stock Option is not assumed by the acquirer and the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share upon exercise of the stock option will equal the consideration paid to each stockholder per Share generally upon the Change in Control. If the exercise price of the Stock Option is equal to or greater than the consideration paid to each stockholder per Share generally upon the Change in Control and the Stock Option is not assumed, then the Stock Options shall expire upon the Change in Control.

5. **Withholding.** Regardless of any action the Company or the Participant's employer (the "Employer") takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Stock Options, including the grant of the Stock Options, the exercise of the Stock Options, the subsequent sale of Shares acquired under the Plan and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant of the Stock Options or any aspect of Participant's participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

Prior to the relevant taxable event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of the Shares acquired under the Plan. Alternatively, or in addition, the Company may (i) sell or arrange for the sale of Shares that Participant acquires under the Plan to meet the withholding obligation for the Tax-Related Items, and/or (ii) withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. If the Company satisfies the Tax-Related Item withholding obligation by withholding a number of Shares as described herein, Participant will be deemed to have been issued the full number of Shares due to Participant at exercise, notwithstanding that a number of the Shares is held back solely for purposes of such Tax-Related Items.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue Shares under the Plan and refuse to deliver the Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this Section.

6. **Transferability.** Stock Options granted under this Agreement may be transferred under laws of descent and distribution or, during Employee's lifetime, solely to the Employee's spouse, siblings, parents, children and grandchildren or trusts for the benefits of such persons, or partnerships, corporations, limited liability companies, or other entities owned solely by such persons, including trusts for such persons. Any transfer of Stock Options will have no effect until written notice (providing sufficient details relating to the proposed transfer, as required by the Company at that time) is received and confirmed by the Company. The Employee will remain liable for all obligations of Employee and his or her transferee or

transferees. Each transferee will also be subject the Employee's obligations under this Agreement relating to the Stock Options transferred to him or her.

7. **Limitations.** The Employee's right to continue to serve the Company or any of its subsidiaries as an officer, employee, or otherwise, is not enlarged or otherwise affected by an award under this Agreement. Nothing in this Agreement or the Plan gives the Employee any right to continue in the employ of the Company or any of its subsidiaries or to interfere in any way with the right of the Company or any subsidiary to terminate his or her employment at any time. Stock Options are not secured by a trust, insurance contract or other funding medium, and the Employee does not have any interest in any fund or specific asset of the Company by reason of this award or the account established on his or her behalf. A Stock Option award confers no rights as a shareholder of the Company until Shares are actually delivered to the Employee.

8. **Specific Restrictions Upon Option Shares.** The Employee and the Company agree to each of the following:

a. The Employee will acquire Shares hereunder for investment purposes only and not with a view to reselling or otherwise distributing the Shares to the public in violation of the United States Securities Act of 1933, as amended (the "1933 Act"), and will not dispose of any such Shares in transactions which, in the opinion of counsel to the Company, violate the 1933 Act or the rules and regulations thereunder, or any applicable state or national securities or "blue sky" laws.

b. If any Shares are registered under the 1933 Act, no public offering (other than on a national securities exchange, as defined in the United States Securities Exchange Act of 1934, as amended) of any Shares acquired under this Agreement will be made by the Employee (or any other person) under circumstances where he or she (or such person) may be deemed an underwriter, as defined in the 1933 Act.

c. The Employee agrees that the Company has the authority to endorse upon the certificate or certificates representing the Shares acquired under this Agreement any legends referring to the restrictions described under this Section 8 and any other application restrictions, as the Company may deem appropriate.

9. **Notices.** Any notice required or permitted under this Agreement is deemed to have been duly given if delivered, telecopied, mailed (certified or registered mail, return receipt requested) or sent by internationally-recognized courier guaranteeing next day delivery (a) to the Employee at the address on file in the Company's (or relevant subsidiary's) personnel records, or (b) to the Company, attention Stock Plan Administration at its principal executive offices, which are currently located at 767 Fifth Avenue, New York, NY 10153.

10. **Disclosure and Use of Information.**

a. By signing and returning the attached Notice of Grant, and as a condition of the grant of the Stock Options, the Employee hereby expressly and unambiguously consents to the collection, use, and transfer of personal data as described in this Section by and among, as necessary and applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Employee's participation in the Plan.

b. The Employee understands that the Employer, the Company and/or its other subsidiaries holds, by means of an automated data file or otherwise, certain personal information about the Employee, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Stock Options or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in the Employee's favor, for purposes of managing and administering the Plan ("Data").

c. The Employee also understands that part or all of his or her Data may be held by the Company or its subsidiaries in connection with managing and administering previous award or incentive

plans or for other purposes, pursuant to a prior transfer made with the Employee's consent in respect of any previous grant of stock options or other awards.

d. The Employee further understands that the Employer may transfer Data to the Company or its subsidiaries as necessary to implement, administer, and manage his or her participation in the Plan. The Company and its subsidiaries may transfer data among themselves, and each, in turn, may further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").

e. The Employee understands that the Company, its subsidiaries, and the Data Recipients are or may be located in his or her country of residence or elsewhere. The Employee authorizes the Employer, the Company, its subsidiaries, and Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form, to implement, administer, and manage his or her participation in the Plan, including any transfer of Data that the Administrator deems appropriate for the administration of the Plan and any transfer of Shares on his or her behalf to a broker or third party with whom the Shares may be deposited.

f. The Employee understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.

g. The Employee understands that Data will be held as long as is reasonably necessary to implement, administer and manage his or her participation in the Plan and he or she may oppose the processing and transfer of his or her Data and may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw his or her consent by notifying the Company in writing. The Employee further understands that withdrawing consent may affect his or her ability to participate in the Plan.

**11. Discretionary Nature and Acceptance of Award.** By accepting this Award, the Employee agrees to be bound by the terms of this Agreement and acknowledges that:

a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended, or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement.

b. The award of the Stock Options is voluntary and occasional, and does not create any contractual or other right to receive future grants of Stock Options, or benefits in lieu of Stock Options, even if Stock Options have been granted repeatedly in the past;

c. All decisions with respect to future Stock Option grants, if any, will be at the sole discretion of the Company;

d. Employee's participation in the Plan is voluntary;

e. Employee's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Employee's employment at any time;

f. The Stock Option is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;

g. The Stock Option is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar

payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;

h. In the event the Participant is not an Employee of the Company, the Stock Option and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Stock Option and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;

i. The future value of the Shares is unknown and cannot be predicted with certainty;

j. If the Shares decrease in value, the Stock Option will have no value;

k. If Participant exercises the Stock Option and obtains Shares, the value of the Shares obtained upon exercise may increase or decrease in value, even below the Exercise Price;

l. In consideration of the award of the Stock Option, no claim or entitlement to compensation or damages shall arise from termination of the Stock Option or diminution in value of the Stock Option, or Shares purchased through exercise of the Stock Option, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the Stock Option, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

m. In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive Stock Options under the Plan and to vest in such Stock Options, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); furthermore, in the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to exercise the Stock Options after termination of employment, if any, will be measured by the date of termination of active employment and will not be extended by any notice period mandated under local law; the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of this Agreement;

n. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the underlying Shares; and

o. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

12. **Failure to Enforce Not a Waiver.** The Company's failure to enforce at any time any provision of this Agreement does not constitute a waiver of that provision or of any other provision of this Agreement.

13. **Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under this Stock Option or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of New York, and agree that such litigation will be conducted in the courts of New York County, New York, or the federal courts for the United States for the Southern District of New York, and no other courts, where this Stock Option is made and/or to be performed.

14. **Partial Invalidity.** The invalidity or illegality of any provision of this Agreement will be deemed not to affect the validity of any other provision.

15. **Section 409A.** The Stock Options are intended to be exempt from Code Section 409A. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code Section 409A.

16. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Stock Options awarded under the Plan or future Stock Options that may be awarded under the Plan by electronic means or request Employee's consent to participate in the Plan by electronic means. Employee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

By: \_\_\_\_\_  
Amy DiGesò  
Executive Vice President,  
Global Human Resources

**NOTICE OF GRANT  
UNDER  
THE ESTÉE LAUDER COMPANIES INC.  
AMENDED AND RESTATED FISCAL 2002 SHARE INCENTIVE PLAN (The "Plan")**

This is to confirm that, upon the recommendation of your management, you were awarded options to purchase shares of Class A Common Stock of The Estee Lauder Companies Inc. (the "Shares") at the most recent meeting of the Stock Plan Subcommittee of the Compensation Committee of the Board of Directors. This award was made in recognition of the significant contributions you have made as a key employee of the Company, and to motivate you to achieve future successes by aligning your interests more closely with those of our stockholders. These options are granted under and governed by the terms and conditions of the Plan and the Stock Option Agreement (the "Agreement") made part hereof. The Agreement and Summary Plan Description are being sent to you in a separate email. Please read these documents and keep them for future reference. The specific terms of your award are as follows:

Participant:

Employee Number:

Grant Date: **September 1, 2010**

Type of Award: **Non-Qualified Stock Options**

Exercise Price per Share: **\$58.08 (Closing trading price on NYSE of the Class A Common Stock on the date of grant)**

Aggregate number of Shares subject to your options:

period: **Your options shall become exercisable on the following dates (or upon death, disability, retirement, or involuntary termination of employment if these occurrences are earlier), but are subject to termination or forfeiture as per Paragraphs 2 and 3 of the Agreement:**

<u>Number of Shares</u>	<u>Date Exercisable</u>	<u>Expiration Date</u>
	<b>January 1, 2012</b>	<b>September 1, 2020</b>
	<b>January 1, 2013</b>	<b>September 1, 2020</b>
	<b>January 1, 2014</b>	<b>September 1, 2020</b>

Questions regarding the stock option program can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (973) 492-3609.

