

# ESTEE LAUDER COMPANIES INC (EL)

## 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filed on 11/02/2012

Filed Period 09/30/2012

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

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**FORM 10-Q**

(Mark One)



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

For the quarterly period ended September 30, 2012

OR



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

For the transition period from                      to

Commission file number: 1-14064

**The Estée Lauder Companies Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**11-2408943**

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

**767 Fifth Avenue, New York, New York**

(Address of principal executive offices)

**10153**

(Zip Code)

**212-572-4200**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

At October 25, 2012, 237,418,029 shares of the registrant's Class A Common Stock, \$.01 par value, and 149,778,082 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.

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THE ESTÉE LAUDER COMPANIES INC.

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**PART I. FINANCIAL INFORMATION**
**Item 1. FINANCIAL STATEMENTS.**

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

	<b>Three Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In millions, except per share data)</b>	
Net Sales	\$ 2,549.5	\$ 2,476.7
Cost of Sales	<u>539.2</u>	<u>534.3</u>
<b>Gross Profit</b>	<u>2,010.3</u>	<u>1,942.4</u>
<b>Operating expenses</b>		
Selling, general and administrative	1,527.9	1,507.7
Restructuring and other charges	<u>0.4</u>	<u>4.7</u>
<b>Total operating expenses</b>	<u>1,528.3</u>	<u>1,512.4</u>
<b>Operating Income</b>	482.0	430.0
Interest expense, net	15.8	16.0
Interest expense on debt extinguishment	19.1	—
Other income	<u>1.8</u>	<u>—</u>
<b>Earnings before Income Taxes</b>	448.9	414.0
Provision for income taxes	<u>149.3</u>	<u>135.4</u>
<b>Net Earnings</b>	299.6	278.6
Net earnings attributable to noncontrolling interests	(0.1)	—
<b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>	<u>\$ 299.5</u>	<u>\$ 278.6</u>
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share</b>		
Basic	\$ .77	\$ .71
Diluted	\$ .76	\$ .70
<b>Weighted-average common shares outstanding</b>		
Basic	387.8	390.5
Diluted	395.5	399.3

See notes to consolidated financial statements.

**THE ESTÉE LAUDER COMPANIES INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**(Unaudited)**

	<b>Three Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In millions)</b>	
<b>Net earnings</b>	\$ 299.6	\$ 278.6
<b>Other comprehensive income (loss):</b>		
Unrealized investment gain (loss)	0.1	(0.3)
Derivative instrument gain (loss)	(15.9)	34.8
Amounts included in net periodic benefit cost	8.8	4.9
Translation adjustments	72.1	(109.1)
Benefit (provision) for deferred income taxes on components of other comprehensive income	4.3	(15.3)
<b>Total other comprehensive income (loss)</b>	<u>69.4</u>	<u>(85.0)</u>
<b>Comprehensive income</b>	<u>369.0</u>	<u>193.6</u>
<b>Comprehensive (income) loss attributable to noncontrolling interests:</b>		
Net earnings	(0.1)	—
Translation adjustments	(0.9)	1.1
	<u>(1.0)</u>	<u>1.1</u>
<b>Comprehensive income attributable to The Estée Lauder Companies Inc.</b>	<u>\$ 368.0</u>	<u>\$ 194.7</u>

See notes to consolidated financial statements.

