ESTEE LAUDER COMPANIES INC
Form 10-Q
May 06, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

212-572-4200

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

At April 27, 2011, 120,343,190 shares of the registrant s Class A Common Stock, $.01 par value, and 76,232,041 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

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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 March 31		**Nine Months Ended March 31**	
	2011	**2010**	**2011**	**2010**
	(In millions, except per share data)			
Net Sales	$ 2,165.7	$ 1,860.0	$ 6,749.4	$ 5,955.7
Cost of Sales	482.6	444.6	1,511.8	1,415.1
Gross Profit	1,683.1	1,415.4	5,237.6	4,540.6
Operating expenses				
Selling, general and administrative	1,415.9	1,276.6	4,136.9	3,708.7
Restructuring and other special charges	21.8	12.5	39.6	40.0
Goodwill impairment	29.3		29.3	16.6
Impairment of other intangible assets	7.0		7.0	29.0
Total operating expenses	1,474.0	1,289.1	4,212.8	3,794.3
Operating Income	209.1	126.3	1,024.8	746.3
Interest expense, net	15.8	18.2	48.0	57.7
Earnings before Income Taxes	193.3	108.1	976.8	688.6
Provision for income taxes	68.2	50.2	316.2	231.2
Net Earnings	125.1	57.9	660.6	457.4
Net earnings attributable to noncontrolling interests	(0.4)	(0.4)	(0.9)	(3.0)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$ 124.7	$ 57.5	$ 659.7	$ 454.4
Net earnings attributable to The Estée Lauder Companies Inc. per common share				
Basic	$ .63	$ .29	$ 3.35	$ 2.30
Diluted	.62	.28	3.28	2.27
Weighted average common shares outstanding				

Basic	197.7	198.0	197.0	197.4
Diluted	202.0	201.8	201.1	200.1
Cash dividends declared per common share	$	$	$ .75	$ .55

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	March 31 2011 (Unaudited)	June 30 2010
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,099.0	$ 1,120.7
Accounts receivable, net	1,249.6	746.2
Inventory and promotional merchandise, net	889.3	826.6
Prepaid expenses and other current assets	472.6	427.5
Total current assets	3,710.5	3,121.0
Property, Plant and Equipment, net	1,087.2	1,023.6
Other Assets		
Goodwill	874.4	752.5
Other intangible assets, net	232.2	109.5
Other assets	292.2	329.0
Total other assets	1,398.8	1,191.0
Total assets	$ 6,196.5	$ 5,335.6
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 144.7	$ 23.4
Accounts payable	373.5	425.2
Accrued income taxes	116.8	5.6
Other accrued liabilities	1,339.5	1,118.0
Total current liabilities	1,974.5	1,572.2
Noncurrent Liabilities		
Long-term debt	1,082.8	1,205.0
Accrued income taxes	160.6	163.3
Other noncurrent liabilities	449.8	429.7
Total noncurrent liabilities	1,693.2	1,798.0
Contingencies (Note 8)		
Equity		
Common stock, $.01 par value; 650,000,000 shares Class A authorized; shares issued: 195,627,645 at March 31, 2011 and 190,767,435 at June 30, 2010; 240,000,000 shares Class B authorized; shares issued and outstanding: 76,232,041 at March 31, 2011 and 77,082,041 at June 30, 2010	2.7	2.7
Paid-in capital	1,673.2	1,428.7
Retained earnings	4,075.4	3,564.0
Accumulated other comprehensive loss	(49.7)	(196.7)
	5,701.6	4,798.7
Less: Treasury stock, at cost; 74,770,419 Class A shares at March 31, 2011 and 70,125,805 Class A shares at June 30, 2010	(3,193.3)	(2,850.3)

Total stockholders equity The Estée Lauder Companies Inc.		2,508.3		1,948.4
Noncontrolling interests		20.5		17.0
Total equity		2,528.8		1,965.4
Total liabilities and equity	$	6,196.5	$	5,335.6

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31	
	2011	2010
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 660.6	$ 457.4
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	212.6	196.8
Deferred income taxes	(8.1)	(28.7)
Non-cash stock-based compensation	74.5	44.8
Excess tax benefits from stock-based compensation arrangements	(38.1)	(7.7)
Loss on disposal of property, plant and equipment	4.9	10.3
Non-cash charges associated with restructuring activities	7.8	9.7
Goodwill and other intangible asset impairments	36.3	45.6
Pension and post-retirement benefit expense	51.5	44.2
Pension and post-retirement benefit contributions	(55.0)	(56.5)
Other non-cash items	0.4	0.4
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(433.9)	(132.5)
Decrease (increase) in inventory and promotional merchandise, net	(0.4)	4.0
Increase in other assets, net	(57.7)	(18.9)
Increase (decrease) in accounts payable	(81.2)	24.8
Increase in accrued income taxes	163.9	73.5
Increase in other liabilities	189.5	131.0
Net cash flows provided by operating activities	727.6	798.2
Cash Flows from Investing Activities		
Capital expenditures	(223.9)	(161.4)
Acquisition of businesses and other intangible assets, net of cash acquired	(256.1)	(9.3)
Proceeds from disposition of long-term investments	0.2	
Purchases of long-term investments		(0.1)
Net cash flows used for investing activities	(479.8)	(170.8)
Cash Flows from Financing Activities		
Increase (decrease) in current debt, net	6.7	(9.0)
Repayments and redemptions of long-term debt	(15.1)	(25.4)
Net settlement of interest rate derivatives	47.4	
Net proceeds from stock-based compensation transactions	128.7	173.0
Excess tax benefits from stock-based compensation arrangements	38.1	7.7
Payments to acquire treasury stock	(346.6)	(147.7)
Dividends paid to stockholders	(148.0)	(109.1)
Payments to noncontrolling interest holders		(5.4)
Net cash flows used for financing activities	(288.8)	(115.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	19.3	5.2