If you wish to accept this grant, **please sign this Notice of Grant and return immediately to:**

Compensation Department  
767 Fifth Avenue, 43rd Floor  
New York, New York 10153  
**Attention: Thomas Fellenbaum**

The undersigned hereby accepts, and agrees to, all terms and provisions of the Agreement, including those contained in this Notice of Grant.

By \_\_\_\_\_ Date \_\_\_\_\_

Enclosure: Share Incentive Plan Overview

**Sign and Return this Notice of Grant Immediately!**

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Each of the Stock Plan Subcommittee of the Compensation Committee and the Compensation Committee of the Board of Directors of The Estée Lauder Companies Inc. reserves the right to change provisions of this Agreement to comply with the American Jobs Creation Act of 2004 or other applicable laws or regulations.

**Performance Share Unit Award Agreement Under  
The Estée Lauder Companies Inc.  
Amended and Restated Fiscal 2002 Share Incentive Plan (the "Plan")**

This **PERFORMANCE SHARE UNIT AWARD AGREEMENT** ("Agreement") provides for the granting of performance share unit awards by The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), to the participant, an employee of the Company or one of its subsidiaries (the "Participant"), representing a notional account equal to a corresponding number of shares of the Company's Class A Common Stock, par value \$0.01 (the "Shares"), subject to the terms below (the "Performance Share Units"). The name of the "Participant," the "Grant Date," the aggregate number of Shares representing the Target Award, and the Plan Achievement (as defined below) goals are stated in the attached "Notice of Grant," and are incorporated by reference. The other terms of this Performance Share Unit Award are stated in this Agreement and in the Plan. Terms not defined in this Agreement are defined in the Plan, as amended.

**1. Award Grant.** The Company hereby awards to the Participant a target award of Performance Share Units in respect of the number of Shares set forth in the Notice of Grant (the "Target Award"), representing a Stock Unit and Performance-Based Award under the terms of the Plan.

**2. Right to Payment of Performance Share Units.** It is understood that the percentage of the Target Award earned and paid will be established by the Committee based on the plan achievement (the "Plan Achievement") during the period specified in the Notice of Grant (the "Award Period"). The Plan Achievement is comprised of, and is measured separately with respect to the components stated in the attached Notice of Grant. Actual payment of the Performance Share Units awarded will be determined for each component in accordance with the table attached hereto as Schedule "A."

**3. Payment of Awards.** Payments under this Agreement will be made in the number of Shares that is equivalent to the number of Performance Share Units earned and payable to the Participant pursuant to paragraph 2 above. Except as otherwise provided in paragraph 4 below, payments will be made as soon as practicable after the Award Period ends, but in no event later than 2 and 1/2 months following the last day of the calendar year in which the Award Period ends. The form of payout will be in Shares. In addition, each Performance Share Unit that becomes earned and payable pursuant to paragraph 2 above carries a Dividend Equivalent Right, payable in cash at the same time as the payment of Shares in accordance with this paragraph 3 and paragraph 4.

Upon a Change in Control, each Performance Share Unit with a Performance Period ending after the Change in Control will become payable to the Participant with the total number of Shares to be paid equal to the greater of (a) the Target Award or (b) the amount of Shares to be paid based upon performance assuming the Performance Period ended on the date of the Change in Control. Payments upon a Change in Control will be made within two weeks following the Change in Control. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and

into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control. Each Performance Share Unit for a Performance Period ended on or prior to the Change in Control shall be paid out in accordance with the Plan and this Agreement.

**4. Termination of Employment.** If the Participant's employment terminates during the Award Period, payouts will be as follows:

- (a) **Death.** If the Participant dies, the Performance Share Units will be paid as a pro rata Target Award for the number of full months employed during the Award Period (i.e., the proration of the Target Award equals a fraction, the numerator of which is the number of full calendar months of service completed during the Award Period through the Participant's death and the denominator of which is the number of full calendar months in the Award Period). Payment will occur as soon as practicable following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid based on actual Plan Achievement, at the same time the awards are paid to active employees. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) on or prior to the end of the first year of the Award Period, the Performance Share Unit Award will be forfeited. If such termination occurs after the end of the first year of the Award Period, the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.

- (e) Termination of Employment By Employee. If the Participant terminates his or her employment (*e.g.*, by voluntary resigning) other than by retirement, which is subject to paragraph 4(b) above, the Performance Share Unit Award will be forfeited.
- (f) Termination of Employment With Cause. If the Participant is terminated for Cause, the Performance Share Unit Award will be forfeited. For this purpose, “Cause” is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including any employment agreement entered into after the Grant Date. In the absence of an employment agreement, “Cause” means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Conduct.
- (g) Post Employment Conduct. Payout of any Performance Share Unit Award after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company’s written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company.

If the Participant’s employment terminates after the expiration of the Award Period but prior to payout, payout will be subject to the above.

**5. No Rights of Stock Ownership.** This grant of Performance Share Units does not entitle the Participant to any interest in or to any voting or other rights normally attributable to Share ownership other than the Dividend Equivalent Rights granted under paragraph 3 above.

**6. Withholding.** Regardless of any action the Company or the Participant’s employer (the “Employer”) takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding (“Tax-Related Items”), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Share Units, including the grant of the Performance Share Units, the vesting of the Performance Share Units, the delivery of Shares, the subsequent sale of Shares acquired under the Plan and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant of the Performance Share Units or any aspect of Participant’s participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

Prior to the relevant taxable event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of the Shares acquired under the Plan. Alternatively, or in addition, the Company may (i) sell or arrange for the sale of Shares that Participant acquires under the Plan to meet the withholding obligation for the Tax-Related Items, and/or (ii) withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. If the Company satisfies the Tax-Related Item

withholding obligation by withholding a number of Shares as described herein, Participant will be deemed to have been issued the full number of Shares due to Participant at vesting, notwithstanding that a number of the Shares is held back solely for purposes of such Tax-Related Items.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue Shares under the Plan and refuse to deliver the Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this paragraph.

**7. Nonassignability.** This award may not be assigned, pledged, or transferred except, if the Participant dies, to a designated beneficiary or by will or by the laws of descent and distribution. The foregoing restrictions do not apply to transfers under a court order, including, but not limited to, any domestic relations order.

**8. Effect Upon Employment.** The Participant's right to continue to serve the Company or any of its subsidiaries as an officer, employee, or otherwise, is not enlarged or otherwise affected by an award under this Agreement. Nothing in this Agreement or the Plan gives the Participant any right to continue in the employ of the Company or any of its subsidiaries or to interfere in any way with any right the Company or any subsidiary may have to terminate his or her employment at any time. Payment of Shares is not secured by a trust, insurance contract or other funding medium, and the Participant does not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on his or her behalf. A Performance Share Unit confers no rights as a shareholder of the Company until Shares are actually delivered to the Participant.

**9. Notices.** Any notice required or permitted under this Performance Share Unit Award Agreement is deemed to have been duly given if delivered, telecopied, mailed (certified or registered mail, return receipt requested), or sent by internationally-recognized courier guaranteeing next day delivery (a) to the Participant at the address on file in the Company's (or relevant subsidiary's) personnel records or (b) to the Company, attention Stock Plan Administration at its principal executive offices, which are currently located at 767 Fifth Avenue, New York, NY 10153.

