

ESTEE LAUDER COMPANIES INC
Form 10-Q
May 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-2408943

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

767 Fifth Avenue, New York, New York

(Address of principal executive offices)

10153

(Zip Code)

212-572-4200

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

At May 1, 2008, 115,392,275 shares of the registrant's Class A Common Stock, \$.01 par value, and 78,467,261 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.

THE ESTÉE LAUDER COMPANIES INC.

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THE ESTÉE LAUDER COMPANIES INC.

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements.*

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
	(In millions, except per share data)			
Net Sales	\$ 1,879.8	\$ 1,690.5	\$ 5,898.7	\$ 5,275.1
Cost of Sales	471.9	426.0	1,506.2	1,353.1
Gross Profit	1,407.9	1,264.5	4,392.5	3,922.0
Operating expenses:				
Selling, general and administrative	1,247.4	1,107.9	3,783.4	3,332.6
Charges (adjustments) related to cost savings initiative	(0.7)	(0.1)	(0.5)	0.4
	1,246.7	1,107.8	3,782.9	3,333.0
Operating Income	161.2	156.7	609.6	589.0
Interest expense, net	16.1	8.8	52.8	23.2
Earnings before Income Taxes, Minority Interest and Discontinued Operations	145.1	147.9	556.8	565.8
Provision for income taxes	53.7	52.4	197.7	199.1
Minority interest, net of tax	(1.3)	(1.7)	(5.5)	(6.4)
Net Earnings from Continuing Operations	90.1	93.8	353.6	360.3
Discontinued operations, net of tax		0.1		0.3
Net Earnings	\$ 90.1	\$ 93.9	\$ 353.6	\$ 360.6
Basic net earnings per common share:				
Net earnings from continuing operations	\$.47	\$.46	\$ 1.83	\$ 1.74
Discontinued operations, net of tax		.00		.00
Net earnings	\$.47	\$.46	\$ 1.83	\$ 1.74
Diluted net earnings per common share:				
Net earnings from continuing operations	\$.46	\$.45	\$ 1.80	\$ 1.71
Discontinued operations, net of tax		.00		.00
Net earnings	\$.46	\$.45	\$ 1.80	\$ 1.71
Weighted average common shares outstanding:				
Basic	193.9	203.8	193.8	207.7
Diluted	196.6	208.0	196.8	211.0
Cash dividends declared per share	\$	\$	\$.55	\$.50

See notes to consolidated financial statements.

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	March 31 2008 (Unaudited)	June 30 2007
	(\$ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 410.0	\$ 253.7
Accounts receivable, net	1,137.9	860.5
Inventory and promotional merchandise, net	927.9	855.8
Prepaid expenses and other current assets	336.0	269.4
Total current assets	2,811.8	2,239.4
Property, Plant and Equipment, net	991.1	880.8
Other Assets		
Investments, at cost or market value	26.8	22.2
Goodwill and other intangible assets, net	901.7	764.7
Other assets, net	320.9	218.6
Total other assets	1,249.4	1,005.5
Total assets	\$ 5,052.3	\$ 4,125.7
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Short-term debt	\$ 191.7	\$ 60.4
Accounts payable	339.0	314.7
Accrued income taxes	61.8	161.7
Other accrued liabilities	1,173.3	963.9
Total current liabilities	1,765.8	1,500.7
Noncurrent Liabilities		
Long-term debt	1,085.8	1,028.1
Other noncurrent liabilities	613.0	376.6
Total noncurrent liabilities	1,698.8	1,404.7
Minority Interest	30.3	21.3
Stockholders Equity		
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued: 179,061,045 at March 31, 2008 and 173,365,104 at June 30, 2007; 240,000,000 shares Class B authorized; shares issued and outstanding: 78,467,261 at March 31, 2008 and 81,804,761 at June 30, 2007	2.6	2.6
Paid-in capital	922.3	801.7
Retained earnings	2,965.1	2,731.5
Accumulated other comprehensive income	155.7	54.7
	4,045.7	3,590.5
Less: Treasury stock, at cost; 63,118,699 Class A shares at March 31, 2008 and 60,841,674 Class A shares at June 30, 2007	(2,488.3)	(2,391.5)
Total stockholders equity	1,557.4	1,199.0
Total liabilities and stockholders equity	\$ 5,052.3	\$ 4,125.7

See notes to consolidated financial statements.

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31	
	2008	2007
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	\$ 353.6	\$ 360.6
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	184.5	152.8
Deferred income taxes	(80.1)	(16.3)
Minority interest, net of tax	5.5	6.4
Non-cash stock-based compensation	40.8	35.6
Excess tax benefits from stock-based compensation arrangements	(0.6)	(5.5)
Loss on disposal of fixed assets	5.3	7.6
Discontinued operations, net of tax		(0.3)
Other non-cash items	2.0	0.5
Changes in operating assets and liabilities		
Increase in accounts receivable, net	(189.9)	(174.7)
Increase in inventory and promotional merchandise, net	(18.8)	(29.3)
Increase in other assets, net	(48.7)	(41.1)
Increase (decrease) in accounts payable	(1.7)	8.0
Increase in current and noncurrent accrued income taxes	128.1	70.7
Increase in other accrued liabilities	132.7	87.7
Increase (decrease) in other noncurrent liabilities	5.8	(6.4)
Net cash flows provided by operating activities of continuing operations	518.5	456.3
Net cash flows used for operating activities of discontinued operations		(5.7)
Net cash flows provided by operating activities	518.5	450.6
Cash Flows from Investing Activities		
Capital expenditures	(250.3)	(212.0)
Acquisition of businesses, net of cash acquired	(120.4)	(56.7)
Purchases of long-term investments	(0.4)	(0.5)
Net cash flows used for investing activities	(371.1)	(269.2)
Cash Flows from Financing Activities		
Increase in short-term debt, net	131.0	49.9
Proceeds from issuance of long-term debt, net		591.1
Repayments and redemptions of long-term debt	(4.3)	(2.5)
Net proceeds from stock-based compensation transactions	70.9	121.6
Excess tax benefits from stock-based compensation arrangements	0.6	5.5
Payments to acquire treasury stock	(93.6)	(1,004.3)
Dividends paid to stockholders	(106.6)	(103.6)
Distributions made to minority holders of consolidated subsidiaries		(9.5)
Net cash flows used for financing activities	(2.0)	(351.8)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10.9	3.8
Net Increase (Decrease) in Cash and Cash Equivalents	156.3	(166.6)

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Cash and Cash Equivalents at Beginning of Period		253.7		368.6
Cash and Cash Equivalents at End of Period	\$	410.0	\$	202.0

See notes to consolidated financial statements.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Principles of Consolidation and Basis of Presentation***

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the Company) as continuing operations, with the exception of the operating results of its reporting unit that marketed and sold Stila brand products, which have been reflected as discontinued operations for the three and nine-month periods ended March 31, 2007. All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2007.

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

Net Earnings Per Common Share

For the three and nine-month periods ended March 31, 2008 and 2007, net earnings per common share (basic EPS) is computed by dividing net earnings by the weighted-average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings per common share assuming dilution (diluted EPS) is computed by reflecting potential dilution from stock-based awards.

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
	(Unaudited)			
	(In millions, except per share data)			
Numerator:				
Net earnings from continuing operations	\$ 90.1	\$ 93.8	\$ 353.6	\$ 360.3
Discontinued operations, net of tax		0.1		0.3
Net earnings	\$ 90.1	\$ 93.9	\$ 353.6	\$ 360.6
Denominator:				
Weighted average common shares outstanding Basic	193.9	203.8	193.8	207.7
Effect of dilutive stock options	2.2	3.7	2.5	3.0
Effect of restricted stock units	0.5	0.4	0.5	0.2
Effect of contingently issuable shares pursuant to accelerated share repurchase program		0.1		0.1

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Weighted average common shares outstanding	Diluted	196.6	208.0	196.8	211.0
Basic net earnings per common share:					
Net earnings from continuing operations	\$.47	\$.46	\$ 1.83 \$ 1.74
Discontinued operations, net of tax				.00	.00
Net earnings	\$.47	\$.46	\$ 1.83 \$ 1.74
Diluted net earnings per common share:					
Net earnings from continuing operations	\$.46	\$.45	\$ 1.80 \$ 1.71
Discontinued operations, net of tax				.00	.00
Net earnings	\$.46	\$.45	\$ 1.80 \$ 1.71

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of March 31, 2008 and 2007, outstanding options to purchase 11.5 million and 6.5 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. As of March 31, 2008 and 2007, 0.3 million and 0.2 million, respectively, of performance share units have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in Note 4 Stock Programs.

Supplemental Disclosures of Cash Flow Information

Supplemental cash flow information for the nine months ended March 31, 2008 and 2007 were as follows:

	2008	(Unaudited) (In millions)	2007
Cash			
Cash paid during the period for interest	\$ 49.8		\$ 31.8
Cash paid during the period for income taxes	\$ 149.4		\$ 148.2
Non-cash investing and financing activities			
Long-term debt issued upon acquisition of business	\$ 23.9		\$
Change in liability associated with acquisitions	\$ 6.8		\$ (2.1)
Incremental tax benefit from the exercise of stock options	\$ 6.2		\$ 12.3
Capital lease obligations incurred	\$ 1.1		\$ 3.9
Accrued dividend equivalents	\$ 0.3		\$ 0.2
Interest rate swap derivative mark to market	\$ 31.6		\$ 9.0

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions of \$23.2 million and \$23.3 million as of March 31, 2008 and June 30, 2007, respectively.