Net Increase (Decrease) in Cash and Cash Equivalents		(21.7)		516.7
Cash and Cash Equivalents at Beginning of Period		1,120.7		864.5
Cash and Cash Equivalents at End of Period	$	1,099.0	$	1,381.2

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). 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 are reported as cumulative translation adjustments through other comprehensive income (loss) (OCI). Such adjustments, attributable to The Estée Lauder Companies Inc., amounted to $69.9 million and $(45.8) million of unrealized translation gain (loss), net of tax, during the three months ended March 31, 2011 and 2010, respectively, and $161.5 million and $(12.1) million of unrealized translation gain (loss), net of tax, during the nine months ended March 31, 2011 and 2010, respectively. For the Company s Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings.

The accompanying consolidated statements of earnings include net exchange losses on foreign currency transactions of $5.7 million and $8.5 million during the three months ended March 31, 2011 and 2010, respectively, and $6.5 million and $22.0 million during the nine months ended March 31, 2011 and 2010, respectively.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $36.7 million and $34.3 million as of March 31, 2011 and June 30, 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

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

The Company s largest customer sells products primarily within the United States and accounted for $241.2 million, or 11%, and $215.0 million, or 12%, of the Company s consolidated net sales for the three months ended March 31, 2011 and 2010, respectively, and $769.5 million, or 11%, and $686.5 million, or 12%, of the Company s consolidated net sales for the nine months ended March 31, 2011 and 2010, respectively. This customer accounted for $180.9 million, or 14%, and $84.3 million, or 11%, of the Company s accounts receivable at March 31, 2011 and June 30, 2010, respectively.

Inventory and Promotional Merchandise

		March 31 2011		June 30 2010
		(In millions)		
Inventory and promotional merchandise, net consists of:				
Raw materials	$	213.9	$	206.0
Work in process		66.4		78.6
Finished goods		466.9		377.8
Promotional merchandise		142.1		164.2
	$	889.3	$	826.6

Property, Plant and Equipment

		March 31 2011		June 30 2010
		(In millions)		
Property, plant and equipment by asset class (useful life) consists of:				
Land	$	14.7	$	14.3
Buildings and improvements (10 to 40 years)		189.0		172.5
Machinery and equipment (3 to 10 years)		1,315.0		1,174.9
Furniture and fixtures (5 to 10 years)		91.8		82.1
Leasehold improvements		1,181.4		1,081.2

		2,791.9		2,525.0
Less accumulated depreciation and amortization		1,704.7		1,501.4
	$	1,087.2	$	1,023.6

The cost of assets related to projects in progress of $183.5 million and $160.4 million as of March 31, 2011 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 $74.8 million and $66.3 million during the three months ended March 31, 2011 and 2010, respectively, and $204.0 million and $187.5 million during the nine months ended March 31, 2011 and 2010, respectively. Depreciation and amortization related to the Company   s manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The effective income tax rate was 35.3% and 46.4% for the three months ended March 31, 2011 and 2010, respectively. The higher rate in the fiscal 2010 third quarter was primarily attributable to additional tax expense related to foreign operations recorded discretely in that quarter.

The effective income tax rate was 32.4% and 33.6% for the nine months ended March 31, 2011 and 2010, respectively. The decrease in the effective income tax rate was principally due to favorable income tax reserve adjustments recorded in the fiscal 2011 second quarter, including a tax and interest benefit of approximately $11 million, net of tax, attributable to concluding the U.S. Internal Revenue Service (IRS) examination of fiscal 2006 through 2008.

As of March 31, 2011 and June 30, 2010, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $118.1 million and $157.3 million, respectively. The change to the balance of gross unrecognized tax benefits in this period was primarily attributable to the completion of the IRS examination of fiscal 2006 through 2008. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $65.8 million.   The total interest and penalty expense related to unrecognized tax benefits during the three and nine months ended March 31, 2011 in the accompanying consolidated statements of earnings was $1.2 million and $0.9 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at March 31, 2011 and June 30, 2010 was $40.3 million and $43.6 million, respectively. On the basis of the information available as of March 31, 2011, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of $20 million to $30 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 nine months ended March 31, 2011, the IRS commenced its examination of fiscal 2009 and 2010.

Recently Issued Accounting Standards

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

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

In January 2010, the FASB issued authoritative guidance that required entities to make new disclosures about recurring or nonrecurring fair-value measurements of assets and liabilities. The Company adopted the new guidance in its fiscal 2010 third quarter, except for certain detailed recurring Level 3 disclosures, which are effective for the Company s fiscal 2012 first quarter. The Company currently does not have any recurring Level 3 fair value measurements.

