ESTEE LAUDER COMPANIES INC
Form 10-Q
February 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
	For the quarterly period ended December 31, 2010
	OR
o	**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from   to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

(State or other jurisdiction of
incorporation or organization)

767 Fifth Avenue, New York, New York	**10153**
(Address of principal executive offices)	(Zip Code)

212-572-4200

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

At January 26, 2011, 121,194,060 shares of the registrant s Class A Common Stock, $.01 par value, and 76,232,041 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

item 1. ***financial statements***

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2010	**2009**	**2010**	**2009**
	(In millions, except per share data)			
Net Sales	$ 2,492.0	$ 2,262.3	$ 4,583.7	$ 4,095.7
Cost of Sales	541.1	525.4	1,029.2	970.5
Gross Profit	1,950.9	1,736.9	3,554.5	3,125.2
Operating expenses				
Selling, general and administrative	1,419.2	1,282.4	2,721.0	2,432.1
Restructuring and other special charges	14.0	9.3	17.8	27.5
Goodwill impairment		16.6		16.6
Impairment of other intangible assets		29.0		29.0
Total operating expenses	1,433.2	1,337.3	2,738.8	2,505.2
Operating Income	517.7	399.6	815.7	620.0
Interest expense, net	16.1	19.9	32.2	39.5
Earnings before Income Taxes	501.6	379.7	783.5	580.5
Provision for income taxes	155.7	118.0	248.0	181.0
Net Earnings	345.9	261.7	535.5	399.5
Net earnings attributable to noncontrolling interests	(2.0)	(5.5)	(0.5)	(2.6)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$ 343.9	$ 256.2	$ 535.0	$ 396.9
Net earnings attributable to The Estée Lauder Companies Inc. per common share				
Basic	$ 1.75	$ 1.30	$ 2.72	$ 2.01
Diluted	1.71	1.28	2.67	1.99
Weighted average common shares outstanding				

Basic	196.7	197.3	196.7	197.0
Diluted	200.9	200.4	200.6	199.3
Cash dividends declared per common share	$ .75	$ .55	$ .75	$ .55

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31 2010 (Unaudited)	June 30 2010
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,043.1	$ 1,120.7
Accounts receivable, net	1,172.5	746.2
Inventory and promotional merchandise, net	866.9	826.6
Prepaid expenses and other current assets	431.6	427.5
Total current assets	3,514.1	3,121.0
Property, Plant and Equipment, net	1,066.9	1,023.6
Other Assets		
Investments, at cost or market value	13.9	12.2
Goodwill	900.0	752.5
Other intangible assets, net	241.6	109.5
Other assets	245.3	316.8
Total other assets	1,400.8	1,191.0
Total assets	$ 5,981.8	$ 5,335.6
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 26.0	$ 23.4
Accounts payable	349.3	425.2
Accrued income taxes	118.1	5.6
Other accrued liabilities	1,258.0	1,118.0
Total current liabilities	1,751.4	1,572.2
Noncurrent Liabilities		
Long-term debt	1,205.1	1,205.0
Accrued income taxes	166.5	163.3
Other noncurrent liabilities	453.1	429.7
Total noncurrent liabilities	1,824.7	1,798.0
Contingencies (Note 8)		
Equity		
Common stock, $.01 par value; 650,000,000 shares Class A authorized; shares issued: 193,993,742 at December 31, 2010 and 190,767,435 at June 30, 2010; 240,000,000 shares Class B authorized; shares issued and outstanding: 76,232,041 at December 31, 2010 and 77,082,041 at June 30, 2010	2.7	2.7
Paid-in capital	1,565.9	1,428.7
Retained earnings	3,950.7	3,564.0
Accumulated other comprehensive loss	(111.9)	(196.7)
	5,407.4	4,798.7
	(3,020.4)	(2,850.3)

Less: Treasury stock, at cost; 72,909,623 Class A shares at December 31, 2010 and 70,125,805 Class A shares at June 30, 2010				
Total stockholders equity The Estée Lauder Companies Inc.		2,387.0		1,948.4
Noncontrolling interests		18.7		17.0
Total equity		2,405.7		1,965.4
Total liabilities and equity	$	5,981.8	$	5,335.6

