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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2011

OR

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

For the transition period from to

Commission file number 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

The aggregate market value of the registrant s voting common equity held by non-affiliates of the registrant was approximately $9.43 billion at December 31, 2010 (the last business day of the registrant s most recently completed second quarter).*

At August 15, 2011, 118,983,321 shares of the registrant s Class A Common Stock, $.01 par value, and 75,982,041 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Document	**Where Incorporated**
Proxy Statement for Annual Meeting of Stockholders to be held November 11, 2011	Part III

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

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THE ESTÉE LAUDER COMPANIES INC.

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Forward-Looking Statements and Risk Factors

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

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

PART I

Item 1. ***Business.***

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

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

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

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

We have been controlled by the Lauder family since the founding of our Company. Members of the Lauder family, some of whom are directors, executive officers and/or employees, beneficially own, directly or indirectly, as of August 15, 2011, shares of Class A Common Stock and Class B Common Stock having approximately 86.8% of the outstanding voting power of the Common Stock.

Products

Skin Care - Our broad range of skin care products addresses various skin care needs for women and men. These products include moisturizers, creams, lotions, serums, cleansers, sun screens and self-tanning products, a number of which are developed for use on particular areas of the body, such as the face or the hands or around the eyes. Skin care products accounted for approximately 42% of our net sales in fiscal 2011.

Makeup - We manufacture, market and sell a full array of makeup products, including lipsticks, lip glosses, mascaras, foundations, eyeshadows, nail polishes and powders. Many of the products are offered in an extensive array of shades and colors. We also sell related items such as compacts, brushes and other makeup tools. Makeup products accounted for approximately 38% of our net sales in fiscal 2011.

Fragrance - We offer a variety of fragrance products for women and men. The fragrances are sold in various forms, including eau de parfum sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance. Fragrance products accounted for approximately 14% of our net sales in fiscal 2011.

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Hair Care - Hair care products are offered mainly in salons and in freestanding retail stores and include hair color and styling products, shampoos, conditioners and finishing sprays. In fiscal 2011, hair care products accounted for approximately 5% of our net sales.

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

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

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

- **Aramis** - We pioneered the marketing of prestige men s fragrance, grooming and skin care products with the introduction of Aramis products in 1964.

- **Lab Series** - Lab Series Skincare for Men, introduced in 1987, offers a full range of products for cleansing, shaving, treatment and body that are especially formulated to answer the unique needs of men s skin.

- **Tommy Hilfiger** - We have an exclusive global license arrangement for a line of men s and women s fragrances and cosmetics under the Tommy Hilfiger brand name. We launched the line in 1995 with a men s fragrance, *tommy*. Today, we manufacture and sell a variety of fragrances and ancillary products for men and women.

- **Donna Karan Cosmetics** - In November 1997, we obtained the exclusive global license for a line of fragrances and other cosmetics under the Donna Karan New York and DKNY brand names, including certain products that were originally sold by The Donna Karan Company. We launched the first DKNY women s fragrance in fiscal 2000 and the first DKNY men s fragrance in fiscal 2001. Under this license, fragrances have been expanded to include extensive lines of companion bath and body products.

- **Michael Kors** - In May 2003, we entered into an exclusive global license agreement for fragrances and beauty products under the Michael Kors brand name. The fragrances, as well as ancillary bath and body products, are sold primarily in department stores, specialty stores and freestanding Michael Kors boutiques.

- **Sean John Fragrances** - In 2005, we entered into an exclusive license agreement to develop fragrances and other beauty products under the Sean John brand name. Sean Diddy Combs played an active role in creating the signature scent, Unforgivable. The Unforgivable fragrance, as well as other fragrances and ancillary products, are primarily available at select department and specialty stores as well as travel retail outlets around the world.

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

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

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

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

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

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

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

Jo Malone - We acquired London-based Jo Malone Limited in October 1999. Jo Malone is known for its unique fragrance portfolio and luxury products for the bath, body and home. Products are also available through a company catalogue, at our freestanding stores, online and at a very limited group of specialty stores, in approximately 25 countries throughout the world.

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

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

BeautyBank - BeautyBank is the entrepreneurial think tank of the Company. BeautyBank is dedicated to the ideation, development and incubation of innovative new brand concepts for the Company globally. Brands developed and marketed under the BeautyBank umbrella include:

- **FLIRT!** - Established in 2004 by BeautyBank, FLIRT! is primarily available at Kohl s Department Stores and Kohls.com. FLIRT! is a color-oriented makeup line that allows consumers to be their prettiest and freedom to be their flirtiest.

- **GoodSkin Labs** - Established by BeautyBank in 2007, this line of skin care products was created with the expertise of a dermatologist and is sold in a number of countries around the world.

Tom Ford Beauty - In April 2005, we entered into a license agreement to develop and distribute fragrances and other beauty products under the Tom Ford brand name. In November 2006, we introduced Tom Ford Black Orchid, the brand s first signature fragrance. In fiscal 2012, we plan to introduce a full-range luxury cosmetics line. Tom Ford products are available in department stores, perfumeries, pharmacies and select Tom Ford retail stores.

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

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

In addition, we manufacture and sell products under the Prescriptives, American Beauty and grassroots research labs brands. We also develop and sell products under licenses from Kiton, Missoni and Daisy Fuentes. In fiscal 2011, we acquired the license to develop Ermenegildo Zegna products, which we will begin selling in fiscal 2012.

Our heritage brands are Estée Lauder, Aramis and Designer Fragrances, Clinique and Origins. Prescriptives was a heritage brand until fiscal 2010, when we exited the global wholesale distribution of the brand. M A C and Bobbi Brown are our makeup artist brands.

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Distribution

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

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

We sell Aveda products principally to independent salons and spas, cosmetology schools, third-party distributors and specialty retailers and directly to consumers at our freestanding Aveda Experience Centers and certain Aveda Institutes. There are currently about 8,200 points of sale, primarily in the United States, that sell Aveda products. Bumble and bumble products are principally sold to about 3,200 independent salons and specialty stores, primarily in the United States. Darphin products are principally sold through high-end independent pharmacies, principally in Europe, representing approximately 3,400 points of sale.

As part of our strategy to diversify our distribution, we have been selectively opening new single-brand, freestanding stores that we operate. The Origins, Aveda and M A C brands are the primary focus for this method of distribution. At this time, we operate approximately 625 single-brand, freestanding stores worldwide, the majority of which are in the United States, and expect that number to increase moderately over the next several years. We also operate approximately 125 multi-brand stores.

We primarily sell BeautyBank products in approximately 1,100 Kohl s Department Stores in the United States and internationally in pharmacies and perfumeries, representing approximately 5,000 additional points of sale.

We currently sell products from 15 of our brands directly to consumers over the Internet through our own e-commerce and certain of our m-commerce sites. Some or all of these brands are sold over the Internet in the following countries: the United States, Canada, the United Kingdom, France, Germany, Austria, Brazil, Australia, Korea, China, and Japan.

As is customary in the cosmetics industry, our practice is to accept returns of our products from retailers if properly requested, authorized and approved.

Customers

Our strategy is to build strong relationships with selected retailers globally. Senior management works with executives of our major retail accounts on a regular basis and we believe we are viewed as an important supplier to these customers. Our largest customer, Macy s Inc., sells products primarily within the United States and accounted for 11%, 11% and 12% of our consolidated net sales for fiscal 2011, 2010 and 2009, respectively, and 10% and 11% of our accounts receivable as of June 30, 2011 and 2010, respectively.

Marketing

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

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Our High-Touch approach promotes the total value we offer, by leveraging our in-person and virtual assets, as well as merchandising and education, to provide a customized consumer experience. To support this initiative, we are expanding our efforts to evolve our e-commerce-based online strategy into a multi-pronged digital strategy encompassing e-commerce, as well as digital and social media. We have dedicated resources to implement coordinated, brand-enhancing strategies across all online activities. We use the Internet to educate and inform consumers about certain of our brands. Currently, 18 of our brands have marketing sites, 15 of which have e-commerce capabilities. In order to continue to offer unparalleled customer service and set the standard for prestige beauty shopping online, we partner with key brick and mortar retailers to strengthen their e-commerce business and drive sales of our brands on their sites, continue to innovate to better meet consumer online shopping preferences (e.g., how-to videos, ratings and reviews and mobile phone and tablet applications), and support e-commerce and m-commerce business via digital and social marketing activities designed to build brand equity and consumer engagement.

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

Global net expenses for advertising, merchandising, sampling, promotion and product development costs were $2,345.8 million, $2,015.9 million and $1,878.8 million in fiscal 2011, 2010 and 2009, respectively. These amounts include activities relating to purchase with purchase promotions that are reflected in net sales and cost of sales and gift with purchase promotions that are reflected in cost of sales.

Information Systems

Information systems support business processes including product development, marketing, sales, order processing, production, distribution and finance. We expect that these systems will continue to provide pertinent inventory and sales data in the short term. However, as part of our long-term effort to enhance these systems and increase productivity, we are implementing our Strategic Modernization Initiative (SMI), which includes an enterprise-wide global program that we expect will deliver a single set of integrated data, processes and technologies, which would be scalable and used to standardize business processes across brands, operating units and sales locations. As part of SMI, we anticipate the continued migration of our operations to SAP, with the majority of our locations being enabled through fiscal 2013.