Inventory and Promotional Merchandise

Inventory and promotional merchandise only includes inventory considered saleable or usable in future periods, and is stated at the lower of cost or fair-market value, with cost being determined on the first-in, first-out method. Cost components include raw materials, componentry, direct

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labor and overhead (e.g., indirect labor, utilities, depreciation, purchasing, receiving, inspection and warehousing) as well as inbound freight. Promotional merchandise is charged to expense at the time the merchandise is shipped to the Company's customers. Included in inventory and promotional merchandise is an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, specific reserves for future known or anticipated events may be established.

	March 31 2008 (Unaudited)	June 30 2007
(In millions)		
Inventory and promotional merchandise, net consists of:		
Raw materials	\$ 193.8	\$ 179.5
Work in process	44.0	49.2
Finished goods	493.3	431.3
Promotional merchandise	196.8	195.8
	\$ 927.9	\$ 855.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment

Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are carried at cost less accumulated depreciation and amortization. The cost of assets related to projects in progress of \$114.4 million and \$72.1 million as of March 31, 2008 and June 30, 2007, respectively, is included in their respective asset categories in the table below. For financial statement purposes, depreciation is provided principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lives of the respective leases or the expected useful life of those improvements.

Asset Category (Useful Life)	March 31	June 30
	2008 (Unaudited)	2007
	(In millions)	
Land	\$ 14.9	\$ 14.4
Buildings and improvements (10 to 40 years)	180.3	167.5
Machinery and equipment (3 to 10 years)	977.7	905.0
Furniture and fixtures (5 to 10 years)	99.1	108.2
Leasehold improvements	1,052.5	917.2
	2,324.5	2,112.3
Less accumulated depreciation and amortization	1,333.4	1,231.5
	\$ 991.1	\$ 880.8

Depreciation and amortization of property, plant and equipment was \$59.8 million and \$46.8 million during the three months ended March 31, 2008 and 2007, respectively, and \$171.2 million and \$145.9 million during the nine months ended March 31, 2008 and 2007, respectively. Depreciation and amortization related to the Company's manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

Goodwill and Other Intangible Assets

In the first quarter of fiscal 2008, the Company acquired Ojon Corporation, which markets and sells Ojon hair care and skin care products primarily through direct response television and specialty stores (see Note 3 Acquisition of Businesses). In conjunction with this acquisition, the Company purchased, from an unrelated party, the exclusive rights to sell and distribute Ojon products worldwide. In addition, the Company acquired a business engaged in the wholesale distribution and retail sale of Aveda products. These activities resulted in an increase to goodwill and other intangible assets of \$132.0 million for the nine months ended March 31, 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension and Post-retirement Benefit Plans

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. Certain of the Company's employees are eligible to participate in a post-retirement benefit plan which provides certain medical and dental benefits. Descriptions of these plans are discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2007.

The components of net periodic benefit cost for the three months ended March 31, 2008 and 2007 consisted of the following:

	U.S.		Pension Plans		International		Other than Pension Plans Post-retirement	
	2008	2007	2008	2007	2008	2007	2008	2007
(Unaudited)								
(In millions)								
Service cost, net	\$ 4.9	\$ 4.6	\$ 4.1	\$ 4.0	\$ 1.0	\$ 1.1		
Interest cost	6.6	6.2	3.7	3.2	1.6	1.7		
Expected return on plan assets	(7.9)	(7.2)	(3.8)	(3.5)				
Amortization of:								
Prior service cost	0.2	0.2	0.1	0.1				
Actuarial loss	0.4	0.5	1.5	2.0	0.1	0.2		
Net periodic benefit cost	\$ 4.2	\$ 4.3	\$ 5.6	\$ 5.8	\$ 2.7	\$ 3.0		

The components of net periodic benefit cost for the nine months ended March 31, 2008 and 2007 consisted of the following:

	U.S.		Pension Plans		International		Other than Pension Plans Post-retirement	
	2008	2007	2008	2007	2008	2007	2008	2007
(Unaudited)								
(In millions)								
Service cost, net	\$ 14.8	\$ 13.8	\$ 12.1	\$ 11.9	\$ 3.1	\$ 3.5		
Interest cost	19.7	18.7	10.9	9.6	4.8	5.0		
Expected return on plan assets	(23.8)	(21.5)	(11.2)	(10.3)				
Amortization of:								
Prior service cost	0.5	0.5	0.2	0.2				
Actuarial loss	1.3	1.3	4.5	5.8	0.3	0.6		
Net periodic benefit cost	\$ 12.5	\$ 12.8	\$ 16.5	\$ 17.2	\$ 8.2	\$ 9.1		

The Company previously disclosed in its consolidated financial statements for the fiscal year ended June 30, 2007 that it expected to make cash contributions totaling \$20.0 million to its trust based, noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) and \$21.0 million to its international defined benefit pension plans during the fiscal year ending June 30, 2008. As of March 31, 2008 there have not been material changes to the expected contributions to the U.S. Qualified Plan. However, the expected contributions to the international defined benefit pension plans are anticipated to increase by as much as \$23.6 million to a total of \$44.6 million for the fiscal year ending June 30, 2008. The anticipated increase primarily reflects increased participation in certain plans.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common Stock

During the nine months ended March 31 2008, 3,337,500 shares of the Company's Class B Common Stock were converted into Class A Common Stock.

In August 2007, pursuant to the Company's accelerated share repurchase program, the financial counterparty informed the Company that it had completed its obligations under the agreement. The per-share price paid by the Company at inception of the program exceeded the final volume weighted average price per share, as defined by the contract. Accordingly, the Company received 97,417 shares of its Class A Common Stock from the financial counterparty as a price adjustment and final settlement, which was recorded as treasury stock and additional paid-in capital in the consolidated balance sheet.

Pursuant to the Company's share repurchase program, during the nine months ended March 31, 2008, it purchased approximately 2,191,800 million shares for \$93.6 million.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. The Company's most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension and other post-retirement benefit costs, goodwill and other intangible assets, income taxes, derivatives and stock-based compensation.

Recently Adopted Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, Accounting for Income Taxes. FIN 48 prescribes a two-step evaluation process for tax positions taken, or expected to be taken, in a tax return. The first step is recognition and the second is measurement. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosures, transition and accounting for interim periods. The Company adopted the provisions of FIN 48 effective July 1, 2007. As a result, the Company recognized an increase in the liability for unrecognized tax benefits and interest of \$13.1 million (net of tax effect), which, as required, was accounted for as a reduction to the July 1, 2007 balance of retained earnings.

As of July 1, 2007, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$142.7 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$106.5 million. The Company has elected to continue its historical practice of classifying applicable interest and penalties as a component of the provision for income taxes. The Company's gross accrual for interest and penalties related to unrecognized tax benefits was \$42.0 million upon adoption of FIN 48. Interest is computed on the difference between the Company's uncertain tax benefit positions under FIN 48 and the amount reflected or expected to be reflected in the Company's tax returns. Adoption of FIN 48 also resulted in a reclassification of \$140.2 million of tax and related interest liabilities (net of tax effect) from accrued income taxes to other noncurrent liabilities because payment of cash is not anticipated within one year of the balance sheet date.

As of March 31, 2008, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$163.8 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$121.2 million. The Company's gross accrual for interest and penalties related to unrecognized tax benefits as of March 31, 2008 was \$52.2 million. Other noncurrent liabilities as well as other assets, net in the accompanying consolidated balance sheet as of March 31, 2008 have each been increased by \$70.6 million to reflect the Company's gross income tax and interest liabilities as well as related deferred tax assets primarily attributable to the U.S. federal tax benefit of state and local taxes and accrued interest.

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

Earnings from the Company's global operations are subject to tax in various jurisdictions both within and outside the United States. The Company provides tax reserves for U.S. federal, state, local and international unrecognized tax benefits for periods subject to audit. The Company believes that the tax reserves are adequate for all years subject to examination. The Company is currently subject to a U.S. federal tax audit as well as examinations in several state, local, and international jurisdictions. These audits and examinations are in various stages of completion and involve complex multi-jurisdictional issues, including transfer pricing, that may require an extended period of time for resolution. It is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months. However, because these multi-jurisdictional issues, including transfer pricing, are complex and the level and disposition of such issues are subject to change, the range of reasonably possible change cannot be estimated at this time.

The tax years subject to examination vary depending on the tax jurisdiction. As of March 31, 2008, the following tax years remain subject to examination by the major tax jurisdictions indicated:

Major Jurisdiction	Open Fiscal Years
Belgium	2004 2007
Canada	2000 2007
France	2005 2007
Germany	1999 2007
Japan	2006 2007
Korea	2002 2007
Spain	1999 2002, 2004 2007
Switzerland	2004 2007
United Kingdom	2006 2007
United States	2002 2007
State of California	2002 2007
State of Minnesota	2001 2007
State of New York	2004 2007

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

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable

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inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. This FSP amends SFAS No. 157 to exclude certain leasing transactions accounted for under previously existing accounting guidance. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination, regardless of whether those assets and liabilities are related to leases.