#### **10. Disclosure and Use of Information.**

*a. By signing and returning the attached Notice of Grant, and as a condition of the grant of the Performance Share Units, the Participant hereby expressly and unambiguously consents to the collection, use, and transfer of personal data as described in this paragraph by and among, as necessary and applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*b. The Participant understands that the Employer, the Company and/or its other subsidiaries holds, by means of an automated data file or otherwise, certain personal information about the Participant, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Performance Share Units or other entitlement to shares awarded,*

canceled, exercised, vested, unvested, or outstanding in the Participant's favor, for purposes of managing and administering the Plan ("Data").

c. *The Participant also understands that part or all of his or her Data may be held by the Company or its subsidiaries in connection with managing and administering previous award or incentive plans or for other purposes, pursuant to a prior transfer made with the Participant's consent in respect of any previous grant of performance share units or other awards.*

d. *The Participant further understands that the Employer may transfer Data to the Company or its subsidiaries as necessary to implement, administer, and manage his or her participation in the Plan. The Company and its subsidiaries may transfer data among themselves, and each, in turn, may further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").*

e. *The Participant understands that the Company, its subsidiaries, and the Data Recipients are or may be located in his or her country of residence or elsewhere. The Participant authorizes the Employer, the Company, its subsidiaries, and the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form to implement, administer, and manage his or her participation in the Plan, including any transfer of Data that the Administrator deems appropriate for the administration of the Plan and any transfer of Shares on his or her behalf to a broker or third party with whom the Shares may be deposited.*

f. *The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.*

g. *The Participant understands that Data will be held as long as is reasonably necessary to implement, administer and manage his or her participation in the Plan and he or she may oppose the processing and transfer of his or her Data and may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw his or her consent by notifying the Company in writing. The Participant further understands that withdrawing consent may affect his or her ability to participate in the Plan.*

**11. Discretionary Nature and Acceptance of Award.** By accepting this Award, the Participant agrees to be bound by the terms of this Agreement and acknowledges that:

a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

b. The award of Performance Share Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Performance Share Units, or benefits in lieu of Performance Share Units, even if Performance Share Units have been awarded repeatedly in the past.

c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;

- d. Participant's participation in the Plan is voluntary;
- e. Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant's employment at any time;
- f. Performance Share Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;
- g. The Performance Share Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;
- h. In the event the Participant is not an employee of the Company, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;
- i. The future value of the underlying Shares is unknown and cannot be predicted with certainty;
- j. In consideration of the award of the Performance Share Units, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Units or diminution in value of the Performance Share Units, or Shares acquired upon vesting of the Performance Share Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Performance Share Units, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;
- k. In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive Performance Share Units under the Plan and to vest in such Performance Share Units, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of this Agreement;
- l. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the underlying Shares; and

m. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

**12. Failure to Enforce Not a Waiver.** The Company's failure to enforce at any time any provision of this Agreement does not constitute a waiver of that provision or of any other provision of this Agreement.

**13. Governing Law.** The Performance Share Unit Award Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under the Performance Share Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of New York, and agree that such litigation will be conducted in the courts of New York County, New York, or the federal courts for the United States for the Southern District of New York, and no other courts, where the Performance Share Units are made and/or to be performed.

**14. Partial Invalidity.** The invalidity or illegality of any provision of the Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

**16. Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Performance Share Units awarded under the Plan or future Performance Share Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

By: \_\_\_\_\_  
Amy DiGeso  
Executive Vice President,  
Global Human Resources

**Schedule "A"**

**For Net Sales Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

**For Net Earnings Per Share Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

**For ROIC Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

Payout amount for levels of Plan Achievement between the maximum and threshold achievement shall be interpolated on a straight line basis (rounded up to the nearest integer). In no event shall the Participant receive a payout in excess of (\*)% of the Target Award for any component. No payout shall be made in the event of component Plan Achievement less than the threshold achievement. Notwithstanding anything to the contrary stated above, the Committee may reduce the payment based on other factors at the discretion of the Committee unless a Change of Control has occurred.

For purposes of this Performance Share Unit Award Agreement, "Net Sales" has the meaning utilized by the Company in its consolidated financials in accordance with generally accepted accounting principles as in effect on the first day of the Award Period, excluding the impact of foreign currency fluctuations, "Earnings Per Share" means "diluted earnings per share" as utilized by the Company in its consolidated financials and ROIC represents Return on Invested Capital with invested capital defined as assets less liabilities (excluding debt). Actual payment of the Performance Share Units awarded will be determined for each component in accordance with the table above.

In measuring Plan Achievement, financial performance measures (e.g., "Earnings Per Share", "Net Sales" and "ROIC") will be calculated without regard to the following:

- Changes in accounting principles (i.e., cumulative effect of GAAP changes)
- Extraordinary items as defined in accordance with US GAAP or which are the result of a change in the law or the Company's response thereto
- Income/loss from discontinued operations and income/loss on sale of discontinued operations
- Non-recurring operating income/expenses (separately stated and disclosed in the financial statements — e.g., restructuring charges, legal settlement charges, goodwill write-off)
- Impairment of intangibles

In calculating net sales during the Award Period, net sales in currencies other than U.S. dollars shall be translated into U.S. dollars at the Company's budget exchange rate at the beginning of the Award Period.

Earnings Per Share will be calculated based on the weighted average number of Shares outstanding as of the measurement date and will be adjusted to eliminate the effect of material changes in the number or type of outstanding Shares due to events such as:

- Stock splits
- Stock dividends
- Recapitalizations
- Acquisitions involving stock of the Company

No adjustment will be made for the impact of stock repurchases under any plans approved by the Board.

**NOTICE OF GRANT  
UNDER  
THE ESTÉE LAUDER COMPANIES INC.  
AMENDED AND RESTATED FISCAL 2002 SHARE INCENTIVE PLAN (The "Plan")**

This is to confirm that you were awarded a grant of Performance Share Units at the most recent meeting of the Stock Plan Subcommittee of the Compensation Committee of the Board of Directors representing the right to receive shares of Class A Common Stock of The Estée Lauder Companies Inc. (the "Shares"), subject to the terms of the Plan and the Performance Share Unit Award Agreement. This award was made in recognition of the significant contributions you have made as a key employee of the Company, and to motivate you to achieve future successes by aligning your interests more closely with those of our stockholders. This Performance Share Unit Award is granted under and governed by the terms and conditions of the Plan and the Performance Share Unit Award Agreement (the "Agreement") made part hereof. The Agreement and Summary Plan Description are being sent to you in a separate e-mail. Please read these documents and keep them for future reference. The specific terms of your award are as follows:

Participant:

Employee Number:

Grant Date: **September 15, 2010**

Award Period: **July 1, 2010 to June 30, 2013**

Type of Award: Stock Unit and Performance-Based Award (referred to herein as a "Performance Share Unit")

Target Award: shares of Class A Common Stock. See Schedule "A" to the Agreement for actual payouts depending upon level of performance.

**Plan Achievement goal at 100% for Award Period:**

**Net Sales Cumulative Annual Growth Rate**  
%

**Earnings Per Share Cumulative Annual Growth Rate**  
%

**ROIC Cumulative Annual Growth Rate**  
%

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (973) 492-3609.

If you wish to accept this grant, **please sign this Notice of Grant and return immediately to:**

Compensation Department  
767 Fifth Avenue, 43rd Floor  
New York, New York 10153  
**Attention: Thomas Fellenbaum**

The undersigned hereby accepts, and agrees to, all terms and provisions of the Agreement, including those contained in this Notice of Grant.

By \_\_\_\_\_ Date \_\_\_\_\_

Enclosure: Performance Share Unit Fact Sheet

**Sign and Return this Notice of Grant Immediately!**

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Each of the Stock Plan Subcommittee of the Compensation Committee and the Compensation Committee of the Board of Directors of The Estée Lauder Companies Inc. reserves the right to change provisions of this Agreement to comply with the American Jobs Creation Act of 2004 or other applicable laws or regulations.

**Performance Share Unit Award Agreement Under  
The Estée Lauder Companies Inc.  
Amended and Restated Fiscal 2002 Share Incentive Plan (the "Plan")**

This **PERFORMANCE SHARE UNIT AWARD AGREEMENT** ("Agreement") provides for the granting of performance share unit awards by The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), to the participant, an employee of the Company or one of its subsidiaries (the "Participant"), representing a notional account equal to a corresponding number of shares of the Company's Class A Common Stock, par value \$0.01 (the "Shares"), subject to the terms below (the "Performance Share Units"). The name of the "Participant," the "Grant Date," the aggregate number of Shares representing the Target Award, and the Plan Achievement (as defined below) goals are stated in the attached "Notice of Grant," and are incorporated by reference. The other terms of this Performance Share Unit Award are stated in this Agreement and in the Plan. Terms not defined in this Agreement are defined in the Plan, as amended.

**1. Award Grant.** The Company hereby awards to the Participant a target award of Performance Share Units in respect of the number of Shares set forth in the Notice of Grant (the "Target Award"), representing a Stock Unit and Performance-Based Award under the terms of the Plan.

**2. Right to Payment of Performance Share Units.** It is understood that the percentage of the Target Award earned and paid will be established by the Committee based on the plan achievement (the "Plan Achievement") during the period specified in the Notice of Grant (the "Award Period"). The Plan Achievement is comprised of, and is measured separately with respect to the components stated in the attached Notice of Grant. Actual payment of the Performance Share Units awarded will be determined for each component in accordance with the table attached hereto as Schedule "A."

**3. Payment of Awards.** Payments under this Agreement will be made in the number of Shares that is equivalent to the number of Performance Share Units earned and payable to the Participant pursuant to paragraph 2 above. Except as otherwise provided in paragraph 4 below, payments will be made as soon as practicable after the Award Period ends, but in no event later than 2 and 1/2 months following the last day of the calendar year in which the Award Period ends. The form of payout will be in Shares.