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

Of the many systems currently being utilized, the most significant to our business needs are: (i) a centralized data repository of essential attributes for each of the products we offer, or plan to offer, which enables us to globally manufacture and market products of consistent quality; (ii) a sales analysis system to track weekly sales at the stock keeping unit (SKU) level at most significant retail sales locations (i.e. sell-through data), increasing our understanding of consumer preferences and enabling us to coordinate more effectively our product development, manufacturing and marketing strategies; (iii) an automated replenishment system with many of our key domestic customers, allowing us to replenish inventories for individual points of sale automatically, with minimal paperwork; and (iv) an inventory management system to provide us with a global view of finished goods availability relative to forecasted requirements. As we continue to modernize our key processes and the related systems and infrastructure, we have recently started the development of upgraded capabilities to support our human resource and retail operations. The initial focus for fiscal 2012 will be in North America. The plan is to progressively deploy these systems globally over the next three years as appropriate according to local requirements and priorities.

Research and Development

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

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

As of June 30, 2011, we had approximately 550 employees engaged in research and development. Research and development costs totaled $85.7 million, $79.5 million and $81.6 million in fiscal 2011, 2010 and 2009, respectively. Research and development costs are expensed as incurred. We maintain research and development programs at certain of our principal facilities and facilities dedicated to performing research and development, such as our new Shanghai research and development center, see *Item 2. Properties.*

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Manufacturing, Warehousing and Raw Materials

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

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

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

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

Competition

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

Our principal competitors consist of large, well-known, multinational manufacturers and marketers of skin care, makeup, fragrance and hair care products, most of which market and sell their products under multiple brand names. They include, among others, L Oreal S.A.; Shiseido

Company, Ltd.; LVMH Moët Hennessey Louis Vuitton; Coty, Inc.; The Procter & Gamble Company; and Avon Products, Inc. We also face competition from a number of independent brands, as well as some retailers that have developed their own beauty brands. Certain of our competitors also have ownership interests in retailers that are customers of ours.

Trademarks, Patents and Copyrights

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

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

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Employees

At June 30, 2011, we had approximately 32,300 full-time employees worldwide (including certain demonstrators at points of sale who are employed by us), of whom approximately 11,900 are employed in the United States and Canada. None of our employees in the United States is covered by a collective bargaining agreement. In certain other countries, a limited number of employees are covered by a works council agreement or other syndicate arrangements. We believe that relations with our employees are good. We have never encountered a material strike or work stoppage in the United States or in any other country where we have a significant number of employees.

Government Regulation

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

Seasonality

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

Availability of Reports

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

Corporate Governance Guidelines and Code of Conduct

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

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Executive Officers

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

Name	Age	Position(s) Held
John Demsey	55	Group President
Amy DiGeso	59	Executive Vice President Global Human Resources
Fabrizio Freda	53	President, Chief Executive Officer and a Director
Harvey Gedeon	68	Executive Vice President Research & Development, Product Innovation and Brand Product Development
Richard W. Kunes	58	Executive Vice President and Chief Financial Officer
Evelyn H. Lauder	75	Senior Corporate Vice President
Leonard A. Lauder	78	Chairman Emeritus and a Director
Ronald S. Lauder	67	Chairman of Clinique Laboratories, LLC
William P. Lauder	51	Executive Chairman and a Director
Sara E. Moss	64	Executive Vice President and General Counsel
Gregory F. Polcer	56	Executive Vice President Global Supply Chain
Cedric Prouvé	51	Group President International
Alexandra C. Trower	47	Executive Vice President Global Communications

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

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

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

Harvey Gedeon became Executive Vice President - Research and Development in July 2004 and added responsibilities for Corporate Product Innovation in 2007, Package Development in 2008 and Brand Product Development in 2011. From January 2000 to July 2004, he was Senior Vice President - Research and Development. Prior to joining us in January 2000, Mr. Gedeon was Executive Vice President and General Manager, Research and Development and Quality Assurance for Revlon, Inc. from 1997 through 1999. In August 2011, Mr. Gedeon announced his intention to retire. He is expected to continue to work with the Company during a period of transition with the new Executive Vice President Global Research and Development, who is planning to start with the Company on January 1, 2012.

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Richard W. Kunes became Executive Vice President and Chief Financial Officer in November 2004. Prior thereto, he was Senior Vice President and Chief Financial Officer since October 2000. He joined us in 1986 and served in various finance-related positions until November 1993, when he was named Vice President Operations Finance Worldwide. From January 1998 through September 2000, Mr. Kunes was Vice President Financial Administration and Corporate Controller. Prior to joining us, he held finance and controller positions at the Colgate-Palmolive Company. In August 2011, Mr. Kunes announced his intention to retire effective on or about June 30, 2013. He is expected to continue to serve as Chief Financial Officer through fiscal 2012 or until such earlier time as his successor begins to serve in such capacity.

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

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

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

William P. Lauder is Executive Chairman and, in such role, he is Chairman of the Board of Directors. He was Chief Executive Officer of the Company from March 2008 through June 2009 and President and Chief Executive Officer from July 2004 through February 2008. From January 2003 through June 2004, he was Chief Operating Officer. From July 2001 through 2002, he was Group President responsible for the worldwide business of the Clinique and Origins brands and the Company s retail store and online operations. From 1998 to 2001, he was President of Clinique Laboratories, LLC. Prior to 1998, he was President of Origins Natural Resources Inc., and he had been the senior officer of that division since its inception in 1990. Prior thereto, he served in various positions since joining the Company in 1986. He is a member of the Board of Directors of Jarden Corporation (member of the Nominating and Policies Committee), Chairman of the Board of the Fresh Air Fund, a member of the Boards of Trustees of The University of Pennsylvania and The Trinity School in New York City and the Boards of Directors of the 92nd Street Y, the Partnership for New York City, and the Advisory Board of Zelnick Media. He was also a director of GLG Partners, Inc. from July 2006 to October 2010 and True Temper Sports Inc. from 2004 to 2009.

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

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

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

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Alexandra C. Trower became Executive Vice President - Global Communications in April 2008. She directs the Company s overall communications strategy, overseeing brand communications, corporate communications, internal communications and philanthropic communications. Before joining us, Ms. Trower was Senior Vice President, Media Relations for Bank of America from January 2004 to March 2008. From 1997 to 2002, she worked at JPMorgan Chase, where she was responsible for corporate communications at JPMorgan Fleming Asset Management. From 1987 to 1997, Ms. Trower worked at a former division of Citibank, Chancellor Capital Management (now part of Invesco), where she held a variety of communications roles. Ms. Trower serves on the Board of Directors of Hollins University.

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

Item 1A. ***Risk Factors.***

There are risks associated with an investment in our securities.

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

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

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

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

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

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

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

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Acquisitions may expose us to additional risks.

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

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

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

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

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

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

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

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

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

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

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

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business, including changes in accounting standards, tax laws and regulations, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result could adversely affect our financial results.

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

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

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

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

We are subject to risks related to our foreign operations.

We operate on a global basis, with a majority of our fiscal 2011 net sales and operating income generated outside the United States.

We intend to reinvest these earnings in our foreign operations indefinitely, except where we are able to repatriate these earnings to the United States without material incremental tax provision. A portion of our cash and cash equivalents that result from these earnings remain outside the United States.

We maintain offices in over 40 countries and have key operational facilities located outside the United States that manufacture, warehouse or distribute goods for sale throughout the world. Foreign operations are subject to many risks and uncertainties, including:

- fluctuations in foreign currency exchange rates, which can affect our results of operations, the value of our foreign assets, the relative prices at which we and foreign competitors sell products in the same markets and the cost of certain inventory and non-inventory items required in our operations;

- changes in foreign laws, regulations and policies, including restrictions on trade, import and export license requirements, and tariffs and taxes, as well as changes in United States laws and regulations relating to foreign trade and investment; and

- adverse weather conditions, social, economic and geopolitical conditions, such as terrorist attacks, war or other military action.

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

A disruption in operations or our supply chain could adversely affect our business and financial results.

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

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

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

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

As part of SMI, we are implementing enterprise-wide global programs intended to deliver a single set of integrated data, processes and technologies, which would be scalable and used to standardize business processes across brands, regions and functions. We anticipate the continued migration of our operations to SAP, with the majority of our locations to be enabled through fiscal 2013. Like most entity-wide changes to software systems, the implementation of SMI involves risks and uncertainties. Failure to implement SMI as planned, in terms of timing, specifications and/or costs could have an adverse impact on our business and results of operations.

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

Our business planning process is designed to maximize our long-term strength, growth and profitability, not to achieve an earnings target in any particular fiscal quarter. We believe that this longer-term focus is in the best interests of the Company and our stockholders. At the same time, however, we recognize that it may be helpful to provide investors with guidance as to our forecast of net sales, earnings per share and other financial metrics or projections. Accordingly, when we announced our year-end financial results for fiscal 2011, we provided guidance as to a number of assumptions, including our expected net sales and earnings per share for the fiscal year ending June 30, 2012 and the quarter ending September 30, 2011. While we generally expect to provide updates to our guidance when we report our results each fiscal quarter, we assume no responsibility to update any of our forward-looking statements at such times or otherwise. In addition, the longer-term guidance we provide is based on goals that we believe, at the time guidance is given, are reasonably attainable for growth and performance over a number of years. Such targets are more difficult to predict than our current quarter and fiscal year expectations.

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

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

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

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

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

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

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

As of August 15, 2011, members of the Lauder family beneficially own, directly or indirectly, shares of the Company s Class A Common Stock (with one vote per share) and Class B Common Stock (with 10 votes per share) having approximately 86.8% of the outstanding voting power of the Common Stock. In addition, there are five members of the Lauder family who are employees, including three who are members of our Board of Directors. Another family member is on our board and is a party to a consulting agreement and a license agreement with us. As a result of the stock ownership and their positions at the Company, the Lauder family has the ability to exercise significant control and influence over our business, including, without limitation, all matters requiring stockholder approval, including the election of directors, amendments to the certificate of incorporation and significant corporate transactions, such as a merger or other sale of our Company or its assets, for the foreseeable future.