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31 2010	Six Months Ended December 31 2009
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 535.5	$ 399.5
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	135.3	127.7
Deferred income taxes	12.9	(28.9)
Non-cash stock-based compensation	54.4	30.8
Excess tax benefits from stock-based compensation arrangements	(17.3)	(1.0)
Loss on disposal of property, plant and equipment	2.1	10.8
Non-cash charges associated with restructuring activities	5.7	7.0
Goodwill and other intangible asset impairments		45.6
Pension and post-retirement benefit expense	34.2	29.7
Pension and post-retirement benefit contributions	(19.6)	(26.5)
Other non-cash items	0.2	0.3
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(387.9)	(226.3)
Decrease in inventory and promotional merchandise, net	0.2	48.6
Decrease (increase) in other assets, net	(27.4)	2.0
Decrease in accounts payable	(95.9)	(22.2)
Increase in accrued income taxes	146.4	95.3
Increase in other liabilities	129.2	124.5
Net cash flows provided by operating activities	508.0	616.9
Cash Flows from Investing Activities		
Capital expenditures	(144.8)	(104.2)
Acquisition of businesses and other intangible assets, net of cash acquired	(256.1)	(9.3)
Purchases of long-term investments		(0.1)
Net cash flows used for investing activities	(400.9)	(113.6)
Cash Flows from Financing Activities		
Increase (decrease) in current debt, net	7.3	(5.3)
Repayments and redemptions of long-term debt	(12.7)	(15.0)
Net settlement of interest rate derivatives	47.4	
Net proceeds from stock-based compensation transactions	62.3	56.3
Excess tax benefits from stock-based compensation arrangements	17.3	1.0
Payments to acquire treasury stock	(173.0)	(78.1)
Dividends paid to stockholders	(148.0)	(109.1)
Net cash flows used for financing activities	(199.4)	(150.2)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	14.7	6.0
Net Increase (Decrease) in Cash and Cash Equivalents	(77.6)	359.1

Cash and Cash Equivalents at Beginning of Period		1,120.7		864.5
Cash and Cash Equivalents at End of Period	$	1,043.1	$	1,223.6

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1   SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the   Company). All significant intercompany balances and transactions have been eliminated.

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

Management Estimates

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

Currency Translation and Transactions

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted average rates of exchange for the period. Unrealized translation gains or losses are reported as cumulative translation adjustments through other comprehensive income (loss) (OCI). Such adjustments, attributable to The Estée Lauder Companies Inc., amounted to $4.9 million and $0.1 million of unrealized translation gains, net of tax, during the three months ended December 31, 2010 and 2009, respectively, and $91.6 million and $33.7 million of unrealized translation gains, net of tax, during the six months ended December 31, 2010 and 2009, respectively. For the Company s Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings.

The accompanying consolidated statements of earnings include net exchange losses on foreign currency transactions of $3.6 million and $13.1 million during the three months ended December 31, 2010 and 2009, respectively, and $0.8 million and $13.5 million during the six months ended December 31, 2010 and 2009, respectively.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $36.0 million and $34.3 million as of December 31, 2010 and June 30, 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

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

The Company s largest customer sells products primarily within the United States and accounted for $246.3 million, or 10%, and $225.4 million, or 10%, of the Company s consolidated net sales for the three months ended December 31, 2010 and 2009, respectively, and $528.3 million, or 12%, and $471.5 million, or 12%, of the Company s consolidated net sales for the six months ended December 31, 2010 and 2009, respectively. This customer accounted for $108.9 million, or 10%, and $84.3 million, or 11%, of the Company s accounts receivable at December 31, 2010 and June 30, 2010, respectively.