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

	September 30 2012 (Unaudited)	June 30 2012
	(\$ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,053.7	\$1,347.7
Accounts receivable, net	1,604.7	1,060.3
Inventory and promotional merchandise, net	1,067.9	983.6
Prepaid expenses and other current assets	486.8	463.5
Total current assets	4,213.1	3,855.1
Property, Plant and Equipment, net	1,268.9	1,231.8
Other Assets		
Goodwill	885.9	882.6
Other intangible assets, net	187.5	190.1
Other assets	452.2	433.4
Total other assets	1,525.6	1,506.1
Total assets	\$ 7,007.6	\$6,593.0
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	\$ 24.0	\$ 219.0
Accounts payable	421.7	493.8
Accrued income taxes	183.6	97.2
Other accrued liabilities	1,343.1	1,315.8
Total current liabilities	1,972.4	2,125.8
Noncurrent Liabilities		
Long-term debt	1,330.7	1,069.1
Accrued income taxes	107.2	106.3
Other noncurrent liabilities	556.8	544.3
Total noncurrent liabilities	1,994.7	1,719.7
Contingencies (Note 8)		
Equity		
Common stock, \$.01 par value; 650,000,000 shares Class A authorized; shares issued: 402,794,363 at September 30, 2012 and 399,491,292 at June 30, 2012; 240,000,000 shares Class B authorized; shares issued and outstanding: 149,778,082 at September 30, 2012 and 151,778,082 at June 30, 2012	5.5	5.5
Paid-in capital	2,095.4	2,006.1
Retained earnings	5,064.4	4,764.9
Accumulated other comprehensive income	(144.4)	(212.9)
	7,020.9	6,563.6
Less: Treasury stock, at cost; 165,362,593 Class A shares at September 30, 2012 and 162,371,840 Class A shares at June 30, 2012	(3,995.7)	(3,830.4)
Total stockholders' equity — The Estée Lauder Companies Inc.	3,025.2	2,733.2
Noncontrolling interests	15.3	14.3
Total equity	3,040.5	2,747.5
Total liabilities and equity	\$ 7,007.6	\$6,593.0

See notes to consolidated financial statements.

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

	<b>Three Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities</b>		
Net earnings	\$ 299.6	\$ 278.6
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	77.5	69.6
Deferred income taxes	(18.8)	(9.6)
Non-cash stock-based compensation	54.5	45.4
Excess tax benefits from stock-based compensation arrangements	(15.6)	(11.0)
Loss on disposal of property, plant and equipment	4.5	3.0
Non-cash charges associated with restructuring activities	—	0.1
Pension and post-retirement benefit expense	20.9	17.6
Pension and post-retirement benefit contributions	(5.9)	(7.8)
Other non-cash items	(0.1)	—
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(518.1)	(482.1)
Increase in inventory and promotional merchandise, net	(59.2)	(21.4)
Increase in other assets, net	(26.9)	(9.1)
Decrease in accounts payable	(79.3)	(10.6)
Increase in accrued income taxes	106.9	113.0
Increase (decrease) in other liabilities	34.8	(11.9)
<b>Net cash flows used for operating activities</b>	<b>(125.2)</b>	<b>(36.2)</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(95.5)	(80.8)
Acquisition of businesses and other intangible assets, net of cash acquired	(8.7)	(7.7)
<b>Net cash flows used for investing activities</b>	<b>(104.2)</b>	<b>(88.5)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings (repayments) of current debt, net	(195.4)	1.2
Proceeds from issuance of long-term debt, net	498.7	—
Debt issuance costs	(4.1)	(1.1)
Repayments and redemptions of long-term debt	(235.9)	(2.4)
Net proceeds from stock-based compensation transactions	16.2	3.6
Excess tax benefits from stock-based compensation arrangements	15.6	11.0
Payments to acquire treasury stock	(165.4)	(402.9)
Dividends paid to stockholders	(0.5)	(0.3)
<b>Net cash flows used for financing activities</b>	<b>(70.8)</b>	<b>(390.9)</b>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>6.2</b>	<b>(17.9)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(294.0)</b>	<b>(533.5)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,347.7</b>	<b>1,253.0</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 1,053.7</b>	<b>\$ 719.5</b>

See notes to consolidated financial statements.

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

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

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, 2012.

All share (except par value per share), earnings per common share and cash dividends declared per common share information for all prior-year periods reflect the two-for-one stock split on the Company's Class A and Class B Common Stock, which was effected in the form of a stock dividend for each share held by stockholders of record at the close of business on January 4, 2012. The number of shares of the Company's Class A Common Stock issuable upon exercise of outstanding stock options and vesting of other stock-based awards were proportionately increased in accordance with the terms of the respective plans.