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

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

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

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

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

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

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Item 2. ***Properties*****.**

The following table sets forth our principal owned and leased manufacturing, assembly, research and development and distribution facilities as of August 15, 2011. The leases expire at various times through 2027 subject to certain renewal options.

Location	Use	Approximate Square Footage
The Americas		
Blaine, Minnesota (owned)	Manufacturing and R&D	275,000
Blaine, Minnesota (leased)	Distribution	126,000
Oakland, New Jersey (leased)	Manufacturing	148,000
Melville, New York (owned)	Manufacturing	353,000
Melville, New York (owned)	R&D	134,000
Bristol, Pennsylvania (leased)	Manufacturing	67,000
Bristol, Pennsylvania (leased)	Manufacturing and Assembly	100,000
Bristol, Pennsylvania (leased)	Distribution	728,000
Trevose, Pennsylvania (leased)	Manufacturing and Assembly	140,000
Agincourt, Ontario, Canada (owned)	Manufacturing	96,000
Markham, Ontario, Canada (leased)	Manufacturing	137,000
Markham, Ontario, Canada (leased)	R&D	26,000
Toronto, Ontario, Canada (leased)	Distribution	186,000
Europe, the Middle East & Africa		
Oevel, Belgium (owned)	Manufacturing	113,000
Oevel, Belgium (leased)	Manufacturing and R&D	70,000
Oevel, Belgium (leased)	Distribution	100,000
Kerpen, Germany (leased)	Distribution	98,000
Sandton, South Africa (leased)	Distribution	63,750
Madrid, Spain (leased)	Distribution	90,000
Lachen, Switzerland (owned)	Manufacturing	53,000
Lachen, Switzerland (owned)	Distribution	125,000
Hampshire, United Kingdom (leased)	Distribution	203,000
Petersfield, United Kingdom (owned)	Manufacturing	225,000
Asia/Pacific		
Rosebury, Australia (leased)	Distribution	104,000
Shanghai, China (leased)	R&D	20,925
Shanghai, China (leased)	Distribution	71,400
Tokyo, Japan (leased)	Distribution	187,000
Yongin, Korea (leased)	Distribution	160,000

We own, lease and occupy numerous offices, assembly and distribution facilities and warehouses in the United States and abroad. We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. We lease approximately 400,000 square feet of rentable space for our principal offices in New York, New York and own an office building of approximately 57,000 square feet in Melville, New York. As of August 15, 2011, we operated approximately 750 freestanding retail stores.

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

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

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

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market for Registrant s Common Equity and Related Stockholder Matters

Our Class A Common Stock is publicly traded on the New York Stock Exchange under the symbol EL. The following table shows the high and low sales prices as reported on the New York Stock Exchange Composite Tape and the cash dividends per share declared in fiscal 2011 and fiscal 2010:

	Fiscal 2011			Fiscal 2010		
	High	Low	Cash Dividends	High	Low	Cash Dividends
First Quarter	$ 65.13	$ 54.61	$	$ 38.21	$ 30.00	$
Second Quarter	81.44	62.46	.75	50.57	35.60	.55
Third Quarter	96.66	79.67		65.75	47.65	
Fourth Quarter	106.57	92.81		71.29	54.17	
Fiscal Year	106.57	54.61	$ .75	71.29	30.00	$ .55

We expect to continue the payment of cash dividends in the future, but there can be no assurance that the Board of Directors will continue to declare them. In November 2010 and 2009, the Board of Directors declared an annual dividend of $.75 and $.55, respectively, which was paid in December 2010 and 2009, respectively.

As of August 15, 2011, there were approximately 7,695 record holders of Class A Common Stock and 17 record holders of Class B Common Stock.

Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 88.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2011, the cumulative total of acquired shares pursuant to the authorization was 74.9 million, reducing the remaining authorized share repurchase balance to 13.1 million. During fiscal 2011, we purchased approximately 5.0 million shares pursuant to the authorization for $376.9 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(3)	$	60.57	1,000,000	17,040,669
August 2010	360,000		56.69	360,000	16,680,669
September 2010	1,061,537(2)		58.12	1,040,000	15,640,669
October 2010					15,640,669
November 2010	413,995(3)		70.60	165,000	15,475,669
December 2010					15,475,669
January 2011					15,475,669
February 2011	550,000		92.61	550,000	14,925,669
March 2011	1,329,200		92.26	1,329,200	13,596,469
April 2011	524,601(3)		95.20	524,600	13,071,869
May 2011					13,071,869
June 2011					13,071,869
Year-to-date	5,257,566	$	75.43	4,968,800	13,071,869

(1) The initial program covering the repurchase of 8.0 million shares was announced in September 1998 and increased by 20.0 million shares each in November 2007, February 2007 and May 2005 and 10.0 million shares in both May 2004 and October 2002.

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

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

Subsequent to June 30, 2011, we purchased approximately 2.8 million additional shares of Class A Common Stock for $280.1 million pursuant to our share repurchase program.

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Sales of Unregistered Securities

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

During the three months ended June 30, 2011, the stockholder set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the date set forth below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
The 4202 Corporation	May 19, 2011	250,000

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Item 6. ***Selected Financial Data*****.**

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

	Year Ended or at June 30				
	2011(a)	2010 (a)	2009 (a)	2008	2007
	(In millions, except per share data)				
Statement of Earnings Data:					
Net sales	$ 8,810.0	$ 7,795.8	$ 7,323.8	$ 7,910.8	$ 7,037.5
Gross profit	6,873.1	5,966.4	5,442.2	5,914.0	5,262.7
Operating income	1,089.4	789.9	418.4	810.7	749.9
Interest expense, net (b)	63.9	74.3	75.7	66.8	38.9
Interest expense on debt extinguishment (c)		27.3			
Earnings before income taxes and discontinued operations	1,025.5	688.3	342.7	743.9	711.0
Provision for income taxes	321.7	205.9	115.9	259.9	255.2
Net earnings from continuing operations	703.8	482.4	226.8	484.0	455.8
Discontinued operations, net of tax					0.5
Net earnings attributable to noncontrolling interests	(3.0)	(4.1)	(8.4)	(10.2)	(7.1)
Net earnings attributable to The Estée Lauder Companies Inc.	700.8	478.3	218.4	473.8	449.2
Cash Flow Data:					
Net cash flows provided by operating activities	$ 1,027.0	$ 956.7	$ 696.0	$ 690.1	$ 661.6
Net cash flows used for investing activities	(606.9)	(281.4)	(339.5)	(478.5)	(373.8)
Net cash flows provided by (used for) financing activities	(313.1)	(406.1)	125.8	(78.1)	(411.6)
Per Share Data:					
Net earnings per common share from continuing operations:					
Basic	$ 3.57	$ 2.44	$ 1.16	$ 2.50	$ 2.23
Diluted	$ 3.50	$ 2.40	$ 1.15	$ 2.46	$ 2.19
Net earnings attributable to The Estée Lauder Companies Inc. per common share:					
Basic	$ 3.56	$ 2.42	$ 1.11	$ 2.44	$ 2.20
Diluted	$ 3.48	$ 2.38	$ 1.10	$ 2.40	$ 2.16
Weighted average common shares outstanding:					
Basic	197.0	197.7	196.3	193.9	204.3
Diluted	201.2	200.7	197.7	197.1	207.8
Cash dividends declared per common share	$ .75	$ .55	$ .55	$ .55	$ .50
Balance Sheet Data:					
Working capital	$ 1,743.2	$ 1,548.8	$ 1,453.3	$ 1,088.0	$ 738.7
Total assets	6,273.9	5,335.6	5,176.6	5,011.2	4,125.7
Total debt (b) (c)	1,218.1	1,228.4	1,421.4	1,196.9	1,088.5
	2,629.4	1,948.4	1,640.0	1,653.2	1,199.0

Stockholders equity - The Estée Lauder Companies Inc.

(a) Fiscal 2011 results included $41.7 million, after tax, or $.21 per diluted share related to total charges associated with restructuring activities. Fiscal 2010 results included $55.9 million, after tax, or $.28 per diluted share related to total charges associated with restructuring activities. Fiscal 2009 results included $61.7 million, after tax, or $.31 per diluted share related to total charges associated with restructuring activities.

(b) In November 2008, we issued and sold $300.0 million of 7.75% Senior Notes due November 1, 2013 in a public offering. We used the net proceeds of this offering to repay then-outstanding commercial paper balances upon their maturity.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition at June 30, 2011 and our results of operations for the three fiscal years ended June 30, 2011 are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements. These estimates and assumptions can be subjective and complex and, consequently, actual results could differ from those estimates. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives.

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

Revenue Recognition

Revenues from product sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of the risk of loss related to those goods. In the Americas region, sales are generally recognized at the time the product is shipped to the customer and in the Europe, the Middle East & Africa and Asia/Pacific regions, sales are generally recognized based upon the customer s receipt. In certain circumstances, transfer of title takes place at the point of sale, for example, at our retail stores.

Revenues are reported on a net sales basis, which is computed by deducting from gross sales the amount of actual product returns received, discounts, incentive arrangements with retailers and an amount established for anticipated product returns. Our practice is to accept product returns from retailers only if properly requested, authorized and approved. In accepting returns, we typically provide a credit to the retailer against accounts receivable from that retailer. As a percentage of gross sales, returns were 3.5%, 4.3% and 4.4% in fiscal 2011, 2010 and 2009, respectively, and the improvement reflects efforts to work with our customers to improve their forecasting and product mix to better address their inventory requirements.