Inventory and Promotional Merchandise

	December 31 2010	June 30 2010
	(In millions)	
Inventory and promotional merchandise, net consists of:		
Raw materials	$ 197.7	$ 206.0
Work in process	74.1	78.6
Finished goods	428.2	377.8
Promotional merchandise	166.9	164.2
	$ 866.9	$ 826.6

Property, Plant and Equipment

	December 31 2010	June 30 2010
	(In millions)	
Property, plant and equipment by asset class (useful life) consists of:		
Land	$ 14.6	$ 14.3
Buildings and improvements (10 to 40 years)	184.9	172.5
Machinery and equipment (3 to 10 years)	1,268.4	1,174.9
Furniture and fixtures (5 to 10 years)	88.2	82.1
Leasehold improvements	1,151.7	1,081.2

		2,707.8		2,525.0
Less accumulated depreciation and amortization		1,640.9		1,501.4
	$	1,066.9	$	1,023.6

The cost of assets related to projects in progress of $181.4 million and $160.4 million as of December 31, 2010 and June 30, 2010, respectively, is included in their respective asset categories in the table above. Depreciation and amortization of property, plant and equipment was $63.8 million and $59.2 million during the three months ended December 31, 2010 and 2009, respectively, and $129.2 million and $121.2 million during the six months ended December 31, 2010 and 2009, respectively. Depreciation and amortization related to the Company s manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The effective income tax rate was 31.0% and 31.1% for the three months ended December 31, 2010 and 2009, respectively. The decrease in the effective income tax rate was attributable to favorable income tax reserve adjustments, including a tax and interest benefit of $11 million, net of tax, attributable to concluding the examination by the U.S. Internal Revenue Service (IRS) of fiscal 2006 through 2008. The rate was also favorably impacted due to a reinstatement of the U.S. federal research and experimentation tax credit, the majority of such benefit recorded discretely in the quarter. These favorable adjustments were partially offset by a higher income tax rate on the Company s international operations, principally due to an increase in earnings from our travel retail business.

The effective income tax rate for income taxes was 31.7% and 31.2% for the six months ended December 31, 2010 and 2009, respectively. The increase in the effective income tax rate was primarily due to an increase in earnings from our travel retail business, partially offset by favorable income tax reserve adjustments, including a tax and interest benefit of $11 million, net of tax, attributable to concluding the IRS examination of fiscal 2006 through 2008.

As of December 31, 2010 and June 30, 2010, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $121.7 million and $157.3 million, respectively. The change to the balance of gross unrecognized tax benefits in this period was primarily attributable to the completion of the IRS examination of fiscal 2006 through 2008. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $68.4 million. During the three and six months ended December 31, 2010, the Company recognized a gross interest and penalty benefit in the consolidated statements of earnings of $1.1 million and $0.3 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at December 31, 2010 and June 30, 2010 was $40.0 million and $43.6 million, respectively. On the basis of the information available as of December 31, 2010, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of $20 million to $30 million within 12 months as a result of projected resolutions of global tax examinations and controversies and a potential lapse of the applicable statutes of limitations.

During the six months ended December 31, 2010, the IRS commenced its examination of fiscal 2009.

Recently Issued Accounting Standards

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

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

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

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

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

(In millions)	**Skin Care**	**Makeup**	**Fragrance**	**Hair Care**	**Total**
Balance as of June 30, 2010					
Goodwill	$ 67.9	$ 265.1	$ 54.8	$ 400.6	$ 788.4
Accumulated impairments	(20.9)			(15.0)	(35.9)
	47.0	265.1	54.8	385.6	752.5
Goodwill acquired during the period		143.5			143.5
Translation and other adjustments	0.8	0.1	0.1	3.0	4.0
	0.8	143.6	0.1	3.0	147.5
Balance as of December 31, 2010					
Goodwill	69.0	408.7	54.9	404.1	936.7
Accumulated impairments	(21.2)			(15.5)	(36.7)
	$ 47.8	$ 408.7	$ 54.9	$ 388.6	$ 900.0

Other intangible assets consists of the following:

	December 31, 2010			June 30, 2010		
(In millions)	**Gross Carrying Value**	**Accumulated Amortization**	**Total Net Book Value**	**Gross Carrying Value**	**Accumulated Amortization**	**Total Net Book Value**
Amortizable intangible assets:						
Customer lists and other	$ 268.4	$ 159.7	$ 108.7	$ 205.0	$ 151.0	$ 54.0
License agreements	43.0	43.0		43.0	43.0	
	$ 311.4	$ 202.7	108.7	$ 248.0	$ 194.0	54.0
Non-amortizable intangible assets:						
Trademarks and other			132.9			55.5
Total intangible assets			$ 241.6			$ 109.5