Upon a Change in Control, each Performance Share Unit with a Performance Period ending after the Change in Control will become payable to the Participant with the total number of Shares to be paid equal to the greater of (a) the Target Award or (b) the amount of Shares to be paid based upon performance assuming the Performance Period ended on the date of the Change in Control. Payments upon a Change in Control will be made within two weeks following the Change in Control. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control. Each Performance Share Unit for a Performance Period ended on or prior to the Change in Control shall be paid out in accordance with the

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Plan and this Agreement.

**4. Termination of Employment.** If the Participant's employment terminates during the Award Period, payouts will be as follows:

- (a) **Death.** If the Participant dies, the Performance Share Units will be paid as a pro rata Target Award for the number of full months employed during the Award Period (i.e., the proration of the Target Award equals a fraction, the numerator of which is the number of full calendar months of service completed during the Award Period through the Participant's death and the denominator of which is the number of full calendar months in the Award Period). Payment will occur as soon as practicable following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid based on actual Plan Achievement, at the same time the awards are paid to active employees. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) on or prior to the end of the first year of the Award Period, the Performance Share Unit Award will be forfeited. If such termination occurs after the end of the first year of the Award Period, the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.
- (e) **Termination of Employment By Employee.** If the Participant terminates his or her employment (*e.g.*, by voluntary resigning) other than by retirement, which is subject to paragraph 4(b) above, the Performance Share Unit Award will be forfeited.

(f) Termination of Employment With Cause. If the Participant is terminated for Cause, the Performance Share Unit Award will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including any employment agreement entered into after the Grant Date. In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Conduct.

(g) Post Employment Conduct. Payout of any Performance Share Unit Award after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company.

If the Participant's employment terminates after the expiration of the Award Period but prior to payout, payout will be subject to the above.

**5. No Rights of Stock Ownership.** This grant of Performance Share Units does not entitle the Participant to any interest in or to any voting or other rights normally attributable to Share ownership.

**6. Withholding.** Regardless of any action the Company or the Participant's employer (the "Employer") takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Share Units, including the grant of the Performance Share Units, the vesting of the Performance Share Units, the delivery of Shares, the subsequent sale of Shares acquired under the Plan ; and (ii) do not commit to structure the terms of the grant of the Performance Share Units or any aspect of Participant's participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

Prior to the relevant taxable event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of the Shares acquired under the Plan. Alternatively, or in addition, the Company may (i) sell or arrange for the sale of Shares that Participant acquires under the Plan to meet the withholding obligation for the Tax-Related Items, and/or (ii) withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. If the Company satisfies the Tax-Related Item withholding obligation by withholding a number of Shares as described herein, Participant will be deemed to have been issued the full number of Shares due to Participant at vesting, notwithstanding that a number of the Shares is held back solely for purposes of such Tax-Related Items.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of his or her participation in the

Plan that cannot be satisfied by the means previously described. The Company may refuse to issue Shares under the Plan and refuse to deliver the Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this paragraph.

**7. Nonassignability.** This award may not be assigned, pledged, or transferred except, if the Participant dies, to a designated beneficiary or by will or by the laws of descent and distribution. The foregoing restrictions do not apply to transfers under a court order, including, but not limited to, any domestic relations order.

**8. Effect Upon Employment.** The Participant's right to continue to serve the Company or any of its subsidiaries as an officer, employee, or otherwise, is not enlarged or otherwise affected by an award under this Agreement. Nothing in this Agreement or the Plan gives the Participant any right to continue in the employ of the Company or any of its subsidiaries or to interfere in any way with any right the Company or any subsidiary may have to terminate his or her employment at any time. Payment of Shares is not secured by a trust, insurance contract or other funding medium, and the Participant does not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on his or her behalf. A Performance Share Unit confers no rights as a shareholder of the Company until Shares are actually delivered to the Participant.

**9. Notices.** Any notice required or permitted under this Performance Share Unit Award Agreement is deemed to have been duly given if delivered, telecopied, mailed (certified or registered mail, return receipt requested), or sent by internationally-recognized courier guaranteeing next day delivery (a) to the Participant at the address on file in the Company's (or relevant subsidiary's) personnel records or (b) to the Company, attention Stock Plan Administration at its principal executive offices, which are currently located at 767 Fifth Avenue, New York, NY 10153.

**10. Disclosure and Use of Information.**

*a. By signing and returning the attached Notice of Grant, and as a condition of the grant of the Performance Share Units, the Participant hereby expressly and unambiguously consents to the collection, use, and transfer of personal data as described in this paragraph by and among, as necessary and applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*b. The Participant understands that the Employer, the Company and/or its other subsidiaries holds, by means of an automated data file or otherwise, certain personal information about the Participant, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Performance Share Units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in the Participant's favor, for purposes of managing and administering the Plan ("Data").*

*c. The Participant also understands that part or all of his or her Data may be held by the Company or its subsidiaries in connection with managing and administering previous award or incentive plans or for other purposes, pursuant to a prior transfer made with the Participant's consent in respect of any previous grant of performance share units or other awards.*

d. *The Participant further understands that the Employer may transfer Data to the Company or its subsidiaries as necessary to implement, administer, and manage his or her participation in the Plan. The Company and its subsidiaries may transfer data among themselves, and each, in turn, may further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan (“Data Recipients”).*

e. *The Participant understands that the Company, its subsidiaries, and the Data Recipients are or may be located in his or her country of residence or elsewhere. The Participant authorizes the Employer, the Company, its subsidiaries, and the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form to implement, administer, and manage his or her participation in the Plan, including any transfer of Data that the Administrator deems appropriate for the administration of the Plan and any transfer of Shares on his or her behalf to a broker or third party with whom the Shares may be deposited.*

f. *The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.*

g. *The Participant understands that Data will be held as long as is reasonably necessary to implement, administer and manage his or her participation in the Plan and he or she may oppose the processing and transfer of his or her Data and may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw his or her consent by notifying the Company in writing. The Participant further understands that withdrawing consent may affect his or her ability to participate in the Plan.*

**11. Discretionary Nature and Acceptance of Award.** By accepting this Award, the Participant agrees to be bound by the terms of this Agreement and acknowledges that:

a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

b. The award of Performance Share Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Performance Share Units, or benefits in lieu of Performance Share Units, even if Performance Share Units have been awarded repeatedly in the past.

c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;

d. Participant’s participation in the Plan is voluntary;

e. Participant’s participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant’s employment at any time;

f. Performance Share Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;

g. The Performance Share Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;

h. In the event the Participant is not an employee of the Company, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;

i. The future value of the underlying Shares is unknown and cannot be predicted with certainty;

j. In consideration of the award of the Performance Share Units, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Units or diminution in value of the Performance Share Units, or Shares acquired upon vesting of the Performance Share Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Performance Share Units, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

k. In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive Performance Share Units under the Plan and to vest in such Performance Share Units, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of this Agreement;

l. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the underlying Shares; and

m. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

**12. Failure to Enforce Not a Waiver.** The Company's failure to enforce at any time any provision of this Agreement does not constitute a waiver of that provision or of any other provision of this Agreement.

**13. Governing Law.** The Performance Share Unit Award Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under the Performance Share Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of New York, and agree that such litigation will be conducted in the courts of New York County, New York, or the federal courts for the United States for the Southern District of New York, and no other courts, where the Performance Share Units are made and/or to be performed.

**14. Partial Invalidity.** The invalidity or illegality of any provision of the Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

**16. Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Performance Share Units awarded under the Plan or future Performance Share Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

By: \_\_\_\_\_

Amy DiGeso  
Executive Vice President,  
Global Human Resources

**Schedule "A"**

**For Net Sales Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

**For Net Earnings Per Share Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

**For ROIC Cumulative Annual Growth Rate:**

	<u>Component Plan Achievement</u>	<u>Component Payout (Percentage of Target Award)</u>
Maximum	(***)	(***)
	(***)	(***)
Threshold	(***)	(***)

Payout amount for levels of Plan Achievement between the maximum and threshold achievement shall be interpolated on a straight line basis (rounded up to the nearest integer). In no event shall the Participant receive a payout in excess of (\*)% of the Target Award for any component. No payout shall be made in the event of component Plan Achievement less than the threshold achievement. Notwithstanding anything to the contrary stated above, the Committee may reduce the payment based on other factors at the discretion of the Committee unless a Change of Control has occurred.

For purposes of this Performance Share Unit Award Agreement, "Net Sales" has the meaning utilized by the Company in its consolidated financials in accordance with generally accepted accounting principles as in effect on the first day of the Award Period, excluding the impact of foreign currency fluctuations,

“Earnings Per Share” means “diluted earnings per share” as utilized by the Company in its consolidated financials and ROIC represents Return on Invested Capital with invested capital defined as assets less liabilities (excluding debt). Actual payment of the Performance Share Units awarded will be determined for each component in accordance with the table above.