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In June 2009, the FASB issued authoritative guidance to eliminate the exception to consolidate a qualifying special-purpose entity, change the approach to determining the primary beneficiary of a variable interest entity and require companies to more frequently re-assess whether they must consolidate variable interest entities. Under the new guidance, the primary beneficiary of a variable interest entity is identified qualitatively as the enterprise that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. This guidance becomes effective for the Company s 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

On July 1, 2010, the Company acquired Smashbox Beauty Cosmetics (Smashbox) which included the addition of goodwill of approximately $140 million, amortizable intangible assets of approximately $61 million (with a weighted average amortization period of 9 years) and non-amortizable intangible assets of approximately $77 million related to the Company s makeup business.

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

(In millions)	**Skin Care**	**Makeup**	**Fragrance**	**Hair Care**	**Total**
Balance as of June 30, 2010					
Goodwill	$ 67.9	$ 265.1	$ 54.8	$ 400.6	$ 788.4
Accumulated impairments	(20.9)			(15.0)	(35.9)
	47.0	265.1	54.8	385.6	752.5
Goodwill acquired during the period		145.2			145.2
Impairment charges	(2.6)			(26.7)	(29.3)
Translation and other adjustments	1.4	0.2	0.2	4.2	6.0
	(1.2)	145.4	0.2	(22.5)	121.9
Balance as of March 31, 2011					
Goodwill	69.5	410.5	55.0	398.0	933.0
Accumulated impairments	(23.7)			(34.9)	(58.6)
	$ 45.8	$ 410.5	$ 55.0	$ 363.1	$ 874.4

Other intangible assets consist of the following:

	March 31, 2011			June 30, 2010		
(In millions)	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Amortizable intangible assets:						
Customer lists and other	$ 270.2	$ 164.6	$ 105.6	$ 205.0	$ 151.0	$ 54.0
License agreements	43.0	43.0		43.0	43.0	
	$ 313.2	$ 207.6	105.6	$ 248.0	$ 194.0	54.0
Non-amortizable intangible assets:						
Trademarks and other			126.6			55.5
Total intangible assets			$ 232.2			$ 109.5

The aggregate amortization expense related to amortizable intangible assets for the three months ended March 31, 2011 and 2010 was $3.7 million and $2.0 million, respectively, and for the nine months ended March 31, 2011 and 2010 was $11.2 million and $7.1 million, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2011 and each of the fiscal years ending June 30, 2012 to 2015 is $3.4 million, $13.7 million, $13.8 million, $13.8 million and $13.7 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impairment Testing During the Nine Months Ended March 31, 2011

During the third quarter of fiscal 2011, the Ojon reporting unit reassessed and subsequently altered the timing of new market initiatives, including the rollout of reformulated product lines and certain components of its future international expansion plans, resulting in revisions to its internal forecasts. The Company concluded that these changes in circumstances in the Ojon reporting unit triggered the need for an interim impairment review of its trademark and goodwill. Additionally, these changes in circumstances were also an indicator that the carrying amount of the customer list may not be recoverable. The Company performed an interim impairment test for the trademark and a recoverability test for the customer list as of February 28, 2011. For the customer list, the Company concluded that the carrying amount of this asset was recoverable. However, for the Ojon trademark, the Company concluded that the carrying value exceeded its estimated fair value, which was based on the use of a royalty rate to determine discounted projected future cash flows (relief-from-royalty method). As a result, the Company recognized an impairment charge of $7.0 million. After adjusting the carrying value of the trademark, the Company completed an interim impairment test for goodwill and recorded an impairment charge for the remaining goodwill related to the Ojon reporting unit of $29.3 million, at the exchange rate in effect at that time. The fair value of the reporting unit was based upon the income approach, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows. These impairment charges were reflected in the hair care and skin care product categories and in the Americas region.

Impairment Testing During the Nine Months Ended March 31, 2010

During the second quarter of fiscal 2010, the Darphin reporting unit identified issues related to the planned streamlining of its distribution process, resulting in revisions to its internal forecasts. The Company determined that the reporting unit s trademark was impaired, with fair value estimated based upon the relief-from-royalty method, and therefore recorded an impairment charge of $5.8 million, at the exchange rate in effect at that time, in the skin care product category and in the Europe, the Middle East & Africa region.

During the second quarter of fiscal 2010, the Ojon reporting unit altered and delayed certain components of its future expansion plans, resulting in revisions to its internal forecasts. The Company concluded for the Ojon trademark and customer list, that the carrying values exceeded their estimated fair values, which were determined based upon the relief-from-royalty method for the trademark and discounted projected future cash flows for the customer list. As a result, the Company recognized asset impairment charges of $6.0 million for the trademark and $17.2 million for the customer list, at the exchange rate in effect at that time. After adjusting the carrying value of the trademark and customer list, the Company completed an interim impairment test for goodwill and recorded a goodwill impairment charge related to the Ojon reporting unit of $16.6 million, at the exchange rate in effect at that time. The fair value of the reporting unit was based upon weighting of the income and market approaches, utilizing estimated cash flows and a terminal value, discounted at a rate of return that reflects the relative risk of the cash flows, as well as valuation multiples derived from comparable publicly traded companies that are applied to operating performance of the reporting unit. These impairment charges were reflected in the hair care and skin care product categories and in the Americas region.