The aggregate amortization expense related to amortizable intangible assets for the three months ended December 31, 2010 and 2009 was $3.9 million and $2.6 million, respectively, and for the six months ended December 31, 2010 and 2009 was $7.5 million and $5.1 million, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2011 and each of the fiscal years ending June 30, 2012 to 2015 is $7.0 million, $13.8 million, $13.8 million, $13.8 million and $13.8 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal 2010 Impairments

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

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

NOTE 3 ACQUISITION OF BUSINESS

On July 1, 2010, the Company acquired Smashbox. The purchase price was funded by cash provided by operations. The results of operations are included in the accompanying consolidated financial statements commencing with the date it was acquired. Pro forma results of operations of the prior-year period have not been presented, as the impact on the Company s consolidated financial results would not have been material. The aggregate cost of this transaction, net of cash acquired, and continuing earn-out obligations related to the acquisition of the Bobbi Brown brand was approximately $256 million.

NOTE 4 CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES

In an effort to drive down costs and achieve synergies within the organization, in February 2009, the Company announced the implementation of a multi-faceted cost savings program (the Program) to position itself to achieve long-term profitable growth. The Company anticipates the Program will result in related restructuring and other special charges, inclusive of cumulative charges recorded to date and over the next few fiscal years, totaling between $350 million to $450 million, before taxes. The total amount of charges (pre-tax) associated with the Program expected to be incurred (including those recorded plus other initiatives approved through January 24, 2011) is approximately $276 million to $281 million, of which approximately $184 million to $185 million relates to restructuring charges, approximately $42 million of other costs to implement the initiatives, approximately $35 million to $39 million in sales returns and approximately $15 million in inventory write-offs. The restructuring charges are comprised of approximately $138 million to $139 million of employee-related costs, approximately $27 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately $19 million in non-cash asset write-offs.

The Program focuses on a redesign of the Company s organizational structure in order to integrate it in a more cohesive way and operate more globally across brands and functions. The principal aspect of the Program is the reduction of the workforce by approximately 2,000 employees. Specific actions taken during the six months ended December 31, 2010 and 2009 included:

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Restructuring Charges

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
	(In millions)			
Employee-related costs	$ 8.8	$ 0.6	$ 9.5	$ 14.0
Asset write-offs	0.5	0.5	0.6	0.7
Contract terminations	1.5	0.6	1.8	1.2
Other exit costs	(0.1)	4.2	0.5	4.7
Total restructuring charges	$ 10.7	$ 5.9	$ 12.4	$ 20.6

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

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	$ 60.9	$ 4.2	$ 3.4	$ 1.8	$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Six months ended December 31, 2010	9.5	0.6	1.8	0.5	12.4
Charges recorded through December 31, 2010	$ 99.7	$ 15.8	$ 7.5	$ 8.5	$ 131.5

The following table presents accrued restructuring and the related activity as of and for the six months ended December 31, 2010 under the Program:

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Balance at June 30, 2010	$ 30.6	$	$ 0.1	$ 0.4	$ 31.1
Charges	9.5	0.6	1.8	0.5	12.4
Cash payments	(15.6)		(0.7)	(0.6)	(16.9)
Non-cash write-offs		(0.6)			(0.6)
Translation adjustments	0.6				0.6
Balance at December 31, 2010	$ 25.1	$	$ 1.2	$ 0.3	$ 26.6

Accrued restructuring charges at December 31, 2010 are expected to result in cash expenditures funded from cash provided by operations of approximately $13 million, $11 million and $3 million in fiscal 2011, 2012 and 2013, respectively.

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Total Charges Associated with Restructuring Activities

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
	(In millions)			
Sales returns (included in Net Sales)	$ 1.5	$ (7.4)	$ 1.5	$ 11.1
Cost of sales	3.8	(1.6)	4.6	4.0
Restructuring charges	10.7	5.9	12.4	20.6
Other special charges	3.3	3.4	5.4	6.9
Total charges associated with restructuring activities	$ 19.3	$ 0.3	$ 23.9	$ 42.6

During the three months ended December 31, 2010, we recorded $1.5 million reflecting sales returns (less a related cost of sales of $0.5 million) and a write-off of inventory of $4.3 million associated with turnaround operations, primarily related to the reformulation of Ojon brand products. During the six months ended December 31, 2010, we recorded $1.5 million reflecting sales returns (less a related cost of sales of $0.5 million) and a write-off of inventory of $5.1 million associated with turnaround operations, primarily related to the reformulation of Ojon brand products.