SFAS No. 157 becomes effective for the Company in the beginning of fiscal 2009. The Company is currently evaluating the impact of the provisions of SFAS No. 157 on its consolidated financial statements. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date for FASB Statement No. 157. This FSP permits the delayed application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, as defined in this FSP, except for those that are recognized or disclosed at fair value in the financial statements at least annually, until the beginning of the Company's fiscal 2010.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of the provisions of SFAS No. 159 on its consolidated financial statements, if any, when it becomes effective in the beginning of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, *Business Combinations*, however, it retains the fundamental requirements of the former Statement that the acquisition method of accounting (previously referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Among other requirements, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their acquisition-date fair values, with limited exceptions; acquisition-related costs generally will be expensed as incurred. SFAS No. 141(R) requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. SFAS No. 141(R) must be applied prospectively to business combinations that are consummated on or after July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (SFAS No. 160) to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other requirements, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is to be reported as a separate component of equity in the consolidated financial statements. SFAS No. 160 also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest and to disclose those amounts on the face of the consolidated statement of income. SFAS No. 160 must be applied prospectively for fiscal years, and interim periods within those fiscal years, beginning in the Company's fiscal 2010, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires companies to provide qualitative disclosures about their objectives and strategies for using derivative instruments, quantitative disclosures of the fair values and gains and losses of these derivative instruments in a tabular format, as well as more information about liquidity by requiring disclosure of a derivative contract's credit-risk-related contingent features. SFAS No. 161 also requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. The Company is currently evaluating the disclosure requirements of SFAS No. 161. As this is a disclosure-only standard, the Company does not anticipate an impact on the consolidated financial statements as a result of its adoption. SFAS No. 161 becomes effective for the March 2009 interim consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). This FSP also adds certain disclosures to those already prescribed in

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SFAS No. 142. FSP No. FAS 142-3 becomes effective for fiscal years, and interim periods within those fiscal years, beginning in the Company's fiscal 2010. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 COMPREHENSIVE INCOME

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

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
	(Unaudited) (In millions)			
Net earnings	\$ 90.1	\$ 93.9	\$ 353.6	\$ 360.6
Other comprehensive income (loss):				
Net unrealized investment gain (loss)		0.1	(0.3)	0.2
Net derivative instruments gain (loss)	2.1	(0.2)	1.2	(3.4)
Amortization of amounts included in net periodic benefit cost, net	1.6		4.9	
Translation adjustments	47.4	1.0	95.2	20.0
Other comprehensive income (loss)	51.1	0.9	101.0	16.8
Comprehensive income	\$ 141.2	\$ 94.8	\$ 454.6	\$ 377.4

The accumulated net gain (loss) on derivative instruments, net of tax, consists of the following:

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
	(Unaudited) (In millions)			
OCI-derivative instruments, beginning of period	\$ 7.3	\$ 7.1	\$ 8.2	\$ 10.3
Gain (loss) on derivative instruments	1.4	(0.9)	(0.6)	(7.1)
Reclassification to earnings of net (gain) loss during the period	1.7	0.6	2.3	2.0
Benefit (provision) for deferred income taxes	(1.0)	0.1	(0.5)	1.7
Net derivative instruments gain (loss)	2.1	(0.2)	1.2	(3.4)

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OCI-derivative instruments, end of period	\$	9.4	\$	6.9	\$	9.4	\$	6.9
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THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Of the \$9.4 million, net of tax, derivative instrument gain recorded in OCI at March 31, 2008, \$9.0 million, net of tax, related to the October 2003 gain from the settlement of the treasury lock agreements upon the issuance of the Company's 5.75% Senior Notes due October 2033, which will be reclassified to earnings as an offset to interest expense over the life of the debt. The net derivative instrument gain recorded in OCI also reflected \$1.0 million in gains, net of tax, related to forward contracts which the Company will reclassify to earnings during the next fifteen months. These gains were partially offset by \$0.6 million, net of tax, related to a loss from the settlement of a series of forward-starting interest rate swap agreements upon the issuance of the Company's 6.00% Senior Notes due May 2037, which will be reclassified to earnings as an addition to interest expense over the life of the debt.

At the end of the prior period, the \$6.9 million, net of tax, derivative instrument gain recorded in OCI included \$9.1 million, net of tax, related to the gain on the settlement of treasury lock agreements upon issuance of the Company's 5.75% Senior Notes due October 2033, which will be reclassified to earnings as an offset to interest expense over the life of the debt, partially offset by \$2.2 million of losses, net of tax, related to forward and option contracts which were reclassified to earnings.

NOTE 3 ACQUISITION OF BUSINESSES

In the first quarter of fiscal 2008, the Company acquired Ojon Corporation. In conjunction with this acquisition, the Company purchased, from an unrelated party, the exclusive rights to sell and distribute Ojon products worldwide. The initial purchase price, paid at closing, was funded by cash provided by operations and the issuance of commercial paper as well as the issuance of two promissory notes. The Company issued (i) a promissory note due July 31, 2009 with a notional value of \$7.0 million (present value of \$7.5 million at March 31, 2008), bearing interest at 10.00% due at maturity and (ii) a promissory note due August 31, 2012 with a notional amount of \$13.5 million (present value of \$15.8 million at March 31, 2008), bearing interest at 10.00% payable annually on July 31. The notes were recorded in the accompanying consolidated balance sheet at present value using effective rates of 5.11% and 5.42%, respectively. The purchase agreement also provides for an additional payment, which is expected to be made in fiscal 2013, contingent upon the attainment of certain net sales targets of Ojon products. In addition, the Company acquired a business engaged in the wholesale distribution and retail sale of Aveda products.

The aggregate purchase price for these transactions, which includes acquisition costs, was \$144.9 million at March 31, 2008. The results of operations for each of the acquired businesses are included in the accompanying consolidated financial statements commencing with its date of original acquisition. Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial results would not have been material.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 STOCK PROGRAMS

As of March 31, 2008, the Company has three active equity compensation plans which include the Amended and Restated Fiscal 2002 Share Incentive Plan, the Fiscal 1999 Share Incentive Plan and the Non-Employee Director Share Incentive Plan (collectively, the Plans). These Plans currently provide for the issuance of 33,194,400 shares, which consist of shares originally provided for and shares transferred to the Plans from a previous plan and employment agreement, to be granted in the form of stock-based awards to key employees, consultants and non-employee directors of the Company. As of March 31, 2008, approximately 6,941,800 shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company's stock compensation awards outstanding at March 31, 2008 include stock options, performance share units (PSU), restricted stock units (RSU) and share units.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options, PSUs, RSUs and share units. Compensation expense attributable to net stock-based compensation during the three months ended March 31, 2008 and 2007 was \$7.6 million and \$9.0 million, respectively. Compensation expense attributable to net stock-based compensation during the nine months ended March 31, 2008 and 2007 was \$40.8 million and \$35.5 million, respectively. As of March 31, 2008 and 2007, the total unrecognized compensation cost related to nonvested stock-based awards was \$38.0 and \$39.5 million, respectively, and the related weighted-average period over which it is expected to be recognized is approximately 1.8 and 1.9 years, respectively.

Stock Options

A summary of the Company's stock option programs as of March 31, 2008 and changes during the nine-month period then ended, is presented below:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value(1) (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2007	22,572.0	\$ 41.42		
Granted at fair value	1,693.7	42.64		
Exercised	(2,061.0)	34.83		
Expired	(223.4)	43.63		
Forfeited	(238.5)	40.32		
Outstanding at March 31, 2008	21,742.8	42.13	\$ 115.8	4.2
Exercisable at March 31, 2008	18,487.2	42.40	\$ 98.6	3.4

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

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

The per-share weighted-average grant date fair value of stock options granted during the three months ended March 31, 2008 and 2007 was \$13.52 and \$15.30, respectively. The per-share weighted-average grant date fair value of stock options granted during the nine months ended March 31, 2008 and 2007 was \$14.36 and \$13.69, respectively. The total intrinsic value of stock options exercised during the three months ended March 31, 2008 and 2007 was \$11.0 million and \$35.9 million, respectively. The total intrinsic value of stock options exercised during the nine months ended March 31, 2008 and 2007 was \$18.1 million and \$51.8 million, respectively.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)	Three Months Ended March 31	
	2008	2007
Weighted-average expected stock-price volatility	26%	24%
Weighted-average expected option life	8 years	7 years
Average risk-free interest rate	3.3%	4.7%
Average dividend yield	1.3%	1.2%

(Unaudited)	Nine Months Ended March 31	
	2008	2007
Weighted-average expected stock-price volatility	25%	24%
Weighted-average expected option life	8 years	8 years
Average risk-free interest rate	4.5%	4.7%
Average dividend yield	1.2%	1.2%

Performance Share Units

During the nine months ended March 31, 2008, the Company issued 119,200 PSUs, which will be settled in stock subject to the achievement of the Company's net sales and net earnings per share goals for the three years ending June 30, 2010. Settlement will be made pursuant to a range of opportunities relative to the net sales and net earnings per share targets of the Company and, as such, the compensation cost of the PSU is subject to adjustment based upon the attainability of these target goals. No settlement will occur for results below the applicable minimum threshold and additional shares shall be issued if performance exceeds the targeted performance goals. PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. These awards are subject to the provisions of the agreement under which the PSUs are granted. The PSUs were valued at the closing market value of the Company's Class A Common Stock on the date of grant and generally vest at the end of the performance period.