***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 notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2012. 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 \$71.2 million and \$(108.0) million of unrealized translation gains (losses), net of tax, during the three months ended September 30, 2012 and 2011, 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 gains (losses) on foreign currency transactions of \$0.9 million and \$(9.8) million during the three months ended September 30, 2012 and 2011, respectively.



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

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling \$31.2 million and \$31.1 million as of September 30, 2012 and June 30, 2012, respectively.

***Concentration of Credit Risk***

The Company is a worldwide manufacturer, marketer and distributor of skin care, makeup, fragrance and hair care products. The Company's 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 \$336.2 million, or 13%, and \$313.3 million, or 13%, of the Company's consolidated net sales for the three months ended September 30, 2012 and 2011, respectively. This customer accounted for \$238.8 million, or 15%, and \$110.2 million, or 10%, of the Company's accounts receivable at September 30, 2012 and June 30, 2012, respectively.

***Inventory and Promotional Merchandise***

<b>(In millions)</b>	<b>September 30 2012</b>	<b>June 30 2012</b>
Inventory and promotional merchandise, net consists of:		
Raw materials	\$ 219.2	\$ 220.7
Work in process	79.7	98.0
Finished goods	580.3	473.9
Promotional merchandise	188.7	191.0
	<u>\$ 1,067.9</u>	<u>\$ 983.6</u>

***Property, Plant and Equipment***

<b>(In millions)</b>	<b>September 30 2012</b>	<b>June 30 2012</b>
<b>Assets (Useful Life)</b>		
Land	\$ 14.8	\$ 14.6
Buildings and improvements (10 to 40 years)	193.0	188.8
Machinery and equipment (3 to 10 years)	665.9	647.1
Computer hardware and software (4 to 10 years)	845.1	824.2
Furniture and fixtures (5 to 10 years)	68.4	66.4
Leasehold improvements	1,281.3	1,227.3
	<u>3,068.5</u>	<u>2,968.4</u>
Less accumulated depreciation and amortization	<u>1,799.6</u>	<u>1,736.6</u>
	<u>\$ 1,268.9</u>	<u>\$ 1,231.8</u>

The cost of assets related to projects in progress of \$260.4 million and \$231.6 million as of September 30, 2012 and June 30, 2012, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was \$75.3 million and \$67.3 million during the three months ended September 30, 2012 and 2011, respectively. Depreciation and amortization related to the Company's manufacturing process is included in Cost of sales and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Income Taxes***

The effective rate for income taxes was 33.3% and 32.7% for the three months ended September 30, 2012 and 2011, respectively. The increase in the effective income tax rate was principally due to a slightly higher effective tax rate on the Company's foreign operations.

As of September 30, 2012 and June 30, 2012, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$78.3 million and \$78.5 million, respectively. The total amount of unrecognized tax benefits at September 30, 2012 that, if recognized, would affect the effective tax rate was \$54.9 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three months ended September 30, 2012 in the accompanying consolidated statement of earnings was \$1.5 million. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at September 30, 2012 and June 30, 2012 was \$29.5 million and \$28.6 million, respectively. On the basis of the information available as of September 30, 2012, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of \$20 million to \$25 million within 12 months as a result of projected resolutions of global tax examinations and controversies and a potential lapse of the applicable statutes of limitations.

During the three months ended September 30, 2012, the Company formally concluded the compliance process with respect to fiscal 2011 under the U.S. Internal Revenue Service Compliance Assurance Program. The conclusion of this process did not impact the Company's consolidated financial statements.

***Recently Adopted Accounting Standards***

In September 2011, the Financial Accounting Standards Board ("FASB") amended its authoritative guidance related to testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before performing Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the two-step impairment test would be required. This guidance became effective in the beginning of the Company's fiscal 2013. The adoption of this guidance did not have an impact on the Company's consolidated financial statements.