During the three months ended December 31, 2009, the Company recorded an adjustment of $7.4 million to reduce then-anticipated sales returns (less a related cost of sales of $1.6 million) and a benefit of $3.2 million to reduce the estimated write-off of inventory associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand. During the six months ended December 31, 2009, the Company recorded $11.1 million reflecting sales returns (less a related cost of sales of $2.3 million) and a write-off of inventory of $6.3 million associated with exiting unprofitable operations, primarily related to the exit from the global wholesale distribution of the Prescriptives brand.

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

NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	Asset Derivatives			Liability Derivatives		
		Fair Value (1)			Fair Value (1)	
(In millions)	**Balance Sheet Location**	**December 31 2010**	**June 30 2010**	**Balance Sheet Location**	**December 31 2010**	**June 30 2010**
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 11.4	$ 17.1	Other accrued liabilities	$ 17.2	$ 10.5
Interest rate swap contracts	Other assets		38.7	Not applicable		
Total Derivatives Designated as Hedging Instruments		11.4	55.8		17.2	10.5
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	1.0	2.0	Other accrued liabilities	4.1	2.0
Total Derivatives		$ 12.4	$ 57.8		$ 21.3	$ 12.5

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended December 31, 2010	Six Months Ended December 31, 2010	Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (1) Three Months Ended December 31, 2010	Six Months Ended December 31, 2010
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ (1.2)	$ (15.1)	Cost of sales	$ (0.7)	$ (1.0)
			Selling, general and administrative	(2.1)	(2.1)
Total derivatives	$ (1.2)	$ (15.1)		$ (2.8)	$ (3.1)

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $0.4 million and $0.1 million for the three and six months ended December 31, 2010, respectively. There was a net $(0.5) million gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three and six months ended December 31, 2010.

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended December 31, 2009	Six Months Ended December 31, 2009	Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (2) Three Months Ended December 31, 2009	Six Months Ended December 31, 2009
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts	$ (1.7)	$ (6.5)	Cost of sales	$ (3.7)	$ (3.7)
			Selling, general and administrative	(4.6)	(6.9)
Total derivatives	$ (1.7)	$ (6.5)		$ (8.3)	$ (10.6)

(2) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $(0.1) million and $(0.4) million for the three and six months ended December 31, 2009, respectively. There was no gain (loss) recognized in earnings related to the

ineffective portion of the hedging relationships for the three and six months ended December 31, 2009.

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(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives (3) Three Months Ended December 31, 2010	Six Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended December 31, 2009
Derivatives in Fair Value Hedging Relationships:					
Interest rate swap contracts	Interest expense, net	$	$ 8.7	$ (6.7)	$ (0.7)

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

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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives Three Months Ended December 31, 2010	Six Months Ended December 31, 2010	Three Months Ended December 31, 2009	Six Months Ended December 31, 2009
Derivatives Not Designated as Hedging Instruments:					
Foreign currency forward contracts	Selling, general and administrative	$ (3.4)	$ (3.0)	$ 0.8	$ (3.4)

Foreign Currency Cash-Flow Hedges

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company s identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2012. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

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The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income (loss) are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of December 31, 2010, the Company s foreign currency cash-flow hedges were highly effective, in all material respects. The estimated net gain (loss) as of December 31, 2010 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is $2.0 million. The accumulated derivative instruments gain (loss) in accumulated other comprehensive income (loss) was $9.7 million and $(2.3) million for June 30, 2010 and December 31, 2010, respectively.

At December 31, 2010, the Company had foreign currency forward contracts in the amount of $1,441.6 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound ($266.3 million), Swiss franc ($247.2 million), Euro ($195.7 million), Canadian dollar ($124.1 million), Hong Kong dollar ($118.4 million), Australian dollar ($91.3 million) and South Korean won ($66.0 million).