In measuring Plan Achievement, financial performance measures (e.g., “Earnings Per Share”, “Net Sales” and “ROIC”) will be calculated without regard to the following:

- Changes in accounting principles (i.e., cumulative effect of GAAP changes)
- Extraordinary items as defined in accordance with US GAAP or which are the result of a change in the law or the Company’s response thereto
- Income/loss from discontinued operations and income/loss on sale of discontinued operations
- Non-recurring operating income/expenses (separately stated and disclosed in the financial statements — e.g., restructuring charges, legal settlement charges, goodwill write-off)
- Impairment of intangibles

In calculating net sales during the Award Period, net sales in currencies other than U.S. dollars shall be translated into U.S. dollars at the Company’s budget exchange rate at the beginning of the Award Period.

Earnings Per Share will be calculated based on the weighted average number of Shares outstanding as of the measurement date and will be adjusted to eliminate the effect of material changes in the number or type of outstanding Shares due to events such as:

- Stock splits
- Stock dividends
- Recapitalizations
- Acquisitions involving stock of the Company

No adjustment will be made for the impact of stock repurchases under any plans approved by the Board.

**NOTICE OF GRANT  
UNDER  
THE ESTÉE LAUDER COMPANIES INC.  
AMENDED AND RESTATED FISCAL 2002 SHARE INCENTIVE PLAN (The "Plan")**

This is to confirm that you were awarded a grant of Performance Share Units at the most recent meeting of the Stock Plan Subcommittee of the Compensation Committee of the Board of Directors representing the right to receive shares of Class A Common Stock of The Estée Lauder Companies Inc. (the "Shares"), subject to the terms of the Plan and the Performance Share Unit Award Agreement. This award was made in recognition of the significant contributions you have made as a key employee of the Company, and to motivate you to achieve future successes by aligning your interests more closely with those of our stockholders. This Performance Share Unit Award is granted under and governed by the terms and conditions of the Plan and the Performance Share Unit Award Agreement (the "Agreement") made part hereof. The Agreement and Summary Plan Description are being sent to you in a separate e-mail. Please read these documents and keep them for future reference. The specific terms of your award are as follows:

Participant:

Employee Number:

Grant Date: **September 15, 2010**

Award Period: **July 1, 2010 to June 30, 2013**

Type of Award: Stock Unit and Performance-Based Award (referred to herein as a "Performance Share Unit")

Target Award: shares of Class A Common Stock. See Schedule "A" to the Agreement for actual payouts depending upon level of performance.

**Plan Achievement goal at 100% for Award Period:**

**Net Sales Cumulative Annual Growth Rate**  
%

**Earnings Per Share Cumulative Annual Growth Rate**  
%

**ROIC Cumulative Annual Growth Rate**  
%

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (973) 492-3609.

If you wish to accept this grant, **please sign this Notice of Grant and return immediately to:**

Compensation Department  
767 Fifth Avenue, 43rd Floor  
New York, New York 10153  
**Attention: Thomas Fellenbaum**

Any dividends earned on vested Shares, after applicable withholding, that are held in an account for Participant at BNY Mellon Shareowner Services (or its successor) engaged by The Estée Lauder Companies Inc. for the purposes of holding the Shares for Participant upon vesting (the "Agent"), will be automatically reinvested in accordance with Agent's applicable procedures in additional whole and fractional shares Company Class A Common Stock unless you notify Patricia Zakrzewski or Thomas Fellenbaum in writing prior to the Vesting Date set forth above that you do not wish to have your dividends reinvested.

The undersigned hereby accepts, and agrees to, all terms and provisions of the Agreement, including those contained in this Notice of Grant.

By \_\_\_\_\_ Date \_\_\_\_\_

Enclosure: Performance Share Unit Fact Sheet

**Sign and Return this Notice of Grant Immediately!**

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Each of the Stock Plan Subcommittee of the Compensation Committee and the Compensation Committee of the Board of Directors of The Estée Lauder Companies Inc. reserves the right to change provisions of this Agreement to comply with the American Jobs Creation Act of 2004.

**Restricted Stock Unit Agreement Under  
The Estée Lauder Companies Inc.  
Amended and Restated Fiscal 2002 Share Incentive Plan (the "Plan")**

This **RESTRICTED STOCK UNIT AGREEMENT** ("Agreement") provides for the granting by The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), to the participant, an employee of the Company or one of its subsidiaries (the "Participant"), of Stock Units under the Plan representing a notional account equal to a corresponding number of shares of the Company's Class A Common Stock, par value \$0.01 (the "Shares"), subject to the terms below (the "Restricted Stock Units"). The name of the "Participant," the "Grant Date," the "Number of Restricted Stock Units," the "Vesting Commencement Date," the "Vesting Schedule," and the "Vesting Period" are stated in the attached "Notice of Grant" and are incorporated by reference. The other terms of this award are stated in this Agreement and in the Plan. Terms not defined in this Agreement are defined in the Plan, as amended.

- 1. Award Grant.** The Company hereby awards to the Participant an award of Restricted Stock Units in respect of the number of Shares set forth in the Notice of Grant.
- 2. Vesting.** The Restricted Stock Units granted to the Participant will vest and become payable in accordance with the Vesting Schedule in the Notice of Grant. This schedule indicates the vesting date upon which the Participant will be entitled to receive Shares. Except as otherwise provided in this Agreement, any Restricted Stock Units that are unvested when the Participant terminates employment with the Company will be forfeited.
- 3. Payment of Awards.** Each Restricted Stock Unit represents the right to receive one Share when the Restricted Stock Unit vests.

In addition, each Restricted Stock Unit carries a Dividend Equivalent Right, payable in cash at the same time as payment of Restricted Stock Units in Shares in accordance with this paragraph 3 and paragraph 4. Dividend Equivalent Rights are deemed part of the related Restricted Stock Units under this Agreement.

Upon a Change in Control, (a) each Restricted Stock Unit will vest and become payable to the Participant in accordance with the Plan and this paragraph unless the unvested Restricted Stock Unit is assumed by an acquirer in which case, acceleration of vesting will continue to be subject to Section 4 and (b) each vested Restricted Stock Unit not paid will become payable to the Participant in accordance with the Plan and this paragraph. Payments upon a Change in Control will be made within two weeks following the Change in Control. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control.

**4. Termination of Employment.** If the Participant's employment terminates during the Vesting Period, all Restricted Stock Units will be forfeited except as follows:

- (a) **Death.** If the Participant dies, the Restricted Stock Units will vest pro rata for the number of full months the Participant was employed during the Vesting Period (i.e., the proration equals a fraction, the numerator of which is the number of full calendar months of service completed during the Vesting Period through the Participant's death and the denominator of which is the number of full calendar months in the Vesting Period). Payment of the Restricted Stock Units will occur as soon as practicable following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the unvested Restricted Stock Units will continue to vest and be paid in accordance with the Vesting Schedule. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)). The Restricted Stock Units will be paid in accordance with the Vesting Schedule.
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below), any unvested Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. Restricted Stock Units will be paid in accordance with the Vesting Schedule.
- (e) **Termination of Employment By Employee.** If the Participant voluntarily terminates his or her employment (e.g., by voluntary resigning) other than by retirement, which is subject to paragraph 4(b) above, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited.
- (f) **Termination of Employment With Cause.** If the Participant is terminated for Cause, all Restricted Stock Units that are not vested as of the effective date of termination will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including an employment agreement entered into after the Grant Date. In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under

any Company policy or procedure, including, without limitation, the Code of Corporate Conduct.

- (g) **Termination After a Change in Control.** If, on or after a Change in Control, the Participant terminates for Good Reason (as defined below), dies, becomes disabled as described in paragraph 4(c), formally retires as described in paragraph 4(b) or is terminated at the instance of the Company or relevant subsidiary without Cause, the unvested Restricted Stock Units will become payable to the Participant in accordance with paragraph 3. For this purpose, “Good Reason” means the occurrence of any of the following, without the express written consent of the Participant, within three (3) years after the occurrence of a Change in Control:
- (i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant’s position, authority or responsibilities immediately prior to the Change in Control, or (ii) any other material adverse change in such position, including title, authority or responsibilities;
  - (ii) any failure by the Company to pay any amounts for compensation or benefits owed to the Participant or a material reduction of the overall amounts of compensation and benefits in effect prior to the Change in Control, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;
  - (iii) the Company’s requiring the Participant to be based at any office or location more than fifty (50) miles from that location at which he performed his or her services for the Company immediately prior to the Change in Control, except for travel reasonably required in the performance of the Participant’s responsibilities; or
  - (iv) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor, unless such assumption occurs by operation of law.
- (h) **Post Employment Conduct.** Payment in respect of any Restricted Stock Unit after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company’s written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company.
- 5. No Rights of Stock Ownership.** This grant of Restricted Stock Units does not entitle the Participant to any interest in or to any voting or other rights normally attributable to Share ownership other than the Dividend Equivalent Rights granted under paragraph 3 above.
- 6. Withholding.** Regardless of any action the Company or the Participant’s employer (the “Employer”) takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding (“Tax-Related Items”), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units, the delivery of Shares, the subsequent sale of Shares acquired under the Plan and the

receipt of any dividends; and (ii) do not commit to structure the terms of the grant of the Restricted Stock Units or any aspect of Participant's participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

Prior to the relevant taxable event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of the Shares acquired under the Plan. Alternatively, or in addition, the Company may (i) sell or arrange for the sale of Shares that Participant acquires under the Plan to meet the withholding obligation for the Tax-Related Items, and/or (ii) withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. If the Company satisfies the Tax-Related Item withholding obligation by withholding a number of Shares as described herein, Participant will be deemed to have been issued the full number of Shares due to Participant at vesting, notwithstanding that a number of the Shares is held back solely for purposes of such Tax-Related Items.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue Shares under the Plan and refuse to deliver the Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this paragraph.