The following is a summary of the status of the Company's PSUs as of March 31, 2008 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2007	230.1	\$ 37.36
Granted	119.2	42.58
Vested		
Forfeited	(43.4)	39.10

Nonvested at March 31, 2008	305.9	\$	39.15
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Restricted Stock Units

The Company granted approximately 585,000 RSUs during the nine months ended March 31, 2008, of which 324,700 are scheduled to vest on October 31, 2008, 169,000 on November 2, 2009 and 91,300 on November 1, 2010, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2008 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the RSU and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant. Other RSUs granted in fiscal 2008 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the status of the Company's RSUs as of March 31, 2008 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2007	659.4	\$ 38.74
Granted	585.0	42.02
Vested	(346.7)	38.90
Forfeited	(55.3)	40.36
Nonvested at March 31, 2008	842.4	\$ 40.85

Share Units

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The share units are convertible into shares of Class A Common Stock as provided for in that plan. Share units are accompanied by dividend equivalent rights that are converted to additional share units when such dividends are declared. The following is a summary of the status of the Company's share units as of March 31, 2008 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at June 30, 2007	13.8	\$ 37.65
Granted	4.1	44.25
Dividend equivalents	0.2	43.79
Converted		
Outstanding at March 31, 2008	18.1	\$ 39.21

Cash Units

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company's Class A Common Stock. The Company recorded expense of \$0.2 million and \$0.5 million as compensation to reflect additional deferrals and the change in the market value for the three months ended March 31, 2008 and 2007, respectively. The Company recorded expense of \$0.4 million and \$0.9 million as compensation to reflect additional deferrals and the change in the market value for the nine months ended March 31, 2008 and 2007, respectively.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 SEGMENT DATA AND RELATED INFORMATION

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Chief Executive) in deciding how to allocate resources and in assessing performance. Although the Company does business in one operating segment, beauty products, management also evaluates performance on a product category basis. Performance is measured based upon net sales and operating income. Operating income represents earnings before income taxes, minority interest, net interest expense and discontinued operations. The accounting policies for the Company's reportable segment are substantially the same as those for the consolidated financial statements, as described in the segment data and related information footnote included in the Company's Annual Report on Form 10-K for the year ended June 30, 2007. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset value associated with the Company's segment data since June 30, 2007.

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
	(Unaudited) (In millions)			
PRODUCT CATEGORY DATA				
Net Sales:				
Skin Care	\$ 756.8	\$ 668.9	\$ 2,207.5	\$ 1,937.0
Makeup	755.7	678.4	2,246.1	2,042.0
Fragrance	259.1	240.1	1,092.6	994.5
Hair Care	98.2	97.1	311.2	273.4
Other	10.0	6.0	41.3	28.2
	\$ 1,879.8	\$ 1,690.5	\$ 5,898.7	\$ 5,275.1
Operating Income (Loss):				
Skin Care	\$ 96.0	\$ 80.9	\$ 298.3	\$ 272.6
Makeup	93.2	87.4	283.7	265.8
Fragrance	(28.2)	(21.4)	15.0	21.2
Hair Care	(0.8)	11.4	12.9	30.9
Other	0.3	(1.7)	(0.8)	(1.1)
(Charges) adjustments related to cost savings initiative	0.7	0.1	0.5	(0.4)
	161.2	156.7	609.6	589.0
Reconciliation:				
Interest expense, net	16.1	8.8	52.8	23.2
Earnings before income taxes, minority interest and discontinued operations	\$ 145.1	\$ 147.9	\$ 556.8	\$ 565.8
GEOGRAPHIC DATA				
Net Sales:				
The Americas	\$ 880.9	\$ 856.9	\$ 2,808.0	\$ 2,701.4
Europe, the Middle East & Africa	701.5	598.4	2,185.9	1,832.0
Asia/Pacific	297.4	235.2	904.8	741.7
	\$ 1,879.8	\$ 1,690.5	\$ 5,898.7	\$ 5,275.1

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Operating Income (Loss):

The Americas	\$	50.4	\$	72.0	\$	193.8	\$	255.0
Europe, the Middle East & Africa		77.3		66.0		293.3		255.1
Asia/Pacific		32.8		18.6		122.0		79.3
(Charges) adjustments related to cost savings initiative		0.7		0.1		0.5		(0.4)
	\$	161.2	\$	156.7	\$	609.6	\$	589.0

THE ESTÉE LAUDER COMPANIES INC.

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

RESULTS OF OPERATIONS

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 135 countries and territories. The following is a comparative summary of operating results from continuing operations for the three and nine months ended March 31, 2008 and 2007, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Sales of products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the other category.

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
(In millions)				
NET SALES				
By Region:				
The Americas	\$ 880.9	\$ 856.9	\$ 2,808.0	\$ 2,701.4
Europe, the Middle East & Africa	701.5	598.4	2,185.9	1,832.0
Asia/Pacific	297.4	235.2	904.8	741.7
	\$ 1,879.8	\$ 1,690.5	\$ 5,898.7	\$ 5,275.1
By Product Category:				
Skin Care	\$ 756.8	\$ 668.9	\$ 2,207.5	\$ 1,937.0
Makeup	755.7	678.4	2,246.1	2,042.0
Fragrance	259.1	240.1	1,092.6	994.5
Hair Care	98.2	97.1	311.2	273.4
Other	10.0	6.0	41.3	28.2
	\$ 1,879.8	\$ 1,690.5	\$ 5,898.7	\$ 5,275.1
OPERATING INCOME (LOSS)				
By Region:				
The Americas	\$ 50.4	\$ 72.0	\$ 193.8	\$ 255.0
Europe, the Middle East & Africa	77.3	66.0	293.3	255.1
Asia/Pacific	32.8	18.6	122.0	79.3
(Charges) adjustments related to cost savings initiative	0.7	0.1	0.5	(0.4)
	\$ 161.2	\$ 156.7	\$ 609.6	\$ 589.0
By Product Category:				
Skin Care	\$ 96.0	\$ 80.9	\$ 298.3	\$ 272.6
Makeup	93.2	87.4	283.7	265.8
Fragrance	(28.2)	(21.4)	15.0	21.2
Hair Care	(0.8)	11.4	12.9	30.9
Other	0.3	(1.7)	(0.8)	(1.1)
(Charges) adjustments related to cost savings initiative	0.7	0.1	0.5	(0.4)
	\$ 161.2	\$ 156.7	\$ 609.6	\$ 589.0

THE ESTÉE LAUDER COMPANIES INC.

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	25.1	25.2	25.5	25.6
Gross profit	74.9	74.8	74.5	74.4
Operating expenses:				
Selling, general and administrative	66.3	65.5	64.1	63.2
Charges (adjustments) related to cost savings initiative	(0.0)	(0.0)	(0.0)	0.0
	66.3	65.5	64.1	63.2
Operating income	8.6	9.3	10.4	11.2
Interest expense, net	0.9	0.5	0.9	0.5
Earnings before income taxes, minority interest and discontinued operations	7.7	8.8	9.5	10.7
Provision for income taxes	2.8	3.1	3.4	3.8
Minority interest, net of tax	(0.1)	(0.1)	(0.1)	(0.1)
Net earnings from continuing operations	4.8	5.6	6.0	6.8
Discontinued operations, net of tax		0.0		0.0
Net earnings	4.8%	5.6%	6.0%	6.8%

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 or our strategic and financial objectives. The economics of developing, producing and launching these new products influence our sales and operating performance each period. The introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

The recent challenges and uncertainties in the economies of certain key countries, including the United States, may continue to have an adverse impact on consumer demand, which could affect our net sales and operating results in the short and long term.

Third Quarter Fiscal 2008 as Compared with Third Quarter Fiscal 2007

NET SALES

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Net sales increased 11%, or \$189.3 million, to \$1,879.8 million, reflecting net sales growth in all of our product categories and geographic regions. A substantial portion of this increase was attained internationally, reflecting our efforts to capitalize on growth opportunities. Modest growth in the Americas was tempered by the soft retail environment in the United States. Excluding the impact of foreign currency translation, net sales increased 7%.

Product Categories

Skin Care

Net sales of skin care products increased 13%, or \$87.9 million, to \$756.8 million. This growth reflected the recent launches of Idealist Pore Minimizing Skin Refinisher, Cyber White EX and Hydra Bright Skin Tone Perfecting Moisturizers from Estée Lauder. Also contributing to the growth were the recent launches of products in the Acne Solutions Clear Skin System, Redness Solutions and Even Better Skin Tone Corrector from Clinique and The Eye Concentrate and The Moisturizing Gel Cream from La Mer. All of the above collectively contributed incremental sales of approximately \$65 million. Net sales increases from products in the Re-Nutriv line from Estée Lauder, as well as Tri-Aktiline™ Instant Deep Wrinkle Filler from Good Skin™ totaled approximately \$14 million. These improvements were partially offset by approximately \$17 million of lower sales from Continuous Rescue Antioxidant Moisturizers from Clinique as well as other existing Idealist products from Estée Lauder. Net sales of other new and existing products also significantly contributed to the growth. Excluding the impact of foreign currency translation, skin care net sales increased 8%.