Fair Value Hedges

The Company may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures. During the six months ended December 31, 2010, the Company terminated its interest rate swap agreements with a notional amount totaling $250.0 million which had effectively converted the fixed rate interest on its outstanding 2017 Senior Notes to variable interest rates. The instrument, which was classified as an asset, had a fair value of $47.4 million at the date of cash settlement. This net settlement is classified as a financing activity on the consolidated statements of cash flows. Hedge accounting treatment was discontinued prospectively and the fair value adjustment to the carrying amount of the related debt will be amortized against interest expense over the remaining life of the debt.

Credit Risk

As a matter of policy, the Company only enters into derivative contracts with counterparties that have at least an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled $12.4 million at December 31, 2010. To manage this risk, the Company has established counterparty credit guidelines that are continually monitored and reported to management. Accordingly, management believes risk of loss under these hedging contracts is remote.

Certain of the Company s derivative financial instruments contain credit-risk-related contingent features. At December 31, 2010, the Company was in a net liability position for certain derivative contracts that contain such features with two counterparties. The fair value of those contracts as of December 31, 2010 was approximately $3.9 million. Such credit-risk-related contingent features would be triggered if (a) upon a merger involving the Company, the ratings of the surviving entity were materially weaker than prior to the merger or (b) the Company s credit ratings fall below investment grade (rated below BBB-/Baa3) and the Company fails to enter into an International Swaps & Derivatives Association Credit Support Annex within 30 days of being requested by the counterparty. The fair value of collateral required or assets required to settle the instruments immediately if a triggering event were to occur, is estimated at approximately the fair value of the contracts. As of December 31, 2010, the Company was in compliance with the credit-risk-related contingent features in all of its derivative financial instruments containing them.

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NOTE 6 FAIR VALUE MEASUREMENTS

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

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

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

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

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$ 12.4	$	$ 12.4
Available-for-sale securities	5.9			5.9
Total	$ 5.9	$ 12.4	$	$ 18.3
Liabilities:				
Foreign currency forward contracts	$	$ 21.3	$	$ 21.3

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

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

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

(In millions)	Impairment charges	Carrying Value December 31, 2009	Level 1	Level 2	Level 3 (1)
Goodwill	$ 16.6	$ 28.1	$	$	$ 28.1
Other intangible assets, net	29.0	41.2			41.2
Total	$ 45.6	$ 69.3	$	$	$ 69.3

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

With the exception of the acquisition of Smashbox, there have been no nonfinancial assets measured at fair value on a nonrecurring basis for the six months ended December 31, 2010.

Fair Value of Financial Instruments

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

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

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

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

Interest rate swap contracts - The fair values of the Company s interest rate swap contracts were determined using the market approach and were based on non-binding offers from the counterparties that are corroborated by observable market data using the income approach. The non-binding offers represented the prices offered by the counterparties in the over-the-counter market to unwind and terminate these instruments (exclusive of accrued interest) and incorporated the counterparties respective overall credit exposure to the Company. The Company performs a discounted cash flow analysis to corroborate the fair values of the non-binding offers using inputs such as swap yield curves and six-month LIBOR forward rates, which are obtained from an independent pricing service. During the six months ended December 31, 2010, the Company terminated its interest rate swap agreements. See Note 5 Derivative Financial Instruments.

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

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

(In millions)	December 31 2010 Carrying Amount	December 31 2010 Fair Value	June 30 2010 Carrying Amount	June 30 2010 Fair Value
Nonderivatives				
Cash and cash equivalents	$ 1,043.1	$ 1,043.1	$ 1,120.7	$ 1,120.7
Available-for-sale securities	5.9	5.9	5.4	5.4
Current and long-term debt	1,231.1	1,301.9	1,228.4	1,325.3
Derivatives				
Foreign currency forward contracts asset (liability)	(8.9)	(8.9)	6.6	6.6
Interest rate swap contracts asset			38.7	38.7