**7. Nonassignability.** This award may not be assigned, pledged, or transferred, except, if the Participant dies, to a designated beneficiary or by will or by the laws of descent and distribution. The foregoing restrictions do not apply to transfers under a court order, including, but not limited to, any domestic relations order.

**8. Effect Upon Employment.** The Participant's right to continue to serve the Company or any of its subsidiaries as an officer, employee, or otherwise, is not enlarged or otherwise affected by an award under this Agreement. Nothing in this Agreement or the Plan gives the Participant any right to continue in the employ of the Company or any of its subsidiaries or to interfere in any way with any right the Company or any subsidiary may have to terminate his or her employment at any time. Payment of

Shares is not secured by a trust, insurance contract or other funding medium, and the Participant does not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on his or her behalf. A Restricted Stock Unit award confers no rights as a shareholder of the Company until Shares are actually delivered to the Participant.

**9. Notices.** Any notice required or permitted under this Agreement is deemed to have been duly given if delivered, telecopied, or mailed (certified or registered mail, return receipt requested), or sent by internationally-recognized courier guaranteeing next day delivery (a) to the Participant at the address on file in the Company's (or relevant subsidiary's) personnel records, or (b) to the Company, attention Stock Plan Administration at its principal executive offices, which are currently located at 767 Fifth Avenue, New York, NY 10153.

**10. Disclosure and Use of Information.**

a. *By signing and returning the attached Notice of Grant, and as a condition of the grant of the Restricted Stock Units, the Participant hereby expressly and unambiguously consents to the collection, use, and transfer of personal data as described in this paragraph by and among, as necessary and applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

b. *The Participant understands that the Employer, the Company and/or its other subsidiaries holds, by means of an automated data file or otherwise, certain personal information about the Participant, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Restricted Stock Units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in the Participant's favor, for purposes of managing and administering the Plan ("Data").*

c. *The Participant also understands that part or all of his or her Data may be held by the Company or its subsidiaries in connection with managing and administering previous award or incentive plans or for other purposes, pursuant to a prior transfer made with the Participant's consent in respect of any previous grant of restricted stock units or other awards.*

d. *The Participant further understands that the Employer may transfer Data to the Company or its subsidiaries as necessary to implement, administer, and manage his or her participation in the Plan. The Company and its subsidiaries may transfer data among themselves, and each, in turn, may further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").*

e. *The Participant understands that the Company, its subsidiaries, and the Data Recipients are or may be located in his or her country of residence or elsewhere. The Participant authorizes the Employer, the Company, its subsidiaries, and the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form to implement, administer, and manage his or her participation in the Plan, including any transfer of Data that the Administrator deems appropriate for the administration of the Plan and any transfer of Shares on his or her behalf to a broker or third party with whom the Shares may be deposited.*

f. *The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.*

g. *The Participant understands that Data will be held as long as is reasonably necessary to implement, administer and manage his or her participation in the Plan and he or she may oppose the processing and transfer of his or her Data and may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw his or her consent by notifying the Company in writing. The Participant further understands that withdrawing consent may affect his or her ability to participate in the Plan.*

**11. Discretionary Nature and Acceptance of Award.** By accepting this Award, the Participant agrees to be bound by the terms of this Agreement and acknowledges that:

- a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;
- b. The award of Restricted Stock Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been awarded repeatedly in the past.
- c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;
- d. Participant's participation in the Plan is voluntary;
- e. Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant's employment at any time;
- f. Restricted Stock Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;
- g. The Restricted Stock Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;
- h. In the event the Participant is not an employee of the Company, the Restricted Stock Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Restricted Stock Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;
- i. The future value of the underlying Shares is unknown and cannot be predicted with certainty;
- j. In consideration of the award of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from termination of the Restricted Stock Units or diminution in value of the Restricted Stock Units, or Shares acquired upon vesting of the Restricted Stock Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Restricted Stock Units, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;
- k. In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive Restricted Stock Units under the Plan and to vest in such Restricted Stock Units, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would

not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of this Agreement;

l. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the underlying Shares; and

m. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan

**12. Failure to Enforce Not a Waiver.** The Company's failure to enforce at any time any provision of this Agreement does not constitute a waiver of that provision or of any other provision of this Agreement.

**13. Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under the Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of New York, and agree that such litigation will be conducted in the courts of New York County, New York, or the federal courts for the United States for the Southern District of New York, and no other courts, where the Restricted Stock Units are made and/or to be performed.

**14. Partial Invalidity.** The invalidity or illegality of any provision of this Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

**16. Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

By: \_\_\_\_\_  
Amy DiGeso  
Executive Vice President,  
Global Human Resources

**NOTICE OF GRANT  
UNDER  
THE ESTÉE LAUDER COMPANIES INC.  
AMENDED AND RESTATED FISCAL 2002 SHARE INCENTIVE PLAN (The "Plan")**

This is to confirm that you were awarded a grant of Restricted Stock Units at the most recent meeting of the Stock Plan Subcommittee of the Compensation Committee of the Board of Directors representing the right upon vesting of such units to receive shares of Class A Common Stock of The Estée Lauder Companies Inc. (the "Shares"), subject to the terms of the Plan and the Restricted Stock Unit Agreement. This award was made in recognition of the significant contributions you have made as a key employee of the Company, and to motivate you to achieve future successes by aligning your interests more closely with those of our stockholders. This Restricted Stock Unit award is granted under and governed by the terms and conditions of the Plan and the Restricted Stock Unit Agreement (the "Agreement") made part hereof. The Agreement and Summary Plan Description are being sent to you in a separate email. Please read these documents and keep them for future reference. The specific terms of your award are as follows:

Participant:

Employee Number:

Number of Restricted Stock Units:

Grant Date: **September 1, 2010**

Vesting Commencement Date: **September 1, 2010**

Vesting Schedule: Subject to Participant's continuous employment, this Restricted Stock Unit grant shall vest as to the number of Shares set forth below:

<u>Shares</u>	<u>Vesting Date</u>
	<b>October 31, 2011</b>
	<b>October 31, 2012</b>
	<b>October 31, 2013</b>

Vesting Period: The Vesting Commencement Date through and including the applicable date set forth in the Vesting Schedule

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (973) 492-3609.

If you wish to accept this grant, **please sign this Notice of Grant and return immediately to:**

Compensation Department  
767 Fifth Avenue, 43rd Floor  
New York, New York 10153  
**Attention: Thomas Fellenbaum**

The undersigned hereby accepts, and agrees to, all terms and provisions of the Agreement, including those contained in this Notice of Grant.

By \_\_\_\_\_ Date \_\_\_\_\_

Enclosure: Share Incentive Plan Overview

**Sign and Return this Notice of Grant Immediately!**

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Each of the Stock Plan Subcommittee of the Compensation Committee and the Compensation Committee of the Board of Directors of The Estée Lauder Companies Inc. reserves the right to change provisions of this Agreement to comply with the American Jobs Creation Act of 2004.

**Restricted Stock Unit Agreement Under  
The Estée Lauder Companies Inc.  
Amended and Restated Fiscal 2002 Share Incentive Plan (the "Plan")**

This **RESTRICTED STOCK UNIT AGREEMENT** ("**Agreement**") provides for the granting by The Estée Lauder Companies Inc., a Delaware corporation (the "**Company**"), to the participant, an employee of the Company or one of its subsidiaries (the "**Participant**"), of Stock Units under the Plan representing a notional account equal to a corresponding number of shares of the Company's Class A Common Stock, par value \$0.01 (the "**Shares**"), subject to the terms below (the "**Restricted Stock Units**"). The name of the "**Participant**," the "**Grant Date**," the "**Number of Restricted Stock Units**," the "**Vesting Commencement Date**," the "**Vesting Schedule**," and the "**Vesting Period**" are stated in the attached "**Notice of Grant**" and are incorporated by reference. The other terms of this award are stated in this Agreement and in the Plan. Terms not defined in this Agreement are defined in the Plan, as amended.

- 1. Award Grant.** The Company hereby awards to the Participant an award of Restricted Stock Units in respect of the number of Shares set forth in the Notice of Grant.
- 2. Vesting.** The Restricted Stock Units granted to the Participant will vest and become payable in accordance with the Vesting Schedule in the Notice of Grant. This schedule indicates the vesting date upon which the Participant will be entitled to receive Shares. Except as otherwise provided in this Agreement, any Restricted Stock Units that are unvested when the Participant terminates employment with the Company will be forfeited.
- 3. Payment of Awards.** Each Restricted Stock Unit represents the right to receive one Share when the Restricted Stock Unit vests.