NOTE 3 ACQUISITION OF BUSINESS

On July 1, 2010, the Company acquired Smashbox. 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 during fiscal 2011 related to the acquisition of the Bobbi Brown brand was approximately $256 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 to $450 million, before taxes. While the Company will continue to seek cost savings opportunities, the Company s current plans are to identify and approve specific initiatives under the Program through fiscal 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program expected to be incurred (including those recorded plus other initiatives approved through March 31, 2011) is approximately $284 million to $289 million, of which approximately $187.5 million to $189 million relates to restructuring charges, approximately $42 million of other costs to implement the initiatives, approximately $38.5 million to $42 million in sales returns and approximately $16 million in inventory write-offs. The restructuring charges are comprised of approximately $141 million to $142.5 million of employee-related costs, approximately $27 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately $19.5 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through March 31, 2011 was $227.4 million.

The Program focuses on a redesign of the Company s organizational structure in order to integrate it in a more cohesive way and operate more globally across brands and functions. The principal aspect of the Program is the reduction of the workforce by approximately 2,000 employees. Specific actions taken during the nine months ended March 31, 2011 and 2010 included:

- Resize and Reorganize the Organization The Company continued the realignment and optimization of its organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings in each region and across various functions. This included the reduction of the workforce which occurred through the consolidation of certain functions through a combination of normal attrition and job eliminations, and the closure and consolidation of certain distribution and office facilities.

- Turnaround or Exit Unprofitable Operations To improve the profitability in certain of the Company s brands and regions, the Company has selectively exited certain channels of distribution, categories and markets, and has made changes to turnaround others. This included the exit from the global wholesale distribution of the Company s Prescriptives brand and the reformulation of Ojon brand products. In connection with these activities, the Company incurred charges related to product returns, inventory write-offs, reduction of workforce and termination of contracts.

- Outsourcing In order to balance the growing need for information technology support with the Company s efforts to provide the most efficient and cost effective solutions, the Company continued the outsourcing of certain information technology processes. The Company incurred costs to transition services to an outsource provider.

Restructuring Charges

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
	(In millions)			
Employee-related costs	$ 18.8	$ 8.6	$ 28.3	$ 22.6
Asset write-offs	0.8	1.1	1.4	1.8
Contract terminations	0.2	0.1	2.0	1.3
Other exit costs	0.5	0.6	1.0	5.3
Total restructuring charges	$ 20.3	$ 10.4	$ 32.7	$ 31.0

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

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	$ 60.9	$ 4.2	$ 3.4	$ 1.8	$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Nine months ended March 31, 2011	28.3	1.4	2.0	1.0	32.7
Charges recorded through March 31, 2011	$ 118.5	$ 16.6	$ 7.7	$ 9.0	$ 151.8

The following table presents accrued restructuring and the related activity as of and for the nine months ended March 31, 2011 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	28.3	1.4	2.0	1.0	32.7
Cash payments	(22.0)		(2.0)	(0.7)	(24.7)
Non-cash write-offs		(1.4)			(1.4)
Translation adjustments	1.1		0.1		1.2
Balance at March 31, 2011	$ 38.0	$	$ 0.2	$ 0.7	$ 38.9

Accrued restructuring charges at March 31, 2011 are expected to result in cash expenditures funded from cash provided by operations of approximately $13 million, $21 million, $4 million and $1 million in fiscal 2011, 2012, 2013 and 2014, respectively.

Total Charges Associated with Restructuring Activities

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
	(In millions)			
Sales returns (included in Net Sales)	$ 0.7	$ 2.2	$ 2.2	$ 13.3
Cost of sales	1.0	1.8	5.6	5.8
Restructuring charges	20.3	10.4	32.7	31.0
Other special charges	1.5	2.1	6.9	9.0
Total charges associated with restructuring activities	$ 23.5	$ 16.5	$ 47.4	$ 59.1

During the three months ended March 31, 2011, the Company recorded $0.7 million reflecting sales returns (less a related cost of sales of $0.3 million) and a write-off of inventory of $1.3 million associated with turnaround operations, primarily related to the reformulation of Ojon brand products. During the nine months ended March 31, 2011, the Company recorded $2.2 million reflecting sales returns (less a related cost of sales of $0.8 million) and a write-off of inventory of $6.4 million associated with turnaround operations, primarily related to the reformulation of Ojon brand products.

During the three months ended March 31, 2010, the Company recorded $2.2 million reflecting sales returns and $1.8 million for the write-off of inventory associated with exiting unprofitable operations. During the nine months ended March 31, 2010, the Company recorded $13.3 million reflecting sales returns (less a related cost of sales of $2.2 million) and a write-off of inventory of $8.0 million associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand.

Other special charges in connection with the implementation of the Program primarily relate to consulting and other professional services and accelerated depreciation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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.

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

	Asset Derivatives			Liability Derivatives		
		Fair Value (1)			Fair Value (1)	
(In millions)	Balance Sheet Location	March 31 2011	June 30 2010	Balance Sheet Location	March 31 2011	June 30 2010
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 8.7	$ 17.1	Other accrued liabilities	$ 24.8	$ 10.5
Interest rate swap contracts	Other assets		38.7	Not applicable		
Total Derivatives Designated as Hedging Instruments		8.7	55.8		24.8	10.5

Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	1.5	2.0	Other accrued liabilities	8.6	2.0
Total Derivatives		$ 10.2	$ 57.8		$ 33.4	$ 12.5

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31		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 March 31	
(In millions)	**2011**	**2010**		**2011**	**2010**
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ (14.2)	$ (1.4)	Cost of sales	$ (0.5)	$ (2.1)
			Selling, general and administrative	(2.6)	(3.1)
Total derivatives	$ (14.2)	$ (1.4)		$ (3.1)	$ (5.2)

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $0.8 million and $(0.7) million for the three months ended March 31, 2011 and 2010, respectively. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended March 31, 2011 and 2010.