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Makeup

Makeup net sales increased 11%, or \$77.3 million, to \$755.7 million, reflecting increases from our makeup artist brands of approximately \$52 million. Also contributing to the growth were the recent launches of Double Wear Zero Smudge Mascara and Eyeliner from Estée Lauder, Estée Lauder Signature Hydra Lustre Lipstick and Lash Power Mascara from Clinique, as well as higher sales of Double Wear Stay-In-Place Makeup from Estée Lauder of approximately \$27 million, combined. This growth was partially offset by approximately \$9 million of lower sales of Projectionist High Definition Volume Mascara from Estée Lauder and Full Potential Lips Plump & Shine from Clinique. Excluding the impact of foreign currency translation, makeup net sales increased 7%.

Fragrance

Net sales of fragrance products increased 8%, or \$19.0 million, to \$259.1 million. The recent launches of Dreaming Tommy Hilfiger, Estée Lauder Pure White Linen Light Breeze, DKNY Delicious Night and Sean John Unforgivable Woman collectively contributed approximately \$28 million to the growth in the category. Partially offsetting these increases by approximately \$11 million were lower sales of Tommy Girl by Tommy Hilfiger, DKNY Red Delicious Women and Estée Lauder Pure White Linen. While current year sales levels compared favorably to the prior year, we anticipate continued challenges in this product category primarily in the United States. Excluding the impact of foreign currency translation, fragrance net sales increased 3%.

Hair Care

Hair care net sales increased 1%, or \$1.1 million, to \$98.2 million, reflecting the inclusion of net sales from the Ojon brand, partially offset by lower net sales from Aveda and Bumble and bumble. The decrease in Aveda net sales reflected the anniversary of the launch of Be Curly shampoo and conditioner partially offset by the recent launches of Aveda Men Pure-Formance and Smooth Infusion products. Bumble and bumble net sales decreased as a result of the discontinuance of its hotel amenities program, partially offset by the recent launch of Spray de Mode and sales from new points of distribution. Excluding the impact of foreign currency translation, hair care net sales decreased 1%.

Geographic Regions

Net sales in the Americas increased 3%, or \$24.0 million, to \$880.9 million, primarily reflecting net sales growth in Canada, which included the addition of the Ojon brand, and Latin America of approximately \$22 million, combined. We believe that economic uncertainty in the United States has affected our business, particularly in the department store channel. These challenges have been mitigated through sales in alternative channels, such as freestanding retail stores, internet distribution, self-select distribution and direct-response television. Excluding the impact of foreign currency translation, net sales in the Americas increased 2%.

In Europe, the Middle East & Africa, net sales increased 17%, or \$103.1 million, to \$701.5 million. This increase reflected growth from virtually all countries in the region led by our travel retailing business, Spain, Italy and the United Kingdom, although net sales growth rates slowed in certain key countries. These results were inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$47 million. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 9%.

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Net sales in Asia/Pacific increased 26%, or \$62.2 million, to \$297.4 million. This increase reflected higher net sales of approximately \$52 million in China, Japan, Korea, Hong Kong and Australia, primarily due to a strong retail environment and growth from new and existing points of distribution. The overall growth in this region was inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$20 million. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 18%.

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 25.1% as compared with 25.2% in the prior period. Cost of sales as a percentage of net sales reflected a decrease in the level and timing of promotional activities of approximately 50 basis points and a positive effect of exchange rates of approximately 20 basis points. Offsetting these improvements was an increase in obsolescence charges of approximately 50 basis points and an unfavorable change in the mix of our business of approximately 10 basis points.

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During the current period, the higher price of oil did not have a material impact on our cost of raw materials and componentry. While sustained oil price increases could result in higher costs, we believe that this will not have a material adverse effect on our cost of sales margin in the near future.

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

OPERATING EXPENSES

Operating expenses increased to 66.3% of net sales as compared with 65.5% of net sales in the prior period. Approximately 120 basis points of the increase in operating expense margin reflected higher planned spending on advertising, merchandising and sampling activities to support new product launches and to provide a foundation for future sales growth. The operating expense margin increase also reflected higher costs of global information technology systems and infrastructure of approximately 50 basis points. Partially offsetting these increases was a net improvement in foreign exchange transactions of approximately 40 basis points. Operating expense margin in the prior-year quarter was adversely impacted by organizational costs related to our pharmacy channel in Europe by approximately 60 basis points.

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

OPERATING RESULTS

Based on the growth of net sales, the decrease in our cost of sales margin and the increase in our operating expense margin as previously discussed, operating income increased 3%, or \$4.5 million, to \$161.2 million as compared with the prior-year period. Operating margins were 8.6% of net sales in the current period as compared with 9.3% in the prior-year period.

Product Categories

Skin care operating income increased 19%, or \$15.1 million, to \$96.0 million, primarily reflecting improved results internationally. The international results from the prior-year quarter reflected organizational costs related to our pharmacy channel in Europe. Makeup operating income increased 7%, or \$5.8 million, to \$93.2 million, primarily reflecting growth overseas. Fragrance operating results decreased 32%, or \$6.8 million, primarily reflecting higher spending in support of new launches of designer fragrances. Hair care results declined over 100%, or \$12.2 million reflecting soft sales growth coupled with investments designed to support our short and long-term growth in this category through new points of distribution and an increase in intangible asset amortization resulting from recent strategic acquisitions.

Geographic Regions

Operating income in the Americas decreased 30%, or \$21.6 million, to \$50.4 million, reflecting higher costs of global information technology systems and infrastructure and planned spending on advertising, merchandising and sampling activities as previously discussed. Operating results also reflected the aforementioned activities in support of our hair care business.

In Europe, the Middle East & Africa, operating income increased 17%, or \$11.3 million, to \$77.3 million primarily due to improved results from our travel retail business, Italy and Spain of approximately \$14 million, collectively. Partially offsetting these increases were lower results in Russia of approximately \$5 million, reflecting spending to support our continuing expansion in this emerging market.

In Asia/Pacific, operating income increased 76%, or \$14.2 million, to \$32.8 million, reflecting growth from most of our affiliates in this region, primarily resulting from net sales growth led by China, Japan, Korea and Hong Kong.

INTEREST EXPENSE, NET

Net interest expense was \$16.1 million as compared with \$8.8 million in the prior period. This change primarily resulted from higher average debt balances, including an additional \$600.0 million of senior notes issued in the fourth quarter of fiscal 2007.

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PROVISION FOR INCOME TAXES

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The provision for income taxes represents Federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from quarter to quarter based on non-recurring and recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local taxes, tax audit settlements and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

The effective rate for income taxes for the three months ended March 31, 2008 was 37.0% as compared with 35.4% in the prior period. The increase in the effective income tax rate of 160 basis points was primarily attributable to increases in the gross amount of unrecognized tax benefits and related interest accruals.

Nine Months Fiscal 2008 as Compared with Nine Months Fiscal 2007

NET SALES

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Net sales increased 12%, or \$623.6 million, to \$5,898.7 million, reflecting net sales growth in all of our product categories within each geographical region. Skin care, makeup and fragrance net sales increases were led by Europe, the Middle East and Africa while most of the net sales growth in hair care was achieved in the Americas. Overall, the increase in net sales reflected our efforts to capitalize on growth opportunities internationally. Excluding the impact of foreign currency translation, net sales increased 8%.

Product Categories

Skin Care

Net sales of skin care products increased 14%, or \$270.5 million, to \$2,207.5 million. This growth reflected the recent launches of Idealist Pore Minimizing Skin Refinisher, Cyber White EX and Hydra Bright Skin Tone Perfecting Moisturizers from Estée Lauder. Also contributing to the growth were the recent launches of products in the Acne Solutions Clear Skin System, Zero Gravity Repairwear Lift Firming Cream, Redness Solutions and Even Better Skin Tone Corrector from Clinique as well as The Eye Concentrate and The Moisturizing Gel Cream from La Mer. All of these collectively contributed incremental sales of approximately \$175 million. Net sales increases from Re-Nutriv and Resilience Lift Extreme Ultra Firming products from Estée Lauder, as well as Tri-Aktiline™ Instant Deep Wrinkle Filler from Good Skin™ totaled approximately \$45 million. These improvements were partially offset by approximately \$47 million of lower sales from certain other existing Idealist products and Perfectionist products from Estée Lauder. Net sales of other new and existing products also significantly contributed to the growth. Excluding the impact of foreign currency translation, skin care net sales increased 9%.

Makeup

Makeup net sales increased 10%, or \$204.1 million, to \$2,246.1 million reflecting growth from our makeup artist brands of approximately \$141 million. Also contributing to the growth were incremental sales from the recent launches of Estée Lauder Signature Hydra Lustre Lipstick, Estée Lauder Signature Silky Eyeshadow Duo and Supermoisture Makeup and Superbalm Moisturizing Gloss from Clinique of approximately \$67 million, combined. Partially offsetting these increases were lower sales of approximately \$26 million of Pure Color Eyeshadow and High Gloss from Estée Lauder and Perfectly Real Makeup from Clinique. Excluding the impact of foreign currency translation, makeup net sales increased 6%.