Upon a Change in Control, (a) each unvested Restricted Stock Unit will vest and become payable to the Participant in accordance with the Plan and this paragraph unless the unvested Restricted Stock Unit is assumed by an acquirer in which case, acceleration of vesting will continue to be subject to Section 4 and (b) each vested Restricted Stock Unit not paid will become payable to the Participant in accordance with the Plan and this paragraph. Payments upon a Change in Control will be made within two weeks following the Change in Control. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control. If the Participant dies before the Change in Control, vested Restricted Stock Units will become payable in accordance with this paragraph. If the Participant becomes disabled or is terminated without Cause before the Change in Control, the Restricted Stock Units that were to vest pro rata due to disability or termination without Cause will vest and become payable in accordance with this paragraph. All other unvested Restricted Stock Units will be forfeited.

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**4. Termination of Employment.** If the Participant's employment terminates during the Vesting Period, all unvested Restricted Stock Units will be forfeited except as follows, subject to Paragraph 3:

- (a) **Death.** If the Participant dies, unvested Restricted Stock Units will vest on the date of death pro rata based on the number of full months the Participant was employed during the Vesting Period after the last vesting date (i.e., the proration equals a fraction, the numerator of which is the number of full calendar months of service completed during the Vesting Period after the last vesting date through the Participant's death and the denominator of which is the number of full calendar months after the last vesting date that are remaining in the Vesting Period). For this purpose, "last vesting date" is the grant date if the first vesting date has not yet occurred. As an example, assume a grant to Participant X of Restricted Stock Units for 300 shares with a three-year Vesting Period and one-third of the units vesting at the end of each twelve-month period. If Participant X dies 18 months after the grant date and six months after the last vesting date, then the estate or beneficiary of Participant X would be entitled to payment of 50 Shares (before withholding). Participant X would have already received 100 Shares (before withholding) on the first anniversary of the grant date. Payment of the vested Restricted Stock Units will occur as soon as practicable following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the unvested Restricted Stock Units will continue to vest and be paid in accordance with the Vesting Schedule. Vesting and payment in respect of any unvested Restricted Stock Unit after retirement will be subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the unvested Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. The vested Restricted Stock Units will be paid in accordance with the Vesting Schedule (i.e., on the next vesting date during the Vesting Period).
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below), any unvested Restricted Stock Units will vest pro rata for full months employed during the

Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. Restricted Stock Units will be paid in accordance with the Vesting Schedule and payment in respect of any unvested Restricted Stock Unit after last day of active employment will be subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company.

- (e) Termination of Employment By Employee. If the Participant voluntarily terminates his or her employment (e.g., by voluntarily resigning) other than due to retirement or disability, which are subject to paragraphs 4(b) and 4(c) above, respectively, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited.
- (f) Termination of Employment With Cause. If the Participant is terminated for Cause, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including an employment agreement entered into after the Grant Date. In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Corporate Conduct.
- (g) Termination After a Change in Control. If, on or after a Change in Control, the Participant terminates for Good Reason (as defined below), dies, becomes disabled as described in paragraph 4(c), formally retires as described in paragraph 4(b) or is terminated at the instance of the Company or relevant subsidiary without Cause, the unvested Restricted Stock Units will become payable to the Participant in accordance with paragraph 3. For this purpose, "Good Reason" means the occurrence of any of the following, without the express written consent of the Participant, within three (3) years after the occurrence of a Change in Control:
  - (i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant's position, authority or responsibilities immediately prior to the Change in Control, or (ii) any other material adverse change in such position, including title, authority or responsibilities;
  - (ii) any failure by the Company to pay any amounts for compensation or benefits owed to the Participant or a material reduction of the overall amounts of compensation and benefits in effect prior to the Change in Control, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;
  - (iii) the Company's requiring the Participant to be based at any office or location more than fifty (50) miles from that location at which he performed his or her services for the Company immediately prior to the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or

(iv) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor, unless such assumption occurs by operation of law.

**5. No Rights of Stock Ownership.** This grant of Restricted Stock Units does not entitle the Participant to any interest in or to any voting or other rights normally attributable to Share ownership.

**6. Withholding.** Regardless of any action the Company or the Participant's employer (the "Employer") takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Units, including the grant of the Restricted Stock Units, the vesting of the Restricted Stock Units, the delivery of Shares, the subsequent sale of Shares acquired under the Plan and the receipt of any dividends; and (ii) do not commit to structure the terms of the grant of the Restricted Stock Units or any aspect of Participant's participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

Prior to the relevant taxable event, Participant shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding obligations of the Company and/or the Employer. In this regard, Participant authorizes the Company and/or the Employer to withhold all applicable Tax-Related Items legally payable by Participant from his or her wages or other cash compensation paid by the Company and/or the Employer or from proceeds of the sale of the Shares acquired under the Plan. Alternatively, or in addition, the Company may (i) sell or arrange for the sale of Shares that Participant acquires under the Plan to meet the withholding obligation for the Tax-Related Items, and/or (ii) withhold in Shares, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum withholding amount. If the Company satisfies the Tax-Related Item withholding obligation by withholding a number of Shares as described herein, Participant will be deemed to have been issued the full number of Shares due to Participant at vesting, notwithstanding that a number of the Shares is held back solely for purposes of such Tax-Related Items.

Finally, Participant shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of his or her participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue Shares under the Plan and refuse to deliver the Shares if Participant fails to comply with his or her obligations in connection with the Tax-Related Items as described in this paragraph.

**7. Nonassignability.** This award may not be assigned, pledged, or transferred, except, if the Participant dies, to a designated beneficiary or by will or by the laws of descent and distribution. The foregoing restrictions do not apply to transfers under a court order, including, but not limited to, any domestic relations order.

**8. Effect Upon Employment.** The Participant's right to continue to serve the Company or any of its subsidiaries as an officer, employee, or otherwise, is not enlarged or otherwise affected by an award hereunder. Nothing in this Agreement or the Plan gives the Participant any right to continue in the employ of the Company or any of its subsidiaries or to interfere in any way with any right the Company or any subsidiary may have to terminate his or her employment at any time. Payment of Shares is not

secured by a trust, insurance contract or other funding medium, and the Participant does not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on his or her behalf. A Restricted Stock Unit award confers no rights as a shareholder of the Company until Shares are actually delivered to the Participant.

**9. Notices.** Any notice required or permitted under this Agreement is deemed to have been duly given if delivered, telecopied, or mailed (certified or registered mail, return receipt requested) or sent by internationally-recognized courier guaranteeing next day delivery (a) to the Participant at the address on file in the Company's (or relevant subsidiary's) personnel records or (b) to the Company, attention Stock Plan Administration at its principal executive offices, which are currently located at 767 Fifth Avenue, New York, NY 10153.

**10. Disclosure and Use of Information.**

*a. By signing and returning the attached Notice of Grant, and as a condition of the grant of the Restricted Stock Units, the Participant hereby expressly and unambiguously consents to the collection, use, and transfer of personal data as described in this paragraph by and among, as necessary and applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

*b. The Participant understands that the Employer, the Company and/or its other subsidiaries holds, by means of an automated data file or otherwise, certain personal information about the Participant, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Restricted Stock Units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in the Participant's favor, for purposes of managing and administering the Plan ("Data").*

*c. The Participant also understands that part or all of his or her Data may be held by the Company or its subsidiaries in connection with managing and administering previous award or incentive plans or for other purposes, pursuant to a prior transfer made with the Participant's consent in respect of any previous grant of restricted stock units or other awards.*

*d. The Participant further understands that the Employer may transfer Data to the Company or its subsidiaries as necessary to implement, administer, and manage his or her participation in the Plan. The Company and its subsidiaries may transfer data among themselves, and each, in turn, may further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").*

*e. The Participant understands that the Company, its subsidiaries, and the Data Recipients are or may be located in his or her country of residence or elsewhere. The Participant authorizes the Employer, the Company, its subsidiaries, and the Data Recipients to receive, possess, use, retain, and transfer Data in electronic or other form to implement, administer, and manage his or her participation in the Plan, including any transfer of Data that the Administrator deems appropriate for the administration of the Plan and any transfer of Shares on his or her behalf to a broker or third party with whom the Shares may be deposited.*

f. *The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative.*

g. *The Participant understands that Data will be held as long as is reasonably necessary to implement, administer and manage his or her participation in the Plan and he or she may oppose the processing and transfer of his or her Data and may, at any time, review the Data, request that any necessary amendments be made to it, or withdraw his or her consent by notifying the Company in writing. The Participant further understands that withdrawing consent may affect his or her ability to participate in the Plan.*

**11. Discretionary Nature and Acceptance of Award.** By accepting this Award, the Participant agrees to be bound by the terms of this Agreement and acknowledges that:

a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;

b. The award of Restricted Stock Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Restricted Stock Units, or benefits in lieu of Restricted Stock Units, even if Restricted Stock Units have been awarded repeatedly in the past.

c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;

d. Participant's participation in the Plan is voluntary;

e. Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant's employment at any time;

f. Restricted Stock Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;

g. The Restricted Stock Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;

h. In the event the Participant is not an employee of the Company, the Restricted Stock Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Restricted Stock Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;

i. The future value of the underlying Shares is unknown and cannot be predicted with certainty;

j. In consideration of the award of the Restricted Stock Units, no claim or entitlement to compensation or damages shall arise from termination of the Restricted Stock Units or diminution in value of the Restricted Stock Units, or Shares acquired upon vesting of the Restricted Stock Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Restricted Stock Units, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

k. In the event of termination of Participant's employment (whether or not in breach of local labor laws), Participant's right to receive Restricted Stock Units under the Plan and to vest in such Restricted Stock Units, if any, will terminate effective as of the date that Participant is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when Participant is no longer actively employed for purposes of this Agreement;

l. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding Participant's participation in the Plan or Participant's acquisition or sale of the underlying Shares; and

m. Participant is hereby advised to consult with Participant's own personal tax, legal and financial advisors regarding Participant's participation in the Plan before taking any action related to the Plan.