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended March 31		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (2) Nine Months Ended March 31	
(In millions)	**2011**	**2010**		**2011**	**2010**
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ (29.3)	$ (7.9)	Cost of sales	$ (1.5)	$ (5.8)
			Selling, general and administrative	(4.7)	(10.0)
Total derivatives	$ (29.3)	$ (7.9)		$ (6.2)	$ (15.8)

(2) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $0.9 million and $(1.1) million for the nine months ended March 31, 2011 and 2010, respectively. There was a net $(0.5) million (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the nine months ended March 31, 2011. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the nine months ended March 31, 2010.

		Amount of Gain or (Loss) Recognized in Earnings on Derivatives (3)			
	Location of Gain or (Loss) Recognized in Earnings on Derivatives	**Three Months Ended March 31**		**Nine Months Ended March 31**	
(In millions)		**2011**	**2010**	**2011**	**2010**
Derivatives in Fair Value Hedging Relationships:					
Interest rate swap contracts	Interest expense, net	$	$ 3.2	$ 8.7	$ 2.5

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

		Amount of Gain or (Loss) Recognized in Earnings on Derivatives			
	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)		**2011**	**2010**	**2011**	**2010**
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forward contracts	Selling, general and administrative	$ (4.1)	$ (1.1)	$ (7.1)	$ (4.5)

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 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 December 2012. 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 March 31, 2011, the Company s foreign currency cash-flow hedges were highly effective, in all material respects. The estimated net loss as of March 31, 2011 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is $7.0 million. The accumulated gain (loss) on derivative instruments in accumulated other comprehensive income (loss) was $(13.4) million and $9.7 million as of March 31, 2011 and June 30, 2010, respectively.

At March 31, 2011, the Company had foreign currency forward contracts in the amount of $1,691.3 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound ($297.3 million), Swiss franc ($292.1

million), Euro ($229.8 million), Canadian dollar ($206.0 million), Australian dollar ($123.5 million), South Korean won ($89.6 million) and Russian ruble ($61.9 million).

Fair Value Hedges

The Company may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. During the nine months ended March 31, 2011, 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. This 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.

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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 $10.2 million at March 31, 2011. 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. At March 31, 2011, the Company was in a net liability position for certain derivative contracts that contain such features with two counterparties. The fair value of those contracts as of March 31, 2011 was approximately $8.3 million. Such credit-risk-related contingent features would be triggered if (a) upon a merger involving the Company, the ratings of the surviving entity were materially weaker than prior to the merger or (b) the Company s credit ratings fall below investment grade (rated below BBB-/Baa3) and the Company fails to enter into an International Swaps & Derivatives Association Credit Support Annex within 30 days of being requested by the counterparty. The fair value of collateral required or assets required to settle the instruments immediately if a triggering event were to occur, is estimated at approximately the fair value of the contracts. As of March 31, 2011, the Company was in compliance with such credit-risk-related contingent 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 and liabilities acquired through business combinations, goodwill, indefinite-lived intangible assets and long-lived assets for the purposes of calculating potential impairment, and liabilities associated with restructuring activities. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

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

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

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

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2011:

(In millions)		Level 1		Level 2		Level 3		Total
Assets:								
Foreign currency forward contracts	$		$	10.2	$		$	10.2
Available-for-sale securities		6.5						6.5
Total	$	6.5	$	10.2	$		$	16.7
Liabilities:								
Foreign currency forward contracts	$		$	33.4	$		$	33.4

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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 June 30, 2010:

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

The following table presents the Company s hierarchy as of March 31, 2011 and impairment charges for the three and nine months ended March 31, 2011 for certain of its nonfinancial assets measured at fair value on a nonrecurring basis, due to a change in circumstances that triggered an interim impairment review:

(In millions)	**Impairment charges**	**Carrying Value March 31, 2011**	**Level 1**	**Level 2**	**Level 3 (1)**
Goodwill	$ 29.3	$	$	$	$
Other intangible assets, net	7.0	10.0			10.0
Total	$ 36.3	$ 10.0	$	$	$ 10.0

(1) See Note 2 for discussion of the valuation techniques used to measure fair value, the description of the inputs and information used to develop those inputs.

The following table presents the Company s hierarchy as of December 31, 2009 and impairment charges for the nine months ended March 31, 2010 for certain of its nonfinancial assets measured at fair value on a nonrecurring basis, due to a change in circumstances that triggered an interim impairment review and a recoverability test:

(In millions)	**Impairment charges**	**Carrying Value December 31,**	**Level 1**	**Level 2**	**Level 3 (1)**

		2009			
Goodwill	$ 16.6	$ 28.1	$	$	$ 28.1
Other intangible assets, net	29.0	41.2			41.2
Total	$ 45.6	$ 69.3	$	$	$ 69.3

[1] See Note 2 for discussion of the valuation techniques used to measure fair value, the description of the inputs and information used to develop those inputs.

Fair Value of Financial Instruments

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

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

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

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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.

Interest rate swap contracts - The fair values of the Company s 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 nine months ended March 31, 2011, the Company terminated its interest rate swap agreements. See Note 5 Derivative Financial Instruments.