NOTE 7 PENSION AND POST-RETIREMENT BENEFIT PLANS

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

The components of net periodic benefit cost for the three months ended December 31, 2010 and 2009 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	2010	2009	2010	2009	2010	2009
Service cost	$ 6.4	$ 5.6	$ 5.4	$ 4.6	$ 0.9	$ 0.8
Interest cost	7.0	7.3	5.0	4.9	1.9	2.0
Expected return on plan assets	(8.7)	(8.0)	(5.6)	(5.1)	(0.1)	
Amortization of:						
Prior service cost	0.2	0.2	0.5	0.6		
Actuarial loss	2.4	1.0	1.5	0.5	0.5	0.2
Settlements and curtailments				0.7		
Net periodic benefit cost	$ 7.3	$ 6.1	$ 6.8	$ 6.2	$ 3.2	$ 3.0

The components of net periodic benefit cost for the six months ended December 31, 2010 and 2009 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	2010	2009	2010	2009	2010	2009
Service cost	$ 12.8	$ 11.3	$ 10.5	$ 9.0	$ 1.8	$ 1.6
Interest cost	14.0	14.6	9.7	9.9	3.8	4.0
Expected return on plan assets	(17.4)	(16.1)	(10.9)	(10.1)	(0.2)	
Amortization of:						
Prior service cost	0.4	0.3	1.0	1.2		
Actuarial loss	4.8	2.1	2.9	0.9	1.0	0.3
Settlements and curtailments				0.7		
Net periodic benefit cost	$ 14.6	$ 12.2	$ 13.2	$ 11.6	$ 6.4	$ 5.9

During the six months ended December 31, 2010, the Company made contributions to its international pension plans totaling approximately $14 million.

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NOTE 8   CONTINGENCIES

Legal Proceedings

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

NOTE 9   STOCK PROGRAMS

As of December 31, 2010, the Company has two active equity compensation plans which include the Amended and Restated Fiscal 2002 Share Incentive Plan (the Fiscal 2002 Plan) and the Non-Employee Director Share Incentive Plan (collectively, the Plans). These Plans currently provide for the issuance of approximately, 33,600,200 shares of Class A Common Stock, which consist of shares originally provided for and shares transferred to the Fiscal 2002 Plan from other inactive plans and employment agreements, to be granted in the form of stock-based awards to key employees, consultants and non-employee directors of the Company. As of December 31, 2010, approximately 14,297,600 shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company s equity compensation awards outstanding at December 31, 2010 include stock options, performance share units (PSU), restricted stock units (RSU) and share units.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options, PSUs, RSUs and share units. Compensation expense attributable to net stock-based compensation during the three months ended December 31, 2010 and 2009 was $23.8 million and $11.6 million, respectively. Compensation expense attributable to net stock-based compensation during the six months ended December 31, 2010 and 2009 was $54.4 million and $30.8 million, respectively. As of December 31, 2010, the total unrecognized compensation cost related to nonvested stock-based awards was $94.7 million and the related weighted average period over which it is expected to be recognized is approximately 2.0 years.

Stock Options

A summary of the Company s stock option programs as of December 31, 2010 and changes during the six months then ended is presented below:

(Shares in thousands)	Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value(1) (in millions)	Weighted Average Contractual Life Remaining in Years
Outstanding at June 30, 2010	10,083.6	$ 39.84		
Granted at fair value	2,512.2	58.32		
Exercised	(1,649.7)	37.75		
Expired	(19.1)	41.48		
Forfeited	(33.9)	46.35		
Outstanding at December 31, 2010	10,893.1	44.39	$ 395.5	6.9
Exercisable at December 31, 2010	6,457.4	40.47	$ 259.8	5.4

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

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

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The per-share weighted average grant date fair value of stock options granted during the three months ended December 31, 2010 and 2009 was $24.62 and $15.14, respectively. The per-share weighted average grant date fair value of stock options granted during the six months ended December 31, 2010 and 2009 was $18.91 and $10.63, respectively. The total intrinsic value of stock options exercised during the three months ended December 31, 2010 and 2009 was $43.5 million and $16.4 million, respectively. The total intrinsic value of stock options exercised during the six months ended December 31, 2010 and 2009 was $51.2 million and $16.5 million, respectively.