In June 2011, the FASB amended its authoritative guidance related to the presentation of comprehensive income, requiring entities to present items of net income and other comprehensive income either in one continuous statement or in two separate consecutive statements. This guidance also required entities to present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. In December 2011, the FASB issued an update to this guidance deferring the requirement to present reclassification adjustments on the face of the financial statements. However, the Company is still required to present reclassification adjustments on either the face of the financial statement where comprehensive income is reported or disclose the reclassification adjustments in the notes to the financial statements. This guidance, including the deferral, became effective for the Company's fiscal 2013 first quarter, with full retrospective application required. The Company has elected to present the items of net income and other comprehensive income in two separate consecutive statements. The adoption of this disclosure-only guidance did not have an impact on the Company's results of operations, financial position or cash flows.

# THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Recently Issued Accounting Standards*

In July 2012, the FASB amended its authoritative guidance related to testing indefinite-lived intangible assets for impairment. Under the revised guidance, entities testing their indefinite-lived intangible assets for impairment have the option of performing a qualitative assessment before performing further impairment testing. If entities determine, on the basis of qualitative factors, that it is more-likely-than-not that the asset is impaired, a quantitative test is required. The guidance becomes effective in the beginning of the Company's fiscal 2014, with early adoption permitted. The Company is currently evaluating the timing of adopting this guidance which is not expected to have an impact on the Company's consolidated financial statements.

In December 2011, the FASB issued authoritative guidance that creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. This revised guidance helps reconcile differences in the offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). These requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. This disclosure-only guidance becomes effective for the Company's fiscal 2013 third quarter, with retrospective application required. The Company currently does not hold any financial or derivative instruments that are subject to an enforceable master netting arrangement. However, the Company currently utilizes the right of offset when netting certain negative cash balances in its consolidated balance sheets. This guidance is not expected to have an impact on the Company's results of operations, financial position or cash flows, but may require certain additional disclosures if such balances are material or if the Company enters into additional arrangements that fall under the provisions of this guidance.

### *Out-of-period Adjustments*

During the three months ended September 30, 2012, the Company identified and recorded out-of-period adjustments related to the fiscal years ended June 30, 2008 through June 30, 2012. These out-of-period adjustments resulted from (i) an understatement of foreign transactional taxes (no impact on the provision for income taxes); (ii) an overstatement of accounts payable balances; and (iii) an overstatement of prepaid asset balances. These out-of-period adjustments resulted in net decreases in earnings before taxes of \$5.9 million, net earnings of \$7.4 million and diluted net earnings per common share of \$.02 for the three months ended September 30, 2012. Individually and in the aggregate, these out-of-period adjustments did not have a material impact on the Company's consolidated financial statements for the three months ended September 30, 2012 and the related items were not material to any previously issued consolidated financial statements.

## NOTE 2 — GOODWILL AND OTHER INTANGIBLE ASSETS

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

<u>(In millions)</u>	<u>Skin Care</u>	<u>Makeup</u>	<u>Fragrance</u>	<u>Hair Care</u>	<u>Total</u>
<b>Balance as of June 30, 2012</b>					
Goodwill	\$ 68.1	\$ 421.1	\$ 54.8	\$ 403.4	\$ 947.4
Accumulated impairments	(23.6)	—	—	(41.2)	(64.8)
	<u>44.5</u>	<u>421.1</u>	<u>54.8</u>	<u>362.2</u>	<u>882.6</u>
Goodwill acquired during the period	—	2.0	—	—	2.0
Translation and other adjustments	0.3	0.1	0.1	0.8	1.3
	<u>0.3</u>	<u>2.1</u>	<u>0.1</u>	<u>0.8</u>	<u>3.3</u>
<b>Balance as of September 30, 2012</b>					
Goodwill	68.6	423.2	54.9	405.9	952.6
Accumulated impairments	(23.8)	—	—	(42.9)	(66.7)
	<u>\$ 44.8</u>	<u>\$ 423.2</u>	<u>\$ 54.9</u>	<u>\$ 363.0</u>	<u>\$ 885.9</u>