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

In the ordinary course of business, we have established an allowance for doubtful accounts and customer deductions based upon the evaluation of accounts receivable aging, specific exposures and historical trends. Our allowance for doubtful accounts and customer deductions is a subjective critical estimate that has a direct impact on reported net earnings. The allowance for doubtful accounts was $33.9 million and $34.3 million as of June 30, 2011 and 2010, respectively. The allowance for doubtful accounts was reduced by $9.9 million, $15.8 million and $14.1 million for customer deductions and write-offs in fiscal 2011, 2010 and 2009, respectively, and increased by $9.5 million, $8.7 million and $29.2 million for additional provisions in fiscal 2011, 2010 and 2009, respectively.

Inventory

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

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

Pension and Other Post-retirement Benefit Costs

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

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

The discount rate for each plan used for determining future net periodic benefit cost is based on a review of highly rated long-term bonds. For fiscal 2011, we used a discount rate for our Domestic Plans of 5.40% and varying rates on our international plans of between 1.25% and 8.25%. The discount rate for our Domestic Plans is based on a bond portfolio that includes only long-term bonds with an Aa rating, or equivalent, from a major rating agency. We believe the timing and amount of cash flows related to the bonds included in this portfolio is expected to match the estimated defined benefit payment streams of our Domestic Plans. For fiscal 2011, we used an expected return on plan assets of 7.75% for our U.S. Qualified Plan and varying rates of between 2.50% and 8.00% for our international plans. In determining the long-term rate of return for a plan, we consider the historical rates of return, the nature of the plan s investments and an expectation for the plan s investment strategies, see *Item 8. Financial Statements and Supplementary Data Note 13 Pension, Deferred Compensation and Post-retirement Benefit Plans* for details regarding the nature of our pension and post-retirement plan investments. The difference between actual and expected return on plan assets is reported as a component of accumulated other comprehensive income. Those gains/losses that are subject to amortization over future periods will be recognized as a component of the net periodic benefit cost in such future periods. For fiscal 2011, our pension plans had actual return on assets of approximately $92 million as compared with expected return on assets of approximately $57 million, which resulted in a net deferred gain of approximately $35 million, substantially all of which is currently subject to be amortized over periods ranging from approximately 6 to 25 years. The actual return on assets was primarily related to the performance of equity markets during the past fiscal year.

A 25 basis-point change in the discount rate or the expected rate of return on plan assets would have had the following effect on fiscal 2011 pension expense:

(In millions)	**25 Basis-Point Increase**	**25 Basis-Point Decrease**
Discount rate	$ (3.4)	$ 3.3
Expected return on assets	$ (2.1)	$ 2.2

Our post-retirement plans are comprised of health care plans that could be impacted by health care cost trend rates, which may have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates for fiscal 2011 would have had the following effects:

(In millions)	**One-Percentage-Point Increase**	**One-Percentage-Point Decrease**
Effect on total service and interest costs	$ 1.1	$ (1.0)
Effect on post-retirement benefit obligations	$ 10.3	$ (9.7)

For fiscal 2012, we are using a discount rate for the Domestic Plans of 5.40% and varying rates for our international plans of between 1.25% and 8.25%. We are using an expected return on plan assets of 7.75% for the U.S. Qualified Plan and varying rates for our international pension plans of between 2.00% and 8.25%. The net change in these assumptions from those used in fiscal 2011 will result in an increase in pension expense of approximately $0.4 million in fiscal 2012. We will continue to monitor the market conditions relative to these assumptions and adjust them accordingly.

Goodwill, Other Intangible Assets and Long-Lived Assets

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

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

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

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

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

The key estimates and factors used in these two approaches include, but are not limited to, revenue growth rates and profit margins based on internal forecasts, terminal value, the weighted-average cost of capital used to discount future cash flows and comparable market multiples. The fiscal 2011 compound annual growth rate of sales for the first five to eight years of our projections, as considered appropriate for the individual reporting units, ranged between 3% and 19% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2011. The fiscal 2010 compound annual growth rate of sales for the first four to eight years of our projections ranged between 3% and 24% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2010. For reporting units with positive earnings, growth in the corresponding earnings before interest and taxes ranged from 6% to 109% in fiscal 2011 as compared with 9% to 161% in fiscal 2010. The terminal growth rates were projected at 3% after four to eight years in fiscal 2011 and fiscal 2010, which reflects our estimate of long term market and gross domestic product growth. The weighted-average cost of capital used to discount future cash flows ranged from 7.5% to 16% in fiscal 2011 as compared with 9% to 17% in fiscal 2010. The range of market multiples used in our fiscal 2011 impairment testing was from 1.5 to 3 times trailing-twelve-month sales and 11 to 12 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. The range of market multiples used in our fiscal 2010 impairment testing was from 0.5 to 3 times trailing-twelve-month sales and between 9 to 12 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. Future changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill. However, a decrease of 100 basis points in our terminal growth rate or an increase of 100 basis points in our weighted-average cost of capital would still result in a fair value calculation exceeding our book value for each of our reporting units, except for the Ojon reporting unit, see *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Goodwill and Other Intangible Asset Impairments.* Changes in the valuation assumptions from those used in the prior year primarily reflect the impact of the current economic environment on the reporting units and their projected future results of operations.

To determine fair value of other indefinite-lived intangible assets, we use an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. Other indefinite-lived intangible assets fair values require significant judgments in determining both the assets estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value. Changes in such estimates or the application of alternative assumptions could produce significantly different results. The fiscal 2011 and 2010 terminal growth rate applied to future cash flows was 3% and the fiscal 2011 and 2010 discount rates ranged from 10% to 18% and 11% to 19%, respectively. The fiscal 2011 and 2010 royalty rates ranged from 0.5% to 12% and 0.5% to11%, respectively.

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

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Income Taxes

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. As of June 30, 2011, we have current net deferred tax assets of $260.7 million and non-current net deferred tax assets of $61.1 million. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance of $69.5 million for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. Based on our assessments, no additional valuation allowance is required. If we determine that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time.

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

Derivatives

We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We enter 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 our aggregate liability portfolio. We also enter into foreign currency forward contracts and may use option contracts, not designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. We do not utilize derivative financial instruments for trading or speculative purposes. Hedge effectiveness is documented, assessed and monitored by employees who are qualified to make such assessments and monitor the instruments. Variables that are external to us such as social, political and economic risks may have an impact on our hedging program and the results thereof.

Our derivative financial instruments are recorded as either assets or liabilities on the balance sheet and measured at fair value. All derivatives outstanding as of June 30, 2011 are (i) designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), (ii) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (foreign currency cash-flow hedge), or (iii) not designated as a hedging instrument. Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge that is highly effective are recorded in current-period earnings, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on unrecognized firm commitments). Changes in the fair value of a derivative that is designated and qualifies as a foreign currency cash-flow hedge of a foreign-currency-denominated forecasted transaction that is highly effective are recorded in other comprehensive income (loss) (OCI). Gains and losses deferred in OCI are then recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged foreign-currency-denominated forecasted transaction (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative instruments not designated as hedging instruments are reported in current-period earnings.

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

Quantitative Analysis

During the three-year period ended June 30, 2011 there have not been material changes in the assumptions underlying these critical accounting policies, nor to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

While we believe that the estimates that we have made are proper and the related results of operations for the period are presented fairly in all material respects, other assumptions could reasonably be justified that would change the amount of reported net sales, cost of sales, operating expenses or our provision for income taxes as they relate to the provisions for anticipated sales returns, allowance for doubtful accounts, inventory obsolescence reserve and income taxes. For fiscal 2011, had these estimates been changed simultaneously by 2.5% in either direction, our reported gross profit would have increased or decreased by approximately $4.8 million, operating expenses would have changed by approximately $0.8 million and the provision for income taxes would have increased or decreased by approximately $0.7 million. The collective impact of these changes on operating income, net earnings attributable to The Estée Lauder Companies Inc., and net earnings attributable to The Estée Lauder Companies Inc. per diluted common share would be an increase or decrease of approximately $5.6 million, $6.3 million and $.03, respectively.

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RESULTS OF OPERATIONS

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results from continuing operations for fiscal 2011, 2010 and 2009 and reflects the basis of presentation described in *Item 8. Financial Statements and Supplementary Data Note 2 Summary of Significant Accounting Policies and Note 20 Segment Data and Related Information* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance and hair care have been included in the other category.