**12. Failure to Enforce Not a Waiver.** The Company's failure to enforce at any time any provision of this Agreement does not constitute a waiver of that provision or of any other provision of this Agreement.

**13. Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York, that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under the Restricted Stock Units or this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of New York, and agree that such litigation will be conducted in the courts of New York County, New York, or the federal courts for the United States for the Southern District of New York, and no other courts, where the Restricted Stock Units are made and/or to be performed.

**14. Partial Invalidity.** The invalidity or illegality of any provision of this Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant in order to prevent taxation under Code section 409A.

**16. Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by

electronic means. Participant hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

By: \_\_\_\_\_  
Amy DiGesio  
Executive Vice President,  
Global Human Resources

**NOTICE OF GRANT  
UNDER  
THE ESTÉE LAUDER COMPANIES INC.  
AMENDED AND RESTATED FISCAL 2002 SHARE INCENTIVE PLAN (The "Plan")**

This is to confirm that you were awarded a grant of Restricted Stock Units at the most recent meeting of the Stock Plan Subcommittee of the Compensation Committee of the Board of Directors representing the right upon vesting of such units to receive shares of Class A Common Stock of The Estée Lauder Companies Inc. (the "Shares"), subject to the terms of the Plan and the Restricted Stock Unit Agreement. This award was made in recognition of the significant contributions you have made as a key employee of the Company, and to motivate you to achieve future successes by aligning your interests more closely with those of our stockholders. This Restricted Stock Unit award is granted under and governed by the terms and conditions of the Plan and the Restricted Stock Unit Agreement (the "Agreement") made part hereof. The Agreement and Summary Plan Description are being sent to you in a separate email. Please read these documents and keep them for future reference. The specific terms of your award are as follows:

Participant:

Employee Number:

Number of Restricted Stock Units:

Grant Date: **September 1, 2010**

Vesting Commencement Date: **September 1, 2010**

Vesting Schedule: Subject to Participant's continuous employment, this Restricted Stock Unit grant shall vest as to the number of Shares set forth below:

<u>Shares</u>	<u>Vesting Date</u>
	<b>October 31, 2011</b>
	<b>October 31, 2012</b>
	<b>October 31, 2013</b>

Vesting Period: The Vesting Commencement Date through and including the applicable date set forth in the Vesting Schedule

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (973) 492-3609.

If you wish to accept this grant, **please sign this Notice of Grant and return immediately to:**

Compensation Department  
767 Fifth Avenue, 43rd Floor  
New York, New York 10153  
**Attention: Thomas Fellenbaum**

Any dividends earned on vested Shares, after applicable withholding, that are held in an account for Participant at BNY Mellon Shareowner Services (or its successor) engaged by The Estée Lauder Companies Inc. for the purposes of holding the Shares for Participant upon vesting (the "Agent"), will be automatically reinvested in accordance with Agent's applicable procedures in additional whole and fractional shares Company Class A Common Stock unless you notify Patricia Zakrzewski or Thomas Fellenbaum in writing prior to the Vesting Date set forth above that you do not wish to have your dividends reinvested.

The undersigned hereby accepts, and agrees to, all terms and provisions of the Agreement, including those contained in this Notice of Grant.

By \_\_\_\_\_ Date \_\_\_\_\_

Enclosure: Share Incentive Plan Overview

**Sign and Return this Notice of Grant Immediately!**

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**Amendment to Employment Agreement**

**THIS AMENDMENT** (“Amendment”), dated as of October 8, 2010, to the Employment Agreement, dated as of July 1, 2000, as amended as of July 1, 2002, November 16, 2005, December 31, 2008 and as of July 1, 2009 (the “Agreement”), between The Estée Lauder Companies Inc., a Delaware corporation (“the “Company”), and Leonard A. Lauder, a resident of New York, New York (the “Executive”).

**WITNESSETH:**

WHEREAS, the Executive and the Company are parties to the Agreement; and

WHEREAS, the Company and the Executive wish to amend the Agreement to reflect the mutually agreed upon changes;

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and obligations hereinafter set forth, the parties hereto, intending to be legally bound, hereby agree to amend the Agreement as follows:

1. Base Salary. Section 3(a) of the Agreement shall be amended to read in its entirety as follows:

As compensation for all services to be rendered pursuant to this Agreement and as payments for the rights and interests granted the Executive hereunder, the Company shall pay or cause any of its subsidiaries to pay the Executive a per diem of \$10,000, provided, however, that the maximum amount that may be earned in any Contract Year is \$1,600,000 or such other amount or per diem as is determined by the Compensation Committee of the Board of Directors of the Company from time to time. For purposes of the remainder of the Term of Employment, Base Salary shall mean the amounts payable to the Executive for his services and the related rights and interests in the applicable Contract Year.

2. Certain Limitations on Covered Payments Subject to Excise Tax under Section 4999 of the Code. Section 5(g) of the Agreement shall be amended to read in its entirety as follows:

(g) Certain Limitations.

(i) Notwithstanding anything to the contrary contained herein, in the event that any amount or benefit paid or distributed to the Executive pursuant to this Agreement, taken together with any amounts or benefits otherwise paid or distributed to the Executive by the Company or any affiliated company (collectively, the “Covered Payments”), are or become subject to the tax (the “Excise Tax”) imposed under Section 4999 of the Code, or any similar tax that may hereafter be imposed, the Covered Payments shall be reduced (but not below zero) until no portion of such payments would be subject to Excise Tax.

(ii) For purposes of determining whether any of the Covered Payments will be subject to the Excise Tax and the amount of such Excise Tax,

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(A) such Covered Payments will be treated as “parachute payments” to the extent they exceed the “2.99 base amount threshold” within the meaning of Section 280G of the Code, and all “parachute payments” in excess of the “base amount” (as defined under Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless, and except to the extent that, in the good faith judgment of the Company’s independent certified public accountants appointed prior to the date of the change in ownership or control or tax counsel selected by such accountants (the “Accountants”), the Company has a reasonable basis to conclude that such Covered Payments (in whole or in part) either do not constitute “parachute payments” or are otherwise not subject to such Excise Tax, and

(B) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

3. Miscellaneous.

- a. Except as provided above, all other terms and conditions of the Agreement shall remain the same.
- b. Capitalized terms used in this Amendment shall have the meanings ascribed to such terms in the Agreement, except to the extent the term is modified herein.
- c. This Amendment shall be subject to, and governed by, the laws of the State of New York applicable to contracts made and to be performed therein.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first written above.

THE ESTÉE LAUDER COMPANIES INC.

By: /s/ Amy DiGeso

Name: Amy DiGeso  
Title: Executive Vice President –  
Global Human Resources

/s/ Leonard A. Lauder

Leonard A. Lauder

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## Certification

I, Fabrizio Freda certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Estée Lauder Companies Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2010

/s/ FABRIZIO FREDA

Fabrizio Freda  
President and Chief Executive Officer

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## Certification

I, Richard W. Kunes certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Estée Lauder Companies Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2010

/s/ RICHARD W. KUNES

Richard W. Kunes  
Executive Vice President and Chief Financial Officer

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**Certification  
Pursuant to Rule 13a-14(b) or  
Rule 15d-14(b) and 18 U.S.C. Section 1350  
(as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002)**

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), the undersigned officer of The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (the "10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and the information contained in the 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2010

/s/ FABRIZIO FREDA

Fabrizio Freda  
President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) and for no other purpose.

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**Certification  
Pursuant to Rule 13a-14(b) or  
Rule 15d-14(b) and 18 U.S.C. Section 1350  
(as adopted pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002)**

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), the undersigned officer of The Estée Lauder Companies Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (the "10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and the information contained in the 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2010

/s/ RICHARD W. KUNES

Richard W. Kunes  
Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) and for no other purpose.

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