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Other intangible assets consist of the following:

(In millions)	September 30, 2012			June 30, 2012		
	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
<u>Amortizable intangible assets:</u>						
Customer lists and other	\$ 268.8	\$ 195.2	\$ 73.6	\$ 268.4	\$ 191.9	\$ 76.5
License agreements	43.0	43.0	—	43.0	43.0	—
	<u>\$ 311.8</u>	<u>\$ 238.2</u>	<u>73.6</u>	<u>\$ 311.4</u>	<u>\$ 234.9</u>	<u>76.5</u>
<u>Non-amortizable intangible assets:</u>						
Trademarks and other			113.9			113.6
Total intangible assets			<u>\$ 187.5</u>			<u>\$ 190.1</u>

The aggregate amortization expense related to amortizable intangible assets for the three months ended September 30, 2012 and 2011 was \$3.1 million and \$3.5 million, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2013 and for each of fiscal 2014 to 2017 is \$9.3 million, \$12.3 million, \$12.1 million, \$11.5 million and \$9.4 million, respectively.

**NOTE 3 — RETURNS AND 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 charges, inclusive of cumulative charges recorded to date and through the remainder of the Program, totaling between \$350 million and \$450 million before taxes. While the Company will continue to seek cost savings opportunities, the Company's current plans are to identify and approve specific initiatives under the Program through calendar 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program, recorded, plus other initiatives approved through September 30, 2012, is approximately \$361 million to \$366 million, of which approximately \$251 million to \$253 million relates to restructuring charges, approximately \$50 million of other costs to implement the initiatives, approximately \$42 million to \$45 million in sales returns and approximately \$18 million in inventory write-offs. The restructuring charges are comprised of approximately \$188 million to \$190 million of employee-related costs, approximately \$40 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately \$23 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through September 30, 2012 was \$303.0 million.

# THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 was the reduction of the workforce by approximately 2,000 employees. Specific actions taken since Program inception included:

- **Resize and Reorganize the Organization** – The Company continued the realignment and optimization of its organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions, which the Company achieved through a combination of normal attrition and job eliminations, and the closure and consolidation of certain distribution and office facilities.
- **Turnaround or Exit Unprofitable Operations** – To improve the profitability in certain of 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, the reformulation of Ojon brand products and the exit from the global distribution of Sean John products. In connection with these activities, the Company incurred charges for product returns, inventory write-offs, reduction of workforce and termination of contracts.
- **Outsourcing** – In order to balance the growing need for information technology support with 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 outsource providers and employee-related termination costs.

### Restructuring Charges

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

(In millions)	Three Months Ended September 30	
	2012	2011
Employee-related costs	\$ 0.1	\$ 2.2
Asset write-offs	—	0.1
Contract terminations	—	0.1
Other exit costs	0.2	0.6
Total restructuring charges	<u>\$ 0.3</u>	<u>\$ 3.0</u>

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

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Fiscal 2012	37.1	1.7	12.6	2.2	53.6
Three months ended September 30, 2012	0.1	—	—	0.2	0.3
Charges recorded through September 30, 2012	<u>\$ 162.0</u>	<u>\$ 19.3</u>	<u>\$ 21.3</u>	<u>\$ 11.5</u>	<u>\$ 214.1</u>

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table presents accrued restructuring charges and the related activities under the Program to date:

<b>(In millions)</b>	<b>Employee- Related Costs</b>	<b>Asset Write-offs</b>	<b>Contract Terminations</b>	<b>Other Exit Costs</b>	<b>Total</b>
Charges	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Cash payments	(7.5)	—	(0.5)	(1.6)	(9.6)
Non-cash write-offs	—	(4.2)	—	—	(4.2)
Translation adjustments	0.6	—	—	—	0.6
Other adjustments	(2.4)	—	—	—	(2.4)
Balance at June 30, 2009	51.6	—	2.9	0.2	54.7
Charges	29.3	11.0	2.3	6.2	48.8
Cash payments	(49.5)	—	(5.1)	(6.0)	(60.6)
Non-cash write-offs	—	(11.0)	—	—	(11.0)
Translation adjustments	(0.8)	—	—	—	(0.8)
Balance at June 30, 2010	30.6	—	0.1	0.4	31.1
Charges	34.6	2.4	3.0	1.1	41.1
Cash payments	(30.6)	—	(2.4)	(1.4)	(34.4)
Non-cash write-offs	—	(2.4)	—	—	(2.4)
Translation adjustments	1.2	—	(0.1)	0.1	1.2
Balance at June 30, 2011	35.8	—	0.6	0.2	36.6
Charges	37.1	1.7	12.6	2.2	53.6
Cash payments	(23.6)	—	(12.4)	(2.0)	(38.0)
Non-cash write-offs	—	(1.7)	—	—	(1.7)
Translation adjustments	(1.4)	—	—	0.1	(1.3)
Balance at June 30, 2012	47.9	—	0.8	0.5	49.2
Charges	0.1	—	—	0.2	0.3
Cash payments	(8.8)	—	(0.3)	(0.3)	(9.4)
Translation adjustments	0.3	—	—	0.1	0.4
Balance at September 30, 2012	<u>\$ 39.5</u>	<u>\$ —</u>	<u>\$ 0.5</u>	<u>\$ 0.5</u>	<u>\$ 40.5</u>

Accrued restructuring charges at September 30, 2012 are expected to result in cash expenditures funded from cash provided by operations of approximately \$26 million, \$12 million and \$3 million in fiscal 2013, 2014 and 2015, respectively.

**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Total Returns and Other Charges Associated with Restructuring Activities*

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

(In millions)	Three Months Ended September 30	
	2012	2011
Sales returns (included in Net Sales)	\$ —	\$ (0.7)
Cost of sales	—	0.1
Restructuring charges	0.3	3.0
Other charges	0.1	1.7
Total charges associated with restructuring activities	<u>\$ 0.4</u>	<u>\$ 4.1</u>

During the three months ended September 30, 2011, the Company recorded adjustments to reflect revised estimates of then-anticipated sales returns associated with prior initiatives. Other charges in connection with the implementation of the Program primarily relate to consulting and other professional services.

**NOTE 4 — DEBT**

In August 2012, the Company issued \$250.0 million of 2.35% Senior Notes due August 15, 2022 ("2022 Senior Notes") and \$250.0 million of 3.70% Senior Notes due August 15, 2042 ("2042 Senior Notes") in a public offering. The 2022 Senior Notes were priced at 99.911% with a yield of 2.360%. The 2042 Senior Notes were priced at 99.567% with a yield of 3.724%. Interest payments on both notes are required to be made semi-annually on February 15 and August 15, commencing February 15, 2013. In September 2012, the Company used the net proceeds of the offering to redeem the \$230.1 million principal amount of its 7.75% Senior Notes due November 1, 2013 at a price of 108% of the principal amount and recorded a pre-tax expense on the extinguishment of debt of \$19.1 million representing the call premium of \$18.6 million and the pro-rata write-off of \$0.5 million of issuance costs and debt discount. The Company intends to use the remaining net proceeds of the offering for general corporate purposes.

As of September 30, 2012, the Company had repaid, using cash on hand, \$200.0 million of commercial paper that was outstanding at June 30, 2012.