Fragrance

Net sales of fragrance products increased 10%, or \$98.1 million, to \$1,092.6 million. The recent launches of Sean John Unforgivable Woman, Dreaming Tommy Hilfiger, Estée Lauder *pleasures delight*, and Estée Lauder Pure White Linen Light Breeze collectively contributed approximately \$72 million to the growth in the category. Higher sales of approximately \$42 million of DKNY Be Delicious, Jo Malone fragrances and Sean John Unforgivable also contributed to the increase. Lower sales of approximately \$39 million of DKNY Be Delicious Men, DKNY Red Delicious Women and Youth Dew Amber Nude by Tom Ford for Estée Lauder partially offset the growth in this product category. Excluding the impact of foreign currency translation, fragrance net sales increased 5%.

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Hair Care

Hair care net sales increased 14%, or \$37.8 million, to \$311.2 million, primarily due to growth from Aveda and Bumble and bumble, and the inclusion of the Ojon brand which was acquired at the end of July 2007. Aveda net sales increases benefited from the recent launches of Smooth Infusion and Aveda Men Pure-Formance products, as well as the recent acquisition of an independent distributor. Bumble and bumble net sales benefited from new points of distribution and increases from its hotel amenities program, which was discontinued in the third quarter. Excluding the impact of foreign currency translation, hair care net sales increased 12%.

Geographic Regions

Net sales in the Americas increased 4%, or \$106.6 million, to \$2,808.0 million, primarily reflecting net sales growth in Canada, which included the addition of the Ojon brand, and Latin America of approximately \$66 million, combined. Additional net sales increases of approximately \$61 million were attributable to our designer fragrances business and our makeup artist and hair care brands in the United States. Partially offsetting this growth was approximately \$53 million related to weaknesses in certain of our core brands in the United States as a result of competitive pressures and challenges in the department store channel. We believe that economic uncertainty in the United States has affected our business, particularly in the department store channel. These challenges have been mitigated through sales in alternative channels, such as freestanding retail stores, internet distribution, self-select distribution and direct-response television. Excluding the impact of foreign currency translation, net sales in the Americas increased 3%.

In Europe, the Middle East & Africa, net sales increased 19%, or \$353.9 million, to \$2,185.9 million, reflecting growth from all countries in the region led by our travel retail business and the United Kingdom, as well as in Russia, which benefited from our continuing expansion in this emerging market. These results were inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$145 million. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 11%.

Net sales in Asia/Pacific increased 22%, or \$163.1 million, to \$904.8 million. This increase reflected higher net sales of approximately \$134 million in China, Australia, Korea, Japan and Hong Kong. These results were inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$48 million. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 16%.

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 25.5% as compared with 25.6% in the prior period. Cost of sales as a percentage of net sales reflected a decrease in the level and timing of promotional activities of approximately 20 basis points and a positive effect of exchange rates of approximately 10 basis points. Offsetting these improvements was an increase in obsolescence charges and an unfavorable change in the mix of our business of approximately 10 basis points, each.

During the current period, the higher price of oil did not have a material impact on our cost of raw materials and componentry. While sustained oil price increases could result in higher costs, we believe that this will not have a material adverse effect on our cost of sales margin in the near future.

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

OPERATING EXPENSES

Operating expenses increased to 64.1% of net sales as compared with 63.2% of net sales in the prior period. The increase in operating expenses and operating expense margin reflected higher planned spending on advertising, merchandising and sampling activities to support new product launches and to provide a foundation for future sales growth, as well as higher costs of global information technology systems and infrastructure of approximately 80 basis points, combined. An additional increase of approximately 20 basis points resulted from higher demonstration, field selling and training costs as part of our continuing efforts to improve the consumer experience. Operating expense margin in the prior period was adversely impacted by organizational costs related to our pharmacy channel in Europe by approximately 20 basis points.

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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

Due to the growth in net sales, the decrease in our cost of sales margin and the increase in our operating expense margins as previously discussed, operating income increased 3%, or \$20.6 million, to \$609.6 million as compared with the prior period. Operating margins declined to 10.4% of net sales as compared with 11.2% in the prior-year period.

Product Categories

Skin care operating income increased 9%, or \$25.7 million, to \$298.3 million, primarily reflecting net sales growth from La Mer products and Tri-Aktiline™ Instant Deep Wrinkle Filler from Good Skin™. In addition, the prior period results in this category reflected organizational costs related to our pharmacy channel in Europe. Makeup operating income increased 7%, or \$17.9 million, to \$283.7 million, reflecting improved results internationally, partially offset by lower results in the United States from certain of our core brands as well as costs related to the establishment of new points of distribution. Fragrance operating income decreased 29%, or \$6.2 million, to \$15.0 million, primarily reflecting lower global results from designer fragrances where we increased spending in support of new product launches. Hair care operating income declined 58%, or \$18.0 million, to \$12.9 million primarily related to investments designed to support our short and long-term growth in this category through new points of distribution as well as an increase in intangible asset amortization resulting from recent strategic acquisitions.

Geographic Regions

Operating income in the Americas declined 24%, or \$61.2 million, to \$193.8 million, reflecting higher demonstration, field selling and training costs as part of our initiative to improve the consumer experience, planned spending on advertising, merchandising and sampling activities and higher costs of global information technology systems and infrastructure as previously discussed.

In Europe, the Middle East & Africa, operating income increased 15%, or \$38.2 million, to \$293.3 million primarily due to higher results of approximately \$42 million in our travel retail business, the United Kingdom, France, Italy and the Benelux countries. Partially offsetting these increases were lower results in Russia, reflecting spending to support our continuing expansion in this emerging market, and Germany of approximately \$11 million, combined.

In Asia/Pacific, operating income increased 54%, or \$42.7 million, to \$122.0 million. All of our affiliates in this region experienced an increase in operating income, primarily resulting from net sales growth led by Japan, Australia, Hong Kong, Korea and China, which contributed approximately \$34 million, collectively.

INTEREST EXPENSE, NET

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Net interest expense was \$52.8 million as compared with \$23.2 million in the prior period. This change primarily resulted from higher average debt balances, including an additional \$600.0 million of senior notes issued in the fourth quarter of fiscal 2007, partially offset by lower average interest rates.

PROVISION FOR INCOME TAXES

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The provision for income taxes represents Federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from quarter to quarter based on non-recurring and recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local taxes, tax audit settlements and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

The effective rate for income taxes for the nine months ended March 31, 2008 was 35.5% as compared with 35.2% in the prior period. The increase in the effective income tax rate of 30 basis points (including the remeasurement of tax positions requiring recognition in the current quarter), resulted from an increase in nondeductible expenses (60 basis points) and a net increase attributable to the impact of unrecognized tax benefits for temporary differences and miscellaneous items (60 basis points), partially offset by a decrease in state and local income tax expense (60 basis points), a decrease in tax credits (20 basis points) and a decrease in the tax effect of our foreign operations (10 basis points).

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FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

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 March 31, 2008, we had cash and cash equivalents of \$410.0 million compared with \$253.7 million at June 30, 2007.

At March 31, 2008, our outstanding borrowings were as follows:

	Long-term Debt	Short-term Debt (In millions)	Total Debt
6.00% Senior Notes, due May 15, 2037 (2037 Senior Notes(1))	\$ 296.2	\$	\$ 296.2
5.75% Senior Notes, due October 15, 2033 (2033 Senior Notes(2))	197.5		197.5
5.55% Senior Notes, due May 15, 2017 (2017 Senior Notes(3))	322.6		322.6
6.00% Senior Notes, due January 15, 2012 (2012 Senior Notes(4))	241.4		241.4
\$13.5 million promissory note due August 12, 2012 (5)	15.8		15.8
\$7.0 million promissory note due July 31, 2009 (6)	7.5		7.5
Commercial paper maturing through June 2008 (2.37% average interest rate)		165.1	165.1
7.9 million Turkish lira borrowings against overdraft facility		6.4	6.4
Other borrowings	4.8	20.2	25.0
	\$ 1,085.8	\$ 191.7	\$ 1,277.5

(1) Consists of \$300.0 million principal and unamortized debt discount of \$3.8 million.

(2) Consists of \$200.0 million principal and unamortized debt discount of \$2.5 million.

(3) Consists of \$300.0 million principal, unamortized debt discount of \$0.4 million and a \$23.0 million adjustment to reflect the fair value of outstanding interest rate swaps.

(4) Consists of \$250.0 million principal, unamortized debt discount of \$0.4 million and an \$8.2 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.

(5) Consists of \$13.5 million face value and unamortized premium of \$2.3 million.

(6) Consists of \$7.0 million face value and unamortized premium of \$0.5 million.

We have a \$750.0 million commercial paper program under which we may issue commercial paper in the United States. Our commercial paper is currently rated A-1 by Standard & Poor's and P-1 by Moody's. Our long-term credit ratings are A with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's. At March 31, 2008, we had \$165.1 million of commercial paper outstanding, which we may refinance on a periodic basis as it matures at then-prevailing market interest rates. We also have \$208.0 million in additional uncommitted credit facilities, of which \$23.4 million was used as of March 31, 2008.