	Year Ended June 30		
	2011	2010 (In millions)	2009
NET SALES			
By Region:			
The Americas	$ 3,796.3	$ 3,442.1	$ 3,421.2
Europe, the Middle East & Africa	3,257.6	2,859.3	2,611.3
Asia/Pacific	1,760.7	1,510.1	1,299.4
	8,814.6	7,811.5	7,331.9
Returns associated with restructuring activities	(4.6)	(15.7)	(8.1)
	$ 8,810.0	$ 7,795.8	$ 7,323.8
By Product Category:			
Skin Care	$ 3,718.6	$ 3,227.1	$ 2,886.0
Makeup	3,370.8	2,978.2	2,830.9
Fragrance	1,236.0	1,136.9	1,150.9
Hair Care	432.3	413.9	402.4
Other	56.9	55.4	61.7
	8,814.6	7,811.5	7,331.9
Returns associated with restructuring activities	(4.6)	(15.7)	(8.1)
	$ 8,810.0	$ 7,795.8	$ 7,323.8
OPERATING INCOME (LOSS)			
By Region:			
The Americas	$ 244.9	$ 161.5	$ 115.2
Europe, the Middle East & Africa	651.9	500.8	229.7
Asia/Pacific	252.0	212.3	165.2
	1,148.8	874.6	510.1
Total returns and charges associated with restructuring activities	(59.4)	(84.7)	(91.7)
	$ 1,089.4	$ 789.9	$ 418.4
By Product Category:			
Skin Care	$ 595.1	$ 434.3	$ 294.1
Makeup	493.8	416.8	279.8
Fragrance	80.7	26.3	(60.8)
Hair Care	(9.1)	(6.2)	1.1
Other	(11.7)	3.4	(4.1)
	1,148.8	874.6	510.1
Total returns and charges associated with restructuring activities	(59.4)	(84.7)	(91.7)
	$ 1,089.4	$ 789.9	$ 418.4

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

	Year Ended June 30		
	2011	2010	2009
Net sales	100.0%	100.0%	100.0%
Cost of sales	22.0	23.5	25.7
Gross profit	78.0	76.5	74.3
Operating expenses:			
Selling, general and administrative	64.5	65.0	66.7
Restructuring and other special charges	0.6	0.8	1.0
Goodwill impairment	0.1	0.2	0.2
Impairment of other intangible and long-lived assets	0.4	0.4	0.7
	65.6	66.4	68.6
Operating income	12.4	10.1	5.7
Interest expense, net	0.7	1.0	1.0
Interest expense on debt extinguishment		0.3	
Earnings before income taxes	11.7	8.8	4.7
Provision for income taxes	3.7	2.6	1.6
Net earnings	8.0	6.2	3.1
Net earnings attributable to noncontrolling interests		(0.1)	(0.1)
Net earnings attributable to The Estée Lauder Companies Inc.	8.0%	6.1%	3.0%

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

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

Overview

We believe that the best way to continue to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing their changing shopping habits. To be the global leader in prestige beauty, we are implementing a long-term strategy that is guiding us through fiscal 2014. The strategy has numerous initiatives across geographic regions, product categories, brands and functions that are designed to leverage our strengths, make us more productive and grow our sales.

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

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

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We are strengthening our geographic presence by seeking share growth in large, image-building cities within core markets such as the United States, the United Kingdom, France, Italy and Japan. In addition, we continue to prioritize efforts to expand our presence and accelerate share growth in emerging markets such as China, Russia, the Middle East, Eastern Europe and Brazil. We continue to expand our digital presence which resulted in continued growth in net sales of our products sold over the Internet. In North America, we recognized the need to drive profitable growth in our traditional department store channel and saw many benefits from the changes we implemented in prior years and continued to reshape our organization to meet the needs of the changing retail landscape. Internationally, we took actions to continue profitable growth in European perfumeries and pharmacies and in department stores in Asia, while emphasizing our skin care and makeup initiatives to boost our travel retail business and continuing efforts to grow our online, specialty retailer and prestige salon businesses. The travel retail business continues to be a source of sales growth and profitability. Our business in this channel is benefiting from the implementation of programs we designed to enhance consumers High-Touch experiences and convert travelers into purchasers. In addition, we see travel retail as another way to capture the attention of travelers from emerging markets, who either buy in the channel, in stores at their destination or when they return to their homes.

Our High-Touch approach to marketing our products is a key component of our strategy. It is designed to promote the total value we offer, by leveraging our in-person and virtual assets, as well as merchandising and education, to provide a customized consumer experience. In fiscal 2011, we continued to invest in High-Touch service capabilities in existing channels, such as the roll-out of new department store formats, as well as newer channels, such as m-commerce.

While most of the focus is on increasing sales and taking advantage of appropriate opportunities in each market, we continued to implement other initiatives designed to drive out non-value added costs, optimize productivity and increase financial discipline. To optimize our portfolio, we are continuing to focus on improving our margins and share in our distribution channels. We are also continuing to re-energize certain of our brands through the introduction of products that feature advances in research and technology and focused marketing campaigns. At the same time, we are investing in initiatives to incubate and develop next generation products and brands, as well as continuing our overall success in driving turnaround brands toward sustainable profitability levels. We are continuing to build our regional organizations and leveraging them to increase effectiveness and efficiencies while utilizing strategic partnerships, alliances and licensing to build scale in research and development, distribution and third-party manufacturing.

At this time, we do not believe the recent economic uncertainty and financial market volatility taking place in the United States and certain European countries will have a significant impact on our business. This is due in part to our belief that we are better positioned as a result of our strategy to manage our business effectively and efficiently and we will allocate resources appropriately. However, if the degree of uncertainty or volatility worsens or is prolonged, then there will likely be a negative effect on ongoing consumer confidence, demand and spending and as a result, our business. Currently, we believe general economic and other uncertainties still exist in select markets in which we do business such as in Japan, North America and certain countries in Europe. We continue to monitor global economic uncertainties and other risks that may affect our business. The disasters that occurred in Japan during the fiscal year did not have a significant impact on our business or our consolidated financial results for fiscal 2011. At this time, we believe the ongoing consequences may continue for the short term, however, we cannot predict with certainty the magnitude or duration of the impact and we will continue to monitor the situation.

Looking ahead to fiscal 2012, we plan to continue building on our strengths. We have a strong, diverse and highly valuable brand portfolio with global reach and potential, as well as a track record of outstanding creativity, innovation, entrepreneurship and healthy growth. We believe our High-Touch service model has potential beyond department stores, and believe we have a passionate, highly-talented workforce to help us achieve our long-term strategy. Our balance sheet, cash flows and gross margin are strong, however, we continue to operate in a challenging environment. While net sales and operating results improved dramatically from fiscal 2010, we do not expect the same levels of year-over-year improvements to continue. We have a number of areas to improve, including further enhancements to our cost structure, sharing operational best practices internally, increasing traffic to where our products are sold, and further diversification of distribution channels. We also plan on continuing to allocate our spending to the significant modernization of our global information systems, which includes our Strategic Modernization Initiative as well as other initiatives, and shift our focus from gift with purchase activities to advertising, merchandising and sampling initiatives. We expect these strategies will help improve our cost of sales margin but will increase our operating expense margin over the next fiscal year.

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Returns and Charges Associated with Restructuring Activities

In an effort to drive down costs and achieve synergies within our organization, in February 2009, we announced the implementation of a multi-faceted cost savings program (the Program) to position the Company to achieve long-term profitable growth. We anticipate the Program will result in related restructuring and other special charges, inclusive of cumulative charges recorded to date and through the remainder of the Program, totaling between $350 million and $450 million before taxes. While we will continue to seek cost savings opportunities, our current plans are to identify and approve specific initiatives under the Program through fiscal 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program recorded, plus other initiatives approved through June 30, 2011, is approximately $303 million to $308 million, of which approximately $198.5 million to $200 million relates to restructuring charges, approximately $50 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 $151.5 million to $153 million of employee-related costs, approximately $27 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately $20 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through June 30, 2011 was $239.4 million.

We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately $675 million to $725 million (program inception through the end of fiscal 2011 is approximately $560 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. The principal aspect of the Program was the reduction of the workforce by approximately 2,000 employees. Specific actions taken during fiscal 2011 and 2010 included:

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

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

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

Restructuring Charges

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

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	$ 60.9	$ 4.2	$ 3.4	$ 1.8	$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Charges recorded through June 30, 2011	$ 124.8	$ 17.6	$ 8.7	$ 9.1	$ 160.2

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

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

Accrued restructuring charges at June 30, 2011 are expected to result in cash expenditures funded from cash provided by operations of approximately $29 million, $6 million and $2 million in fiscal 2012, 2013 and 2014, respectively.

Total Returns and Charges Associated with Restructuring Activities

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

	Year Ended June 30 2011	2010 (In millions)	2009
Sales returns (included in Net Sales)	$ 4.6	$ 15.7	$ 8.1
Cost of sales	5.8	7.9	6.8
Restructuring charges	41.1	48.8	70.3
Other special charges	7.9	12.3	6.5
Total returns and charges associated with restructuring activities	$ 59.4	$ 84.7	$ 91.7

During fiscal 2011, we recorded $4.6 million reflecting sales returns (less related cost of sales of $1.2 million) and a write-off of inventory of $7.0 million associated with turnaround operations, primarily related to the reformulation of Ojon brand products.

During fiscal 2010, we recorded $15.7 million reflecting sales returns (less related cost of sales of $2.5 million) and $10.4 million for the write-off of inventory associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand.

During fiscal 2009, we recorded $8.1 million reflecting sales returns (less related cost of sales of $1.2 million) and a write-off of inventory of $8.0 million associated with exiting unprofitable operations.

Other special charges in connection with the implementation of actions taken under this Program primarily relate to consulting and other professional services.

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Goodwill and Other Intangible Asset Impairments

As of our annual step-one goodwill impairment test on April 1, 2011, all reporting units fair values substantially exceeded their respective carrying values. As of our annual indefinite-lived asset impairment test on April 1, 2011, we determined, as a result of a planned discontinuation, that the carrying values of two brand trademarks exceeded their estimated fair values, which were based on the use of a royalty rate to determine discounted projected future cash flows (relief-from-royalty method). As a result, we recognized an impairment charge of $1.7 million for the carrying values of the related trademarks. These impairment charges were reflected in the makeup and skin care product categories and in the Americas region. We also determined that the trademark related to the Darphin reporting unit had an estimated fair value exceeding its carrying value by approximately 13% and the trademark related to the Ojon reporting unit had an estimated fair value that equals its carrying value. As of June 30, 2011, the carrying values of the trademarks were $9.0 million and $10.0 million, respectively. The estimated fair values of the trademarks were based upon the relief-from-royalty method. The key assumptions that were used to determine the estimated fair value of the Darphin trademark were predicated on new market initiatives including expanded international distribution. The key assumptions that were used to determine the estimated fair value of the Ojon trademark were predicated on new market initiatives including expanded international distribution and consumer reception to the reformulated product line. If such plans do not materialize, if there is a delay in new market initiatives, or if there is a decline in the business environment, a resulting change in the key assumptions could have a negative impact on the estimated fair value of these trademarks and it is possible we could recognize an impairment charge in the future. The fair values of all other indefinite-lived intangible assets substantially exceeded their respective carrying values.