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

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

	March 31 2011		**June 30 2010**	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Nonderivatives				
Cash and cash equivalents	$ 1,099.0	$ 1,099.0	$ 1,120.7	$ 1,120.7
Available-for-sale securities	6.5	6.5	5.4	5.4
Current and long-term debt	1,227.5	1,277.9	1,228.4	1,325.3
Derivatives				
Foreign currency forward contracts asset (liability)	(23.2)	(23.2)	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 March 31, 2011 and 2010 consisted of the following:

					Other than	
	Pension Plans				**Pension Plans**	
	U.S.		**International**		**Post-retirement**	
(In millions)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Service cost	$ 6.4	$ 5.6	$ 5.4	$ 4.5	$ 0.9	$ 0.8
Interest cost	7.0	7.3	5.0	4.8	1.9	2.0
Expected return on plan assets	(8.7)	(8.0)	(5.6)	(5.0)	(0.1)	
Amortization of:						
Prior service cost	0.2	0.2	0.5	0.6		
Actuarial loss	2.4	1.0	1.5	0.5	0.5	0.2
Net periodic benefit cost	$ 7.3	$ 6.1	$ 6.8	$ 5.4	$ 3.2	$ 3.0

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The components of net periodic benefit cost for the nine months ended March 31, 2011 and 2010 consisted of the following:

					Other than	
	Pension Plans				**Pension Plans**	
	U.S.		**International**		**Post-retirement**	
(In millions)	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Service cost	$ 19.2	$ 16.9	$ 15.9	$ 13.5	$ 2.8	$ 2.5
Interest cost	21.0	22.0	14.7	14.7	5.8	6.0
Expected return on plan assets	(26.1)	(24.2)	(16.5)	(15.1)	(0.3)	
Amortization of:						
Prior service cost	0.6	0.5	1.5	1.8		
Actuarial loss	7.2	3.1	4.4	1.4	1.3	0.4
Settlements and curtailments				0.7		
Net periodic benefit cost	$ 21.9	$ 18.3	$ 20.0	$ 17.0	$ 9.6	$ 8.9

The Company previously disclosed in its consolidated financial statements for the fiscal year ended June 30, 2010 that it did not expect to make cash contributions to its U.S. pension plans or its post-retirement benefit plans, but it did intend to make $21.4 million of cash contributions to its international defined benefit pension plans during the fiscal year ending June 30, 2011. During the fiscal 2011 third quarter, the Company made discretionary contributions to the trust based, noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) and the domestic post-retirement benefit plan of $18.0 million and $6.0 million, respectively. The Company may decide to make additional discretionary contributions to these plans during the remainder of fiscal 2011. During the nine months ended March 31, 2011, the Company made contributions to its international pension plans totaling approximately $20 million. As of March 31, 2011, the expected contributions to the international pension plans are currently anticipated to be approximately $24 million for the fiscal year ending June 30, 2011.

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   STOCK-BASED COMPENSATION

The Company has various stock-based compensation programs under which awards, including stock options, performance share units (PSU), restricted stock units (RSU), share units and market share units (MSU) may be granted. As of March 31, 2011, approximately 14,469,100 shares of the Company s Class A Common Stock were reserved and available to be granted pursuant to these plans.

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

	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)	**2011**	**2010**	**2011**	**2010**
Compensation expense	$ 20.1	$ 14.0	$ 74.5	$ 44.8
Income tax benefit	6.7	4.7	24.8	14.9

As of March 31, 2011, the total unrecognized compensation cost related to nonvested stock-based awards was $86.6 million and the related weighted average period over which it is expected to be recognized is approximately 2.0 years.

Stock Options

The following is a summary of the Company s stock option programs as of March 31, 2011 and activity during the nine months then ended:

(Shares in thousands)	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value(1) (in millions)	Weighted Average Contractual Life Remaining in Years
Outstanding at June 30, 2010	10,083.6	$ 39.84		
Granted at fair value	2,515.7	58.37		
Exercised	(3,300.8)	38.97		
Expired	(20.3)	41.47		
Forfeited	(42.0)	47.07		
Outstanding at March 31, 2011	9,236.2	45.16	$ 472.9	6.9
Vested and expected to vest at March 31, 2011	9,120.1	45.04	$ 468.0	6.8
Exercisable at March 31, 2011	4,826.9	40.59	$ 269.2	5.1

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

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
	(In millions, except per share data)			
Per-share weighted average grant date fair value of stock options granted	$ 29.24	$ 19.95	$ 18.93	$ 10.64
Intrinsic value of stock options exercised	$ 82.6	$ 55.6	$ 133.8	$ 72.1

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

	Three Months Ended March 31		**Nine Months Ended March 31**	
	2011	**2010**	**2011**	**2010**
Weighted average expected stock-price volatility	29%	30%	31%	30%
Weighted average expected option life	7 years	9 years	8 years	8 years
Average risk-free interest rate	2.9%	3.2%	2.2%	3.1%
Average dividend yield	1.0%	1.9%	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 from options on the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted average expected option life assumption, the Company considers the exercise behavior of past grants and models the pattern of aggregate exercises. The average risk-free interest rate is based on the U.S. Treasury strip rates over 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 nine months ended March 31, 2011, 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. 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 March 31, 2011 and activity during the nine months then ended:

(Shares in thousands)	**Shares**	**Weighted Average Grant Date Fair Value Per Share**
Nonvested at June 30, 2010	296.3	$ 42.00
Granted	184.6	58.61
Vested		
Forfeited		
Nonvested at March 31, 2011	480.9	48.38

Restricted Stock Units

The following is a summary of the status of the Company s RSUs as of March 31, 2011 and activity during the nine months then ended:

(Shares in thousands)	**Shares**	**Weighted Average Grant Date Fair Value Per Share**
Nonvested at June 30, 2010	1,300.9	$ 37.79
Granted	929.2	57.47
Vested	(747.0)	38.68
Forfeited	(35.7)	45.74
Nonvested at March 31, 2011	1,447.4	49.77

Share Units

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The following is a summary of the status of the Company s share units as of March 31, 2011 and activity during the nine months then ended:

(Shares in thousands)	**Shares**		**Weighted Average Grant Date Fair Value Per Share**
Outstanding at June 30, 2010	26.4	$	39.27
Granted	2.5		71.02
Dividend equivalents	0.3		78.42
Converted			
Outstanding at March 31, 2011	29.2		42.45

Cash Units

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company s Class A Common Stock. The Company recorded $2.3 million and $0.3 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended March 31, 2011 and 2010, respectively. The Company recorded $4.0 million and $3.0 million as compensation expense to reflect additional deferrals and the change in the market value for the nine months ended March 31, 2011 and 2010, respectively.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Market Share Unit

During the nine months ended March 31, 2011, the Company granted a market share unit (MSU) to an executive of the Company which is payable in shares of the Company s Class A Common Stock, subject to continued employment through June 30, 2014. Such MSU will be settled based upon the average closing stock price per share of the Company s Class A Common Stock on the New York Stock Exchange during the 20 trading days ending June 30, 2014 (Average Price). No settlement will occur if the Average Price is below a minimum threshold, and up to 160,000 shares will be issued depending on the extent to which the Average Price equals or exceeds that minimum threshold. The MSU is accompanied by dividend equivalent rights that will be payable in cash upon settlement of the MSU.

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

NOTE 10 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:

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
	(In millions, except per share data)			
Numerator:				
Net earnings attributable to The Estée Lauder Companies Inc.	$ 124.7	$ 57.5	$ 659.7	$ 454.4

Denominator:					
Weighted average common shares outstanding	Basic	197.7	198.0	197.0	197.4
Effect of dilutive stock options		3.5	3.1	3.2	2.0
Effect of restricted stock units		0.8	0.7	0.9	0.7
Weighted average common shares outstanding	Diluted	202.0	201.8	201.1	200.1
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic		$ .63	$ .29	$ 3.35	$ 2.30
Diluted		.62	.28	3.28	2.27

As of March 31, 2011 and 2010, outstanding stock options that were not included in the computation of diluted EPS because their inclusion would be anti-dilutive were de minimis. As of March 31, 2011 and 2010, 0.5 million and 0.4 million shares underlying 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.

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THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
		(In millions)		
Net earnings	$ 125.1	$ 57.9	$ 660.6	$ 457.4
Other comprehensive income (loss):				
Net unrealized investment gain (loss)	0.2	0.1	0.3	0.3
Net derivative instruments gain (loss)	(7.2)	2.4	(15.1)	4.9
Amounts included in net periodic benefit cost, net	(0.7)	6.2	0.3	9.9
Translation adjustments	71.3	(47.5)	164.1	(13.4)
	63.6	(38.8)	149.6	1.7
Comprehensive income (loss)	188.7	19.1	810.2	459.1
Comprehensive (income) loss attributable to noncontrolling interests:				
Net (earnings) loss	(0.4)	(0.4)	(0.9)	(3.0)
Translation adjustments	(1.4)	1.7	(2.6)	1.3
	(1.8)	1.3	(3.5)	(1.7)
Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.	$ 186.9	$ 20.4	$ 806.7	$ 457.4

NOTE 12 EQUITY

Changes in equity are as follows:

	Total Stockholders Equity The Estée Lauder Companies Inc.							
							Non-	
	Common	Paid-in	Retained	Accumulated	Treasury		controlling	Total
(In millions)	Stock	Capital	Earnings	OCI	Stock	Total	Interests	Equity
Balance June 30, 2010	$ 2.7	$ 1,428.7	$ 3,564.0	$ (196.7)	$ (2,850.3)	$ 1,948.4	$ 17.0	$ 1,965.4
Net earnings			659.7			659.7	0.9	660.6
Common stock dividends			(148.3)			(148.3)		(148.3)

Other comprehensive income				147.0		147.0	2.6	149.6
Acquisition of treasury stock					(326.9)	(326.9)		(326.9)
Stock-based compensation		244.5			(16.1)	228.4		228.4
Balance March 31, 2011	$ 2.7	$ 1,673.2	$ 4,075.4	$ (49.7)	$ (3,193.3)	$ 2,508.3	$ 20.5	$ 2,528.8

Common Stock

During the nine months ended March 31, 2011, 850,000 shares of the Company s Class B Common Stock were converted into the Company s Class A Common Stock.