We have an undrawn \$750.0 million senior unsecured revolving credit facility that expires on April 26, 2012. This facility may be used primarily to provide credit support for our commercial paper program, to repurchase shares of our common stock and for general corporate purposes. Up to the equivalent of \$250 million of the credit facility is available for multi-currency loans. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on our current credit ratings. As of March 31, 2008, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens.

In July 2007, we acquired Ojon Corporation. As part of the purchase price, we issued (i) a promissory note due July 31, 2009 with a notional value of \$7.0 million (present value of \$7.5 million at March 31, 2008), bearing interest at 10.00% due at maturity and (ii) a promissory note due August 31, 2012 with a notional amount of \$13.5 million (present value of \$15.8 million at March 31, 2008), bearing interest at 10.00% payable annually on July 31. The notes due in 2009 and 2012 were recorded in the accompanying consolidated balance sheet at present value using effective rates of 5.11% and 5.42%, respectively.

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We have a fixed rate promissory note agreement with a financial institution pursuant to which we may borrow up to \$150.0 million in the form of loan participation notes through one of our subsidiaries in Europe. The interest rate on borrowings under this agreement is at an all-in fixed rate determined by the lender and agreed to by us at the date of each borrowing. At March 31, 2008, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

We have an overdraft borrowing agreement with a financial institution pursuant to which our subsidiary in Turkey may be credited to satisfy outstanding negative daily balances arising from its business operations. The total balance outstanding at any time shall not exceed 20.0 million Turkish lira. The interest rate applicable to each such credit shall be 40 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by us at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at March 31, 2008 (\$6.4 million at the exchange rate at March 31, 2008) is classified as short-term debt in our consolidated balance sheet.

We have a 3.0 billion yen revolving credit facility that expires on March 24, 2009. The interest rate on borrowings under the credit facility is based on TIBOR (Tokyo Interbank Offered Rate) and a 10 basis point facility fee is incurred on the undrawn balance. At March 31, 2008, no borrowings were outstanding under this facility.

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.

Total debt as a percent of total capitalization was 45% at March 31, 2008 and 48% at June 30, 2007.

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

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, stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis.

Cash Flows

Net cash provided by operating activities from continuing operations was \$518.5 million during the nine months ended March 31, 2008 compared with \$456.3 million in the prior period. This increase reflected a higher level of cash generated from net earnings before non-cash items such as depreciation, amortization and stock-based compensation. Approximately \$71 million of the change in deferred income taxes was offset by a correlative change in noncurrent accrued income taxes reflecting the balance sheet presentation of unrecognized tax benefits (see *Critical Accounting Policies* for further discussion). The net increase in operating cash flows also reflected the timing of payments and costs related to accrued advertising, merchandising and sampling activities and employee compensation.

Net cash used for investing activities was \$371.1 million during the nine months ended March 31, 2008 compared with \$269.2 million in the prior period. The increase during the current period primarily reflected cash payments related to the acquisition of Ojon Corporation and the exclusive rights to sell and distribute Ojon products worldwide, and to a lesser extent, the acquisition of an Aveda distributor. Capital expenditures also increased from the prior period reflecting incremental spending for counters and the higher costs of technology related to our continuing company-wide initiative to upgrade our information systems.

Net cash used for financing activities was \$2.0 million during the nine months ended March 31, 2008 as compared with \$351.8 million in the prior period. In the prior period, cash flows from financing activities were impacted primarily by higher treasury stock repurchases, which were partially funded by the issuance of long-term debt. Also contributing to the change in net cash used for financing activities was an increase in short-term debt, partially offset by lower cash inflows from stock option exercises.

Dividends

During the current period, we paid dividends on the Class A and Class B Common Stock of \$.55 per share (or an aggregate of \$106.6 million) as compared with \$.50 per share (or an aggregate of \$103.6 million) in the prior-year period.

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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 March 31, 2008, the cumulative total of acquired shares pursuant to the authorization was 63.3 million, reducing the remaining authorized share repurchase balance to 24.7 million. During the first nine months of fiscal 2008, we purchased approximately 2.2 million shares pursuant to the authorization for \$93.6 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 2007				6,929,958
August 2007	100,000	\$ 41.76	100,000	6,829,958
	97,417(2)	(2)	97,417	6,732,541
September 2007	1,219,800	\$ 41.17	1,219,800	5,512,741
October 2007	117,807(3)	\$ 43.39		5,512,741
November 2007				25,512,741
December 2007	474,653(3)	\$ 43.44	474,600	25,038,141
January 2008				25,038,141
February 2008				25,038,141
March 2008	300,000	\$ 45.00	300,000	24,738,141
Year-to-date	2,309,677	\$ 42.32	2,191,817	24,738,141

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

(2) Represents shares of our common stock received as a price adjustment and final settlement related to an accelerated share repurchase program with a financial counterparty implemented during fiscal 2007.

(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 March 31, 2008, we repurchased approximately 0.6 million additional shares for \$26.0 million.

Commitments, Contingencies and Contractual Obligations

Since June 30, 2007, we made additional commitments pursuant to employment agreements, the purchase of Ojon Corporation and the purchase of the exclusive rights to sell and distribute Ojon products worldwide. These commitments will result in an increase to our contractual obligations previously disclosed in our Annual Report on Form 10-K for periods beyond fiscal 2008. Debt service commitments are expected to increase \$2.1 million, \$8.4 million, \$1.4 million, \$1.4 million and \$13.5 million in fiscal 2009, 2010, 2011, 2012, and 2013, respectively. Unconditional purchase obligations are expected to increase \$17.4 million, \$14.7 million, \$7.6 million and \$4.3 million in fiscal 2009, 2010, 2011 and 2012, respectively.

We adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes (FIN 48) effective July 1, 2007. As a result, our liability for unrecognized tax benefits was \$142.7 million, with an additional related gross accrual for interest and penalties of \$42.0 million. As of March 31, 2008, our liability for unrecognized tax benefits was \$163.8 million, and the related gross accrual for interest and penalties was \$52.2 million. However, because these multi-jurisdictional issues are complex and the level and disposition of such issues are subject to change, reasonably reliable estimates of the amounts and periods of related future payments cannot be made at this time.

Derivative Financial Instruments and Hedging Activities

There have been no significant changes to our derivative financial instruments and hedging activities as discussed in our Annual Report on Form 10-K for the year ended June 30, 2007.

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Foreign Exchange Risk Management

We enter into forward exchange contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on our costs and on the cash flows that we receive from foreign subsidiaries. Almost all foreign currency contracts are denominated in currencies of major industrial countries and are with large financial institutions rated as strong investment grade by a major rating agency. We also enter into foreign currency options to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The forward exchange contracts and foreign currency options entered into to hedge anticipated transactions have been designated as cash-flow hedges. Hedge effectiveness of forward exchange contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology. The ineffective portion of both forward exchange and foreign currency option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings. As of March 31, 2008, these cash-flow hedges were highly effective, in all material respects.

As a matter of policy, we only enter into contracts with counterparties that have at least an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. We do not have significant exposure to any one counterparty. Our exposure to credit loss in the event of nonperformance by any of the counterparties is limited to only the recognized, but not realized, gains attributable to the contracts. Management believes risk of default under these hedging contracts is remote and in any event would not be material to the consolidated financial results. The contracts have varying maturities through the end of June 2009. Costs associated with entering into such contracts have not been material to our consolidated financial results. We do not utilize derivative financial instruments for trading or speculative purposes. At March 31, 2008, we had foreign currency contracts in the form of forward exchange contracts and option contracts in the amount of \$1,293.2 million and \$64.9 million, respectively. The foreign currencies included in forward exchange contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$251.0 million), British pound (\$213.0 million), Euro (\$197.6 million), Canadian dollar (\$164.6 million), Australian dollar (\$118.1 million) and Japanese yen (\$59.3 million). The foreign currencies included in the option contracts (notional value stated in U.S. dollars) are principally the Canadian dollar (\$36.8 million) and the South Korean Won (\$23.1 million).

Interest Rate Risk Management

We enter into interest rate derivative contracts to manage the exposure to fluctuations of interest rates on our funded indebtedness and anticipated issuance of debt, as well as cash investments, for periods consistent with the identified exposures. All interest rate derivative contracts are with large financial institutions rated as strong investment grade by a major rating agency.

We have interest rate swap agreements, with a notional amount totaling \$250.0 million, to effectively convert the fixed rate interest on our 2017 Senior Notes to variable interest rates based on six-month LIBOR. The interest rate swaps were designated as fair-value hedges. As of March 31, 2008, these fair-value hedges were highly effective, in all material respects.

Market Risk

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, our average value-at-risk, calculated for the most recent twelve months, is \$9.8 million related to our foreign exchange contracts. As of March 31, 2008, our average value-at-risk related to our interest rate contracts for the twelve month period for which these contracts were outstanding was \$16.6

million. There have been no significant changes in market risk since June 30, 2007 that would have a material effect on our calculated value-at-risk exposure, as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

Off-Balance Sheet Arrangements

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

THE ESTÉE LAUDER COMPANIES INC.