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. We 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. We 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, we concluded that the carrying amount of this asset was recoverable. However, for the Ojon trademark, we concluded that the carrying value exceeded its estimated fair value, which was based on the relief-from-royalty method. As a result, we recognized an impairment charge of $7.0 million. After adjusting the carrying value of the trademark, we 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. In fiscal 2010, the income approach was used in conjunction with the market approach but due to the reporting unit s existing negative margins, the market approach was deemed not applicable. These impairment charges were reflected in the hair care and skin care product categories and in the Americas region.

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

Fiscal 2011 as Compared with Fiscal 2010

NET SALES

Net sales increased 13%, or $1,014.2 million, to $8,810.0 million, reflecting increases in all geographic regions and product categories. Excluding the impact of foreign currency translation, net sales increased 12%. During fiscal 2010, we undertook an initiative to identify certain underperforming stock keeping units (SKUs) for the purposes of evaluating their relevance to our long-term perfumery strategy in the Europe, the Middle East & Africa region. Based on this evaluation, we decided to discontinue certain of these products in perfumeries and recorded a charge of approximately $31 million to reflect then-anticipated returns of products from participating retailers. This resulted in a favorable comparison with fiscal 2010.

The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of $4.6 million and $15.7 million recorded during fiscal 2011 and fiscal 2010, respectively. We believe the following analysis of net sales better reflects the manner in which we conduct and view our business.

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Product Categories

Skin Care

Net sales of skin care products increased 15%, or $491.5 million, to $3,718.6 million, reflecting the success of our strategic focus on growing this category. The recent launches of the Re-Nutriv Ultimate Lift Age-Correcting and Hydrationist Collections, Idealist Even Skintone Illuminator and Idealist Cooling Eye Illuminator from Estée Lauder contributed incremental sales of approximately $102 million, combined. Also contributing incremental sales to the category were the recent launches of Repairwear Laser Focus Wrinkle & UV Damage Corrector from Clinique and the Plantscription line of products from Origins of approximately $88 million, combined. The recent launches of The Eye Balm Intense and The Radiant Serum from La Mer contributed additional sales of approximately $25 million, combined. Increased sales of Advanced Night Repair Eye Synchronized Complex from Estée Lauder and Even Better Clinical Dark Spot Corrector from Clinique, which were launched in fiscal 2010, contributed approximately $232 million to the net sales growth. Higher sales of the Time Zone line of products from Estée Lauder, Derma White Clinical from Clinique and The Regenerating Serum from La Mer contributed approximately $48 million to the increase. These increases were partially offset by approximately $108 million of lower sales from existing products in the Advanced Night Repair line from Estée Lauder and Cyber White EX from Clinique. Excluding the impact of foreign currency translation, skin care net sales increased 13%.

Makeup

Makeup net sales increased 13%, or $392.6 million, to $3,370.8 million. The increase in makeup net sales primarily reflected higher net sales from our makeup artist brands and the inclusion of Smashbox of approximately $322 million, combined. The recent launches of Pure Color eyeshadow products and Pure Color Long Lasting Lipstick from Estée Lauder and Redness Solutions Makeup from Clinique contributed approximately $57 million, to the increase. The higher results also reflect the favorable comparison to the prior year which included a charge related to our long-term perfumery strategy, as previously discussed, of approximately $27 million. 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 Resilience Lift Extreme Makeup from Estée Lauder of approximately $45 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 12%.

Fragrance

Net sales of fragrance products increased 9%, or $99.1 million, to $1,236.0 million. Incremental sales from the recent launches of Estée Lauder *pleasures bloom* and Hilfiger Loud for Her contributed approximately $34 million to the category. Higher sales of Coach Poppy, pureDKNY and various Jo Malone and Tom Ford fragrances contributed approximately $63 million to the increase. Partially offsetting these increases were lower sales of DKNY Delicious Candy Apples, Estée Lauder Sensuous and I Am King Sean John of approximately $18 million, combined. While results in fiscal 2011 reflect implementation of our long-term strategy for the category, we continue to expect challenges due to competitive dynamics. Excluding the impact of foreign currency translation, fragrance net sales increased 8%.

Hair Care

Hair care net sales increased 4%, or $18.4 million, to $432.3 million, primarily reflecting the recent launches of Be Curly Style-Prep and Control Force from Aveda. The category also benefited from net sales generated from expanded global distribution. These increases were partially offset by the current-year reformulation of Ojon brand products, which was relaunched in the fourth quarter of fiscal 2011. The impact of foreign currency translation on hair care net sales was de minimis.

Geographic Regions

Net sales in the Americas increased 10%, or $354.2 million, to $3,796.3 million. The increase in the current year was primarily attributable to growth in the United States and Canada 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 higher-end prestige skin care products. Net sales also reflected the addition of the Smashbox brand to our portfolio. While partially offset by the exit from the global wholesale distribution of the Prescriptives brand and the current-year reformulation of Ojon brand products, all of these factors contributed to higher net sales in the United States and Canada of approximately $328 million. We are continuing to work with retailers in the U.S. department store channel on strengthening the   High-Touch concepts used to help market our products. Net sales in Latin America increased approximately $26 million, reflecting growth in emerging markets such as Brazil. The growth in this region was partially offset by the impact of unfavorable exchange rates in Venezuela. The impact of foreign currency translation on the Americas net sales was de minimis.

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In Europe, the Middle East & Africa, net sales increased 14%, or $398.3 million, to $3,257.6 million, due to growth from our travel retail business and from most countries in the region and from each product category. This reflects our strategy to strengthen our geographic presence and to succeed in the travel retail channel. Approximately $306 million of the increased net sales came from our travel retail business, the United Kingdom, Russia, the Middle East, South Africa and France. This was attributable to improved retail environments, successful launches of skin care products and higher combined sales from our makeup artist brands. The net sales improvement in our travel retail business also reflected an increase in global airline passenger traffic, new points of distribution and benefits of programs designed to enhance consumers High-Touch experiences and convert travelers into purchasers. The higher results also reflect the favorable comparison to the prior year which included a charge related to our long-term perfumery strategy of approximately $31 million, as previously discussed. Partially offsetting these increases were lower net sales of approximately $13 million in the Balkans and Spain, primarily reflecting the economic situation in those markets. The impact of foreign currency translation on Europe, the Middle East & Africa net sales was de minimis.

Net sales in Asia/Pacific increased 17%, or $250.6 million, to $1,760.7 million, reflecting growth from all countries in the region and each product category. This reflects our strategy to strengthen and expand our geographic presence in Asia, particularly in China. Approximately $181 million of this increase was generated in China, Hong Kong, Korea and Taiwan primarily reflecting strong sales of skin care products. Our businesses in Japan and Australia continued to be challenged due to difficult economic conditions, but they reported net sales gains of approximately $33 million, which were generated from the strengthening of their respective currencies. At this time, we believe the ongoing consequences of the disasters in Japan may continue for the short term, however, we cannot predict with certainty the magnitude or duration of the impact and we will continue to monitor the situation. The region also benefited from the favorable impact of foreign currency translation. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 10%.

Although our financial performance in fiscal 2011 reflected improved economic conditions in certain countries, we expect the recent global economic uncertainties and volatility in financial markets will have an impact on our business. Unless the current conditions worsen or are prolonged, the impact will not be significant. We cannot predict with certainty the magnitude or duration of the impact of global economic uncertainties and volatilities or how it will vary across each of our geographic regions.

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

COST OF SALES

Cost of sales as a percentage of total net sales decreased to 22.0% as compared with 23.5% in the prior year. This improvement primarily reflected our efforts in connection with the Program, including favorable changes in the mix of our business of approximately 70 basis points and favorable manufacturing variances of 30 basis points. Also contributing to the improvements of cost of sales margin was the favorable effect of exchange rates of 30 basis points and a decrease in obsolescence charges of approximately 20 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 65.6% as compared with 66.4% in the prior year, and reflects the impact of the strong growth in net sales during fiscal 2011. This improvement primarily reflected lower selling and shipping costs as a percentage of net sales of approximately 120 basis points due to various cost containment efforts implemented as part of the Program and a strategically focused approach to spending. Also contributing to the improvement were a decrease in general and administrative costs as a percentage of net sales of 40 basis points, lower charges associated with restructuring activities of 20 basis points, lower charges associated with intangible asset impairments of 20 basis points and lower net losses from foreign exchange transactions of 10 basis points. Partially offsetting these improvements were increased spending in advertising, merchandising and sampling costs in line with our strategy of 120 basis points and higher costs related to stock-based compensation of approximately 30 basis points.