During the nine months ended March 31, 2011, the Company purchased approximately 4,732,900 shares of its Class A Common Stock for $346.6 million.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13   STATEMENT OF CASH FLOWS

Supplemental cash flow information for the nine months ended March 31, 2011 and 2010 is as follows:

	2011		2010	
		(In millions)		
Cash:				
Cash paid during the period for interest	$	40.0	$	50.2
Cash paid during the period for income taxes	$	161.4	$	173.2
Non-cash investing and financing activities:				
Long-term debt issued upon acquisition of business	$		$	0.3
Liabilities incurred for acquisitions	$		$	7.9
Incremental tax benefit from the exercise of stock options	$	(15.0)	$	(17.4)
Capital lease obligations incurred	$	1.2	$	24.8
Interest rate swap derivative mark to market	$	8.7	$	2.5

NOTE 14   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 March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
		(In millions)		
PRODUCT CATEGORY DATA				
Net Sales:				
Skin Care	$ 933.4	$ 819.8	$ 2,820.3	$ 2,455.9
Makeup	878.2	710.8	2,554.6	2,244.4
Fragrance	232.0	222.8	1,014.1	917.8
Hair Care	110.0	96.1	316.1	304.0
Other	12.8	12.7	46.5	46.9
	2,166.4	1,862.2	6,751.6	5,969.0
Returns associated with restructuring activities	(0.7)	(2.2)	(2.2)	(13.3)
	$ 2,165.7	$ 1,860.0	$ 6,749.4	$ 5,955.7
Operating Income (Loss) before total charges associated with restructuring activities:				
Skin Care	$ 137.1	$ 100.0	$ 547.2	$ 414.2
Makeup	128.3	58.7	423.4	334.2
Fragrance	(7.5)	(17.5)	115.7	60.0
Hair Care	(23.8)	2.7	(9.8)	(7.8)
Other	(1.5)	(1.1)	(4.3)	4.8
	232.6	142.8	1,072.2	805.4
Reconciliation:				
Total charges associated with restructuring activities	(23.5)	(16.5)	(47.4)	(59.1)
Interest expense, net	(15.8)	(18.2)	(48.0)	(57.7)
Earnings before income taxes	$ 193.3	$ 108.1	$ 976.8	$ 688.6
GEOGRAPHIC DATA				
Net Sales:				
The Americas	$ 928.9	$ 829.1	$ 2,914.1	$ 2,638.3
Europe, the Middle East & Africa	794.7	662.0	2,468.9	2,159.4
Asia/Pacific	442.8	371.1	1,368.6	1,171.3
	2,166.4	1,862.2	6,751.6	5,969.0
Returns associated with restructuring activities	(0.7)	(2.2)	(2.2)	(13.3)
	$ 2,165.7	$ 1,860.0	$ 6,749.4	$ 5,955.7
Operating Income (Loss):				
The Americas	$ 54.7	$ 26.3	$ 256.7	$ 193.1
Europe, the Middle East & Africa	115.8	77.3	556.1	401.0
Asia/Pacific	62.1	39.2	259.4	211.3
	232.6	142.8	1,072.2	805.4
Total charges associated with restructuring activities	(23.5)	(16.5)	(47.4)	(59.1)
	$ 209.1	$ 126.3	$ 1,024.8	$ 746.3

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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 and nine months ended March 31, 2011 and 2010, and reflects the basis of presentation described in *Note 1 of Notes to Consolidated Financial Statements Summary of Significant Accounting Policies* for all periods presented. 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 March 31		Nine Months Ended March 31	
	2011	2010	2011	2010
		(In millions)		
NET SALES				
By Region:				
The Americas	$ 928.9	$ 829.1	$ 2,914.1	$ 2,638.3
Europe, the Middle East & Africa	794.7	662.0	2,468.9	2,159.4
Asia/Pacific	442.8	371.1	1,368.6	1,171.3
	2,166.4	1,862.2	6,751.6	5,969.0
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	$ 2,165.7	$ 1,860.0	$ 6,749.4	$ 5,955.7
By Product Category:				
Skin Care	$ 933.4	$ 819.8	$ 2,820.3	$ 2,455.9
Makeup	878.2	710.8	2,554.6	2,244.4
Fragrance	232.0	222.8	1,014.1	917.8
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Other	12.8	12.7	46.5	46.9
	2,166.4	1,862.2	6,751.6	5,969.0
Returns associated with restructuring activities	(0.7)	(2.2)	(2.2)	(13.3)
	$ 2,165.7	$ 1,860.0	$ 6,749.4	$ 5,955.7
OPERATING INCOME (LOSS)				
By Region:				
The Americas	$ 54.7	$ 26.3	$ 256.7	$ 193.1
Europe, the Middle East & Africa	115.8	77.3	556.1	401.0
Asia/Pacific	62.1	39.2	259.4	211.3
	232.6	142.8	1,072.2	805.4
Total charges associated with restructuring activities	(23.5)	(16.5)	(47.4)	(59.1)
	$ 209.1	$ 126.3	$ 1,024.8	$ 746.3
By Product Category:				
Skin Care	$ 137.1	$ 100.0	$ 547.2	$ 414.2
Makeup	128.3	58.7	423.4	334.2

Fragrance	(7.5)	(17.5)	115.7	60.0
Hair Care	(23.8)	2.7	(9.8)	(7.8)
Other	(1.5)	(1.1)	(4.3)	4.8
	232.6	142.8	1,072.2	805.4
Total charges associated with restructuring activities	(23.5)	(16.5)	(47.4)	(59.1)