CRITICAL ACCOUNTING POLICIES

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension and other post-retirement benefit costs, goodwill and other intangible assets, income taxes, derivatives and stock-based compensation.

In June 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standard (SFAS) No. 109, Accounting for Income Taxes. FIN 48 prescribes a two-step evaluation process for tax positions taken, or expected to be taken, in a tax return. The first step is recognition and the second is measurement. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosures, transition and accounting for interim periods. We adopted the provisions of FIN 48 effective July 1, 2007. As a result, we recognized an increase in the liability for unrecognized tax benefits and interest of \$13.1 million (net of tax effect), which, as required, was accounted for as a reduction to the July 1, 2007 balance of retained earnings.

As of July 1, 2007, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$142.7 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$106.5 million. We elected to continue our historical practice of classifying applicable interest and penalties as a component of the provision for income taxes. Our gross accrual for interest and penalties related to unrecognized tax benefits was \$42.0 million upon adoption of FIN 48. Interest is computed on the difference between our uncertain tax benefit positions under FIN 48 and the amount reflected or expected to be reflected in our tax returns. Adoption of FIN 48 also resulted in a reclassification of \$140.2 million of tax and related interest liabilities (net of tax effect) from accrued income taxes to other noncurrent liabilities because payment of cash is not anticipated within one year of the balance sheet date.

As of March 31, 2008, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$163.8 million. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$121.2 million. Our gross accrual for interest and penalties related to unrecognized tax benefits as of March 31, 2008 was \$52.2 million. Other noncurrent liabilities as well as other assets, net in the accompanying consolidated balance sheet as of March 31, 2008 have each been increased by \$70.6 million to reflect our gross income tax and interest liabilities as well as related deferred tax assets primarily attributable to the U.S. federal tax benefit of state and local taxes and accrued interest.

Earnings from our global operations are subject to tax in various jurisdictions both within and outside the United States. We provide tax reserves for U.S. federal, state, local and international unrecognized tax benefits for periods subject to audit. We believe that the tax reserves are adequate for all years subject to examination. We are currently subject to a U.S. federal tax audit as well as examinations in several state, local, and international jurisdictions. These audits and examinations are in various stages of completion and involve complex multi-jurisdictional issues, including transfer pricing, that may require an extended period of time for resolution. It is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the next twelve months. However, because these multi-jurisdictional issues, including transfer pricing, are complex and the level and disposition of such issues are subject to change, the range of reasonably possible change cannot be estimated at this time.

Since June 30, 2007, there have been no other significant changes to the assumptions and estimates related to our critical accounting policies.

THE ESTÉE LAUDER COMPANIES INC.

RECENTLY ISSUED ACCOUNTING STANDARDS

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. This FSP amends SFAS No. 157 to exclude certain leasing transactions accounted for under previously existing accounting guidance. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination, regardless of whether those assets and liabilities are related to leases.

SFAS No. 157 becomes effective for us in the beginning of fiscal 2009. We are currently evaluating the impact of the provisions of SFAS No. 157 on our consolidated financial statements. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date for FASB Statement No. 157. This FSP permits the delayed application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, as defined in this FSP, except for those that are recognized or disclosed at fair value in the financial statements at least annually, until the beginning of our fiscal 2010.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. We are currently evaluating the impact of the provisions of SFAS No. 159 on our consolidated financial statements, if any, when it becomes effective in the beginning of fiscal 2009.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) replaces SFAS No. 141, Business Combinations, however, it retains the fundamental requirements of the former Statement that the acquisition method of accounting (previously referred to as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Among other requirements, SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at their acquisition-date fair values, with limited exceptions; acquisition-related costs generally will be expensed as incurred. SFAS No. 141(R) requires certain financial statement disclosures to enable users to evaluate and understand the nature and financial effects of the business combination. SFAS No. 141(R) must be applied prospectively to business combinations that are consummated on or after July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS No. 160) to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Among other requirements, SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is to be reported as a separate component of equity in the consolidated financial statements. SFAS No. 160 also requires consolidated net income to include the amounts attributable to both the parent and the noncontrolling interest and to disclose those amounts on the face of the consolidated statement of income. SFAS No. 160 must be applied prospectively for fiscal years, and interim periods within those fiscal years, beginning in our fiscal 2010, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented.

THE ESTÉE LAUDER COMPANIES INC.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires companies to provide qualitative disclosures about their objectives and strategies for using derivative instruments, quantitative disclosures of the fair values and gains and losses of these derivative instruments in a tabular format, as well as more information about liquidity by requiring disclosure of a derivative contract's credit-risk-related contingent features. SFAS No. 161 also requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. We are currently evaluating the disclosure requirements of SFAS No. 161. As this is a disclosure-only standard, we do not anticipate an impact on our consolidated financial statements as a result of its adoption. SFAS No. 161 becomes effective for our March 2009 interim consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). This FSP also adds certain disclosures to those already prescribed in SFAS No. 142. FSP No. FAS 142-3 becomes effective for fiscal years, and interim periods within those fiscal years, beginning in our fiscal 2010. The guidance for determining useful lives must be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements must be applied prospectively to all intangible assets recognized as of the effective date.

FORWARD-LOOKING INFORMATION

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

(1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses, some of which have greater resources than we do;

(2) our ability to develop, produce and market new products on which future operating results may depend and to successfully address challenges in our core brands, including gift with purchase, and in our fragrance business;

(3) consolidations, restructurings, bankruptcies and reorganizations in the retail industry causing a decrease in the number of stores that sell our products, an increase in the ownership concentration within the retail industry, ownership of retailers by our competitors or ownership of competitors by our customers that are retailers;

(4) destocking by retailers;

(5) the success, or changes in timing or scope, of new product launches and the success, or changes in the timing or the scope, of advertising, sampling and merchandising programs;

(6) shifts in the preferences of consumers as to where and how they shop for the types of products and services we sell;

(7) social, political and economic risks to our foreign or domestic manufacturing, distribution and retail operations, including changes in foreign investment and trade policies and regulations of the host countries and of the United States;

(8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products, changes in accounting standards, tax laws and regulations, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;

THE ESTÉE LAUDER COMPANIES INC.

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

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

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

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

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

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

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

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

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2007.

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

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

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

Item 4. *Controls and Procedures.*

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Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2008 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

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

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of fiscal 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

THE ESTÉE LAUDER COMPANIES INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

In 1999, the Office of the Attorney General of the State of New York (the "State") notified the Company and ten other entities that they had been identified as potentially responsible parties ("PRPs") with respect to the Blydenburgh landfill in Islip, New York. Each PRP may be jointly and severally liable for the costs of investigation and cleanup, which the State estimated in 2006 to be approximately \$19.7 million for all PRPs. In 2001, the State sued other PRPs (including Hickey's Carting, Inc., Dennis C. Hickey and Maria Hickey, collectively the "Hickey Parties"), in the U.S. District Court for the Eastern District of New York to recover such costs in connection with the site, and in September 2002, the Hickey Parties brought contribution actions against the Company and other Blydenburgh PRPs. These contribution actions seek to recover, among other things, any damages for which the Hickey Parties are found liable in the State's lawsuit against them, and related costs and expenses, including attorneys' fees. In June 2004, the State added the Company and other PRPs as defendants in its pending case against the Hickey Parties. In April 2006, the Company and other defendants added numerous other parties to the case as third-party defendants. The Company and certain other PRPs have engaged in settlement discussions which to date have been unsuccessful. Settlement negotiations with the new third-party defendants, the State, the Company and other defendants began in July 2006. We have accrued an amount which we believe would be necessary to resolve our share of this matter. If settlement discussions are not successful, we intend to vigorously defend the pending claims. While no assurance can be given as to the ultimate outcome, management believes that the resolution of the Blydenburgh matters will not have a material adverse effect on our consolidated financial condition.

Item 1A. Risk Factors.

There are risks associated with an investment in our securities.

Please consider the risks set forth in Item 1A. Risk Factors of our annual report on Form 10-K for the year ended June 30, 2007 (as supplemented below) and elsewhere in that report and our subsequent filings with the Securities and Exchange Commission. 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 discussion of risks in that annual report (as supplemented below) 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.

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.

THE ESTÉE LAUDER COMPANIES INC.

PART II. OTHER INFORMATION

In addition, sudden disruptions in business conditions, for example, as a consequence of events such as the outbreak of SARs in 2003 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, such as Hurricane Katrina, 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

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 March 31, 2008, the holders set forth in the table converted shares of Class B Common Stock into Class A Common Stock on the dates set forth in the table below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
Ronald S. Lauder	February 27, 2008	750,000

Share Repurchase Program

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Information required by this item is set forth in Part I Item 2 of this Quarterly Report on Form 10-Q under the caption "Liquidity and Capital Resources - Share Repurchase Program" and is incorporated herein by reference.

Item 6. Exhibits.

**Exhibit
Number** **Description**

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- 31.1 Certification pursuant to Rule 13a-14(a) (CEO).
- 31.2 Certification pursuant to Rule 13a-14(a) (CFO).
- 32.1 Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)
- 32.2 Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)

SIGNATURES

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

THE ESTÉE LAUDER COMPANIES INC.

Date: May 6, 2008

By:

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

THE ESTÉE LAUDER COMPANIES INC.

INDEX TO EXHIBITS

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