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

OPERATING RESULTS

Operating income increased 38%, or $299.5 million, to $1,089.4 million. Operating margin improved to 12.4% of net sales as compared with 10.1% in the prior year, reflecting our higher gross margin and the decrease in our operating expense margin, as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total returns and charges associated with restructuring activities of $59.4 million, or 0.7% of net sales, in fiscal 2011 and $84.7 million, or 1.1% of net sales, in fiscal 2010. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

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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 37%, or $160.8 million, to $595.1 million, primarily reflecting improved results from all of our heritage brands driven by increased net sales from higher-margin product launches. Makeup operating income increased 18%, or $77.0 million, to $493.8 million, primarily reflecting improved results from our makeup artist brands and from our larger heritage brands. The higher results also reflect the favorable comparison to the prior year which included a charge to the category related to our long-term perfumery strategy, as previously discussed, of approximately $30 million. Fragrance operating income increased over 100%, or $54.4 million, to $80.7 million, primarily reflecting higher net sales from Estée Lauder and designer fragrances driven by recent product launches, improved cost of goods and a more strategically focused approach to spending as part of our strategy to improve profitability. Hair care operating results decreased 47%, or $2.9 million, reflecting the reformulation and relaunch of Ojon brand products in the fourth quarter of fiscal 2011. This decrease was partially offset by higher results from Aveda. The category also reflected goodwill and other intangible asset impairment charges of $33 million as compared with $36 million in the prior year.

Geographic Regions

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

Operating income in the Americas increased 52%, or $83.4 million, to $244.9 million, reflecting strong sales from our heritage and makeup artist brands, partially offset by incremental spending in line with our strategy.

In Europe, the Middle East & Africa, operating income increased 30%, or $151.1 million, to $651.9 million, reflecting higher results from our travel retail business, Russia, the United Kingdom and the Middle East of approximately $94 million, combined. Partially offsetting these improvements were lower results in the Balkans and Spain of approximately $9 million, combined. The higher results also reflected a favorable comparison to the prior year which included a charge related to our long-term perfumery strategy, as previously discussed, of approximately $34 million.

In Asia/Pacific, operating income increased 19%, or $39.7 million, to $252.0 million. Virtually all countries in the region reported higher operating results, led by approximately $46 million in China, Hong Kong, Taiwan and Malaysia, combined. Partially offsetting these increases were lower operating results of approximately $7 million in Japan and Australia. At this time, we believe the ongoing consequences of the disasters in Japan may continue for the short term, however, we cannot predict with certainty the magnitude or duration of the impact and we will continue to monitor the situation.

INTEREST EXPENSE, NET

Net interest expense was $63.9 million as compared with $74.3 million in the prior year. 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.

INTEREST EXPENSE ON DEBT EXTINGUISHMENT

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

PROVISION FOR INCOME TAXES

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

The effective income tax rate for fiscal 2011 was 31.4% as compared with 29.9% in the prior year. The increase in the effective income tax rate of 150 basis points was principally due to a decrease in favorable tax reserve adjustments as compared with the prior year.

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NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

Net earnings attributable to The Estée Lauder Companies Inc. as compared with fiscal 2010 increased 47%, or $222.5 million, to $700.8 million and diluted net earnings per common share increased 46% from $2.38 to $3.48. The results in the current year include the impact of total returns and charges associated with restructuring activities of $41.7 million, after tax, or $0.21 per diluted common share. The results in fiscal 2010 include the impact of total returns and charges associated with restructuring activities of $55.9 million, after tax, or $.28 per diluted common share and interest expense on debt extinguishment of $17.5 million, after tax, or $.09 per diluted common share.

Fiscal 2010 as Compared with Fiscal 2009

NET SALES

Net sales increased 6%, or $472.0 million, to $7,795.8 million, reflecting increases in Asia/Pacific and Europe, the Middle East & Africa, and, to a lesser extent, the Americas. Net sales increases in the skin care, makeup and hair care product categories were partially offset by declines in the fragrance category. Excluding the impact of foreign currency translation, net sales increased 5%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of $15.7 million recorded during fiscal 2010. We believe the following analysis of net sales better reflects the manner in which we conduct and view our business.

Product Categories

Skin Care

Net sales of skin care products increased 12%, or $341.1 million, to $3,227.1 million, primarily reflecting our strategic focus on growing this category through creativity and innovation, particularly high growth segments, such as products that address the visible signs of aging. The fiscal 2010 launches of Advanced Night Repair Synchronized Recovery Complex, Advanced Night Repair Eye Synchronized Complex, and Hydrationist Maximum Moisture Crème and Lotion from Estée Lauder contributed incremental sales of approximately $247 million, combined. Also contributing to the category were the introductions of Even Better Clinical Dark Spot Corrector, Youth Surge Night Age Decelerating Night Moisturizer, and Even Better Skin Tone Correcting Moisturizer SPF 20 from Clinique, and The Regenerating Serum from La Mer, of approximately $88 million, combined. Higher sales from existing products in Clinique s 3-Step Skin Care System and the Re-Nutriv line of products from Estée Lauder contributed approximately $31 million to the increase. These increases were partially offset by approximately $92 million of lower sales from existing products in the Advanced Night Repair and Perfectionist lines from Estée Lauder and in the Superdefense line from Clinique. Excluding the impact of foreign currency translation, skin care net sales increased 9%.

Makeup

Makeup net sales increased 5%, or $147.3 million, to $2,978.2 million, primarily reflecting an increase of approximately $135 million from our makeup artist brands, driven by higher net sales outside the United States. The fiscal 2010 launches of Even Better Makeup SPF 15 and Superbalanced Powder Makeup SPF 15 from Clinique and Resilience Lift Extreme Radiant Lifting Makeup SPF 15 from Estée Lauder, as well as higher sales of Double Wear Foundation from Estée Lauder and Vitamin C Lip Smoothie Antioxidant Lip Colour from Clinique, contributed approximately $74 million, combined, to the increase. These increases were partially offset by lower sales of Prescriptives products due to the exit from the global wholesale distribution of the brand, as well as lower sales of High Impact Lip Color SPF 15 from Clinique and Artist s Eye Pencils from Estée Lauder of approximately $50 million, combined. During fiscal 2010, we undertook an initiative to identify certain underperforming SKUs for the purposes of evaluating their relevance to our long-term perfumery strategy in the Europe, the Middle East & Africa region. Based on this evaluation, we decided to discontinue certain of these products in perfumeries and recorded a charge of approximately $27 million to reflect the anticipated returns of makeup products from participating retailers, subject to our returns approval policy. Excluding the impact of foreign currency translation, makeup net sales increased 4%.

Fragrance

Net sales of fragrance products decreased 1%, or $14.0 million, to $1,136.9 million. This decline was largely due to lower sales of certain designer fragrances, of which approximately $54 million was attributable to DKNY Delicious Night, Hilfiger Men, Sean John Unforgivable Woman, Sean John Unforgivable and DKNY Men. Also contributing to the decrease were lower sales of Estée Lauder Sensuous and Clinique Happy of approximately $15 million, combined. These declines were partially offset by incremental sales from the fiscal 2010 launches of pure DKNY, Very Hollywood Michael Kors and DKNY Delicious Candy Apples, as well as higher sales of DKNY Be Delicious Fresh Blossom, of approximately $53 million, combined. The decrease in net sales was due in part to a more strategically focused approach to investment spending in this category. Excluding the impact of foreign currency translation, fragrance net sales decreased 2%.

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Hair Care

Hair care net sales increased 3%, or $11.5 million, to $413.9 million, primarily reflecting an increase in net sales of certain styling and hair color products, the fiscal 2010 launches of Smooth Infusion Glossing Straightener and Control Force from Aveda and sales generated from expanded distribution outside the United States. This increase was partially offset by lower net sales in North America resulting from a soft salon retail environment and the closing of certain underperforming freestanding retail stores. Excluding the impact of foreign currency translation, hair care net sales increased 2%.

Geographic Regions

Net sales in the Americas increased 1%, or $20.9 million, to $3,442.1 million. This increase was primarily attributable to higher net sales of approximately $39 million in Canada and Latin America, reflecting a better-than-expected holiday selling season, new points of distribution and the favorable impact of foreign currency translation. In the United States, net sales increases of Clinique skin care products, various designer fragrances and from our makeup artist brands were partially offset by lower sales of various Estée Lauder fragrances and from our hair care brands. Together with the impact of the exit from the global wholesale distribution of the Prescriptives brand, all of these factors resulted in lower net sales in the United States of approximately $10 million. Despite restocking to more normal levels by certain retailers, economic conditions in the Americas region, particularly in the department store channel, have negatively impacted our business. To address these concerns, we introduced new High-Touch concepts and worked with retailers in the channel to improve consumer traffic. Excluding the impact of foreign currency translation, net sales in the Americas were flat as compared with fiscal 2009.

In Europe, the Middle East & Africa, net sales increased 9%, or $248.0 million, to $2,859.3 million, reflecting growth from travel retail and from virtually all countries in the region and in each product category. This reflects our strategy to strengthen our geographic presence and to succeed in the travel retail channel. The region also benefited from the favorable impact of foreign currency translation. Net sales increases of approximately $250 million were driven by our travel retail business, the United Kingdom, Russia, South Africa, Germany and Turkey, reflecting an improved retail environment, successful launches of skin care products and higher combined sales from our makeup artist brands. The net sales improvement in our travel retail business also reflected a favorable comparison to fiscal 2009 due to an increase in global airline passenger traffic, new points of distribution, select customer restocking and benefits of programs designed to enhance the consumer s High-Touch experience. Partially offsetting these increases were lower net sales of approximately $13 million in the Balkans, primarily reflecting the economic situation in Greece. Net sales for fiscal 2010 reflected a charge of approximately $31 million related to our long-term perfumery strategy discussed above. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 8%.