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	**2009**	**2010**	**2009**
Weighted average expected stock-price volatility	31%	30%	31%	30%
Weighted average expected option life	9 years	9 years	8 years	8 years
Average risk-free interest rate	2.4%	3.3%	2.2%	3.1%
Average dividend yield	1.1%	2.0%	1.1%	2.0%

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

Performance Share Units

During the six months ended December 31, 2010, the Company granted 184,600 PSUs, which will be settled in stock subject to the achievement of the Company s net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2013. Settlement will be made pursuant to a range of opportunities relative to the net sales, diluted net earnings per common share and return on invested capital targets of the Company and, as such, the compensation cost of the PSU is subject to adjustment based upon the attainability of these target goals. No settlement will occur for results below the applicable minimum threshold for a target and additional shares shall be issued if performance exceeds the targeted performance goals. Certain PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. Other PSUs granted in fiscal 2011 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company s Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period. These awards are subject to the provisions of the agreement under which the PSUs are granted. The PSUs were valued at the closing market value of the Company s Class A Common Stock on the date of grant and generally vest at the end of the performance period. In September 2010, 47,500 shares of the Company s Class A Common Stock were issued and related accrued dividends were paid, relative to the target goals set at the time of issuance, in settlement of 93,200 PSUs which vested as of June 30, 2010.

The following is a summary of the status of the Company s PSUs as of December 31, 2010 and activity during the six months then ended:

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

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Restricted Stock Units

The Company granted approximately 926,100 RSUs during the six months ended December 31, 2010 which, at the time of grant, were scheduled to vest as follows: 496,900 on November 1, 2011, 284,100 on October 31, 2012 and 145,100 on October 31, 2013, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2011 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the RSU and, as such, were valued at the closing market value of the Company s Class A Common Stock on the date of grant. Other RSUs granted in fiscal 2011 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company s Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

The following is a summary of the status of the Company s RSUs as of December 31, 2010 and activity during the six months then ended:

(Shares in thousands)	**Shares**		**Weighted Average Grant Date Fair Value Per Share**
Nonvested at June 30, 2010	1,300.9	$	37.79
Granted	926.1		57.36
Vested	(745.9)		38.68
Forfeited	(26.8)		43.43
Nonvested at December 31, 2010	1,454.3		49.69

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 December 31, 2010 and activity during the six months then ended:

Weighted Average
Grant Date

(Shares in thousands)	Shares		Fair Value Per Share
Outstanding at June 30, 2010	26.4	$	39.27
Granted	2.5		71.02
Dividend equivalents	0.3		78.42
Converted			
Outstanding at December 31, 2010	29.2		42.45

Cash Units

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company s Class A Common Stock. The Company recorded $1.0 million and $1.1 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended December 31, 2010 and 2009, respectively. The Company recorded $1.7 million and $1.5 million as compensation expense to reflect additional deferrals and the change in the market value for the six months ended December 31, 2010 and 2009, respectively.

NOTE 10 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE

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

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THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
	(In millions, except per share data)			
Numerator:				
Net earnings attributable to The Estée Lauder Companies Inc.	$ 343.9	$ 256.2	$ 535.0	$ 396.9
Denominator:				
Weighted average common shares outstanding Basic	196.7	197.3	196.7	197.0
Effect of dilutive stock options	3.3	2.3	3.0	1.5
Effect of restricted stock units	0.9	0.8	0.9	0.8
Weighted average common shares outstanding Diluted	200.9	200.4	200.6	199.3
Net earnings attributable to The Estée Lauder Companies Inc. per common share:				
Basic	$ 1.75	$ 1.30	$ 2.72	$ 2.01
Diluted	1.71	1.28	2.67	1.99

As of December 31, 2010 and 2009, outstanding options to purchase 0.1 million and 3.0 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 December 31, 2010 and 2009, 0.5 million and 0.4 million of PSUs 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 9.

NOTE 11 COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended December 31		Six Months Ended December 31	
	2010	2009	2010	2009
	(In millions)			
Net earnings	$ 345.9	$ 261.7	$ 535.5	$ 399.5
Other comprehensive income (loss):				

Net unrealized investment gain (loss)	0.1		0.1	0.2
Net derivative instruments gain (loss)	0.9	4.2	(7.9)	2.5
Amounts included in net periodic benefit cost, net	3.3			