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

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 23.5% as compared with 25.7% in fiscal 2009. This improvement primarily reflected our efforts in connection with the Program, including favorable changes in the mix of our business of approximately 70 basis points, a decrease in obsolescence charges of approximately 60 basis points and favorable manufacturing variances of 40 basis points. Also contributing to the improvement in cost of sales margin were the favorable comparison to fiscal 2009 when we recorded excess overhead costs that were not expected to be recovered of approximately 30 basis points, and the favorable effect of exchange rates and a decrease in the timing and level of promotional activities of approximately 10 basis points, each.

OPERATING EXPENSES

Operating expenses as a percentage of net sales decreased to 66.4% as compared with 68.6% in fiscal 2009, and reflects the impact of the strong growth in net sales during fiscal 2010. This improvement primarily reflected lower selling, shipping, general and administrative costs as a percentage of net sales of approximately 180 basis points due to various cost containment efforts implemented as part of the Program and a strategically focused approach to spending, lower charges associated with restructuring activities of 30 basis points, the favorable comparison to fiscal 2009 related to other intangible asset impairment charges of approximately 20 basis points and lower net losses from foreign exchange transactions of approximately 10 basis points. Partially offsetting these improvements were higher strategic investment spending of approximately 10 basis points and higher advertising, sampling and merchandising costs of approximately 10 basis points.

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

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OPERATING RESULTS

Operating income increased 89%, or $371.5 million, to $789.9 million. Operating margin improved to 10.1% of net sales as compared with 5.7% in fiscal 2009, reflecting our strategy to drive out non-value-added costs and increase financial discipline. This, along with relatively strong net sales growth, resulted in a higher gross margin and the decrease in our operating expense margin as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges associated with restructuring activities of $84.7 million, or 1.1% of net sales, in fiscal 2010 and $91.7 million, or 1.3% of net sales, in fiscal 2009. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

Product Categories

All product categories benefited from initiatives we implemented as part of the Program including a more strategically focused approach to spending, as well as significant improvement in cost of sales from favorable product mix and enhanced inventory management. Skin care operating income increased 48%, or $140.2 million, to $434.3 million, primarily reflecting improved results from our heritage brands driven by increased net sales primarily from recently-launched products with higher margins. While the fiscal 2010 skin care results reflected charges of approximately $11 million related to goodwill, other intangible asset and long-lived asset impairments, it was a favorable comparison to fiscal 2009 when we recorded similar charges of approximately $36 million. Makeup operating income increased 49%, or $137.0 million, to $416.8 million, primarily reflecting improved results from certain of our heritage brands and from our makeup artist brands. The operating results for the makeup category also reflected the majority of the impact of the charge related to the discontinuation of certain SKUs, as previously discussed, which reflects the anticipated returns, as well as the write-off of related inventory on hand of approximately $30 million, combined. Fragrance operating results improved over 100%, or $87.1 million, from a loss in fiscal 2009 to $26.3 million, primarily reflecting higher net sales of designer fragrances, a more strategically focused approach to spending reflecting our strategy to improve profitability, and a favorable comparison to fiscal 2009 when we recorded approximately $13 million of other intangible asset impairment charges. Hair care operating results decreased over 100% or $7.3 million, to a loss of $6.2 million, primarily reflecting higher goodwill and other intangible asset impairments of approximately $27 million, partially offset by net sales growth outside the United States, the closing of certain underperforming retail stores in fiscal 2009 and savings generated from cost containment initiatives.

Geographic Regions

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

Operating income in the Americas increased 40%, or $46.3 million, to $161.5 million, driven by the Program and a more measured approach to spending, particularly from our heritage brands and our makeup artist brands. The increase also reflected a favorable comparison to fiscal 2009 when we recorded an excess overhead charge and a charge related to the degradation of a certain retailer of approximately $27 million, combined. The increase in profitability was partially offset by lower net sales from the exit of the wholesale distribution of Prescriptives products, higher charges for goodwill, other intangible asset and long-lived asset impairments, and the impact of the recent economic events in Venezuela, as previously discussed.

In Europe, the Middle East & Africa, operating income increased over 100%, or $271.1 million, to $500.8 million, reflecting improvements in travel retail and virtually all countries in the region. Higher results from our travel retail business and in Spain, Russia, the United Kingdom, Italy, France and Germany totaled approximately $243 million. While the fiscal 2010 results reflected a charge of approximately $6 million related to other intangible asset impairment, it was a favorable comparison to fiscal 2009 when we recorded goodwill and other intangible asset impairment charges of approximately $25 million. In addition, as previously discussed, we recorded a charge in fiscal 2010 related to our long-term perfumery strategy of approximately $34 million, combined.

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

INTEREST EXPENSE, NET

Net interest expense was $74.3 million as compared with $75.7 million in fiscal 2009. Interest expense decreased primarily due to lower average debt balances and lower average interest rates on borrowings. This change was partially offset by lower interest income due to lower average investment rates, partially offset by higher average investment balances.

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INTEREST EXPENSE ON DEBT EXTINGUISHMENT

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

PROVISION FOR INCOME TAXES

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

The effective rate for income taxes for fiscal 2010 was 29.9% as compared with 33.8% for fiscal 2009. The decrease in the effective income tax rate of 390 basis points was primarily attributable to tax reserve adjustments including favorable tax settlements as well as lapses of statutes of limitations partially offset by a higher effective tax rate related to our foreign operations.

NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.

Net earnings attributable to The Estée Lauder Companies Inc. as compared with fiscal 2009 increased over 100%, or $259.9 million, to $478.3 million and diluted net earnings per common share increased over 100% from $1.10 to $2.38. The results in fiscal 2010 include the impact of total charges associated with restructuring activities of $55.9 million, after tax, or $.28 per diluted common share and interest expense on debt extinguishment of $17.5 million, after tax, or $.09 per diluted common share. The results in fiscal 2009 include the impact of total charges associated with restructuring activities of $61.7 million, after tax, or $.31 per diluted common share.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At June 30, 2011, we had cash and cash equivalents of $1,253.0 million compared with $1,120.7 million at June 30, 2010. Our cash and cash equivalents are maintained at a number of financial institutions. As of June 30, 2011, less than 25% of our total cash was insured by governmental agencies. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and perform ongoing evaluations of these institutions to limit our concentration risk exposure.

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

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents balance at June 30, 2011 includes approximately $508 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations.

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

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Credit Ratings

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of August 15, 2011, our commercial paper is rated A-1 by Standard & Poor s and P-1 by Moody s and our long-term debt is rated A with a stable outlook by Standard & Poor s and A2 with a stable outlook by Moody s.

Debt

At June 30, 2011, our outstanding borrowings were as follows:

	Long-term Debt	Current Debt (In millions)	Total Debt
6.00% Senior Notes, due May 15, 2037 (2037 Senior Notes(1)) (6)	$ 296.4	$	$ 296.4
5.75% Senior Notes, due October 15, 2033 (2033 Senior Notes(2))	197.7		197.7
5.55% Senior Notes, due May 15, 2017 (2017 Senior Notes(3)) (6)	341.5		341.5
7.75% Senior Notes, due November 1, 2013 (2013 Senior Notes) (4) (6)	230.0		230.0
6.00% Senior Notes, due January 15, 2012 (2012 Senior Notes(5))		119.4	119.4
Other borrowings	14.5	18.6	33.1
	$ 1,080.1	$ 138.0	$ 1,218.1

(1) Consists of $300.0 million principal and unamortized debt discount of $3.6 million.

(2) Consists of $200.0 million principal and unamortized debt discount of $2.3 million.

(3) Consists of $300.0 million principal, unamortized debt discount of $0.3 million and a $41.8 million adjustment to reflect the fair value of outstanding interest rate swaps.

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

(5) Consists of $120.0 million principal and a $0.6 million adjustment to reflect the remaining termination value of an interest rate swap that is being amortized to interest expense over the life of the debt.

(6) As of June 30, 2011, we were in compliance with all restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance.

We have a $750.0 million commercial paper program under which we may issue commercial paper in the United States. At June 30, 2011, there was no commercial paper outstanding. We also have $205.4 million in additional uncommitted credit facilities, of which $10.6 million was used as of June 30, 2011. We do not anticipate difficulties in securing this form of working capital financing.

In July 2011, we replaced our undrawn $750.0 million senior unsecured revolving credit facility that was set to expire on April 26, 2012 (the Prior Facility), with a new $1.0 billion senior unsecured revolving credit facility that expires on July 14, 2015 (the New Facility). The New Facility may be used to provide credit support for our commercial paper program and for general corporate purposes. As with the Prior Facility, up to the equivalent of $250 million of the New Facility is available for multi-currency loans. The interest rate on borrowings under the New Facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately $1.2 million to establish the New Facility which will be amortized over the term of the facility. The New Facility has an annual fee of $0.7 million, payable quarterly, based on our current credit ratings. The New Facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of $100.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility.

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As of June 30, 2011, we were in compliance with all financial and other restrictive covenants relating to the Prior Facility, including limitations on indebtedness and liens, and expect continued compliance with similar restrictive covenants in the New Facility. The financial covenant in the Prior Facility required an interest expense coverage ratio of greater than 3:1 as of the last day of each fiscal quarter. There is no such covenant under the New Facility. The interest expense coverage ratio was defined in the Prior Facility 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 was calculated as stipulated in the Prior Facility as follows:

		Twelve Months Ended June 30, 2011 (1) ($ in millions)
Consolidated EBITDA:		
Net earnings attributable to The Estée Lauder Companies Inc.	$	700.8
Add:		
Provision for income taxes		321.7
Interest expense, net (2)		63.9
Depreciation and amortization (3)		298.1
Extraordinary non-cash charges (4) (5)		47.4
Less:		
Extraordinary non-cash gains (5)		
	$	1,431.9
Consolidated Interest Expense:		