**NOTE 5 — DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(In millions)	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value <sup>(1)</sup>		Balance Sheet Location	Fair Value <sup>(1)</sup>	
		September 30 2012	June 30 2012		September 30 2012	June 30 2012
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 8.7	\$ 16.1	Other accrued liabilities	\$ 14.7	\$ 4.9
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	3.7	1.6	Other accrued liabilities	1.3	1.3
Total Derivatives		\$ 12.4	\$ 17.7	\$ 16.0 \$ 6.2		

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) <sup>(1)</sup>	
	Three Months Ended September 30			Three Months Ended September 30	
	2012	2011		2012	2011
Derivatives in Cash Flow Hedging Relationships:					
Foreign currency forward contracts <sup>(2)</sup>	\$ (13.5)	\$ 33.3	Cost of sales	\$ (0.1)	\$ 0.6
			Selling, general and administrative	2.5	(2.1)
Total derivatives	\$ (13.5)	\$ 33.3		\$ 2.4	\$ (1.5)

<sup>(1)</sup> The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was \$(0.1) million and \$(2.4) million for the three months ended September 30, 2012 and 2011, respectively. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended September 30, 2012. There was a de minimis gain recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended September 30, 2011.

<sup>(2)</sup> The benefit (provision) for deferred income taxes on the amount of gain (loss) recognized in OCI was \$4.8 million and \$(11.8) million for the three months ended September 30, 2012 and 2011, respectively. The (benefit) provision for deferred income taxes on the amount of gain (loss) reclassified from accumulated OCI into earnings was \$0.9 million and \$(0.6) million for the three months ended September 30, 2012 and 2011, respectively.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives	
		Three Months Ended September 30	
		2012	2011
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward contracts	Selling, general and administrative	\$ 2.1	\$ (4.5)

*Foreign Currency Cash-Flow Hedges*

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2014. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in OCI 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 OCI are reclassified to current-period earnings. As of September 30, 2012, the Company's foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain as of September 30, 2012 that is expected to be reclassified from accumulated OCI into earnings, net of tax, within the next twelve months is \$0.5 million. The accumulated gain (loss) on derivative instruments in accumulated OCI was \$(0.6) million and \$15.3 million as of September 30, 2012 and June 30, 2012, respectively.

At September 30, 2012, the Company had foreign currency forward contracts in the amount of \$1,473.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$366.4 million), Euro (\$252.3 million), Canadian dollar (\$155.9 million), Swiss franc (\$128.0 million), Australian dollar (\$108.4 million), Japanese yen (\$76.0 million) and South Korean won (\$65.1 million).

# THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Credit Risk

As a matter of policy, the Company only enters into derivative contracts with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. 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 September 30, 2012. To manage this risk, the Company has established strict counterparty credit guidelines that are continually monitored. 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 September 30, 2012, 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 September 30, 2012 was approximately \$0.2 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 to settle the instruments immediately if a triggering event were to occur is estimated at approximately the fair value of the contracts. As of September 30, 2012, the Company was in compliance with such credit-risk-related contingent features.

### NOTE 6 — FAIR VALUE MEASUREMENTS

The Company records its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The accounting for fair value measurements must be applied to 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 September 30, 2012:

(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$ —	\$ 12.4	\$ —	\$ 12.4
Available-for-sale securities	6.3	—	—	6.3
Total	<u>\$ 6.3</u>	<u>\$ 12.4</u>	<u>\$ —</u>	<u>\$ 18.7</u>
<b>Liabilities:</b>				
Foreign currency forward contracts	<u>\$ —</u>	<u>\$ 16.0</u>	<u>\$ —</u>	<u>\$ 16.0</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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, 2012:

<b>(In millions)</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Foreign currency forward contracts	\$ —	\$ 17.7	\$ —	\$ 17.7
Available-for-sale securities	5.9	—	—	5.9
Total	<u>\$ 5.9</u>	<u>\$ 17.7</u>	<u>\$ —</u>	<u>\$ 23.6</u>
<b>Liabilities:</b>				
Foreign currency forward contracts	<u>\$ —</u>	<u>\$ 6.2</u>	<u>\$ —</u>	<u>\$ 6.2</u>

***Fair Value of Financial Instruments***

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

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

*Available-for-sale securities* — Available-for-sale securities are generally comprised of mutual funds and are valued using quoted market prices on an active exchange. Available-for-sale securities are included in Other assets 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.

*Current and long-term debt* — The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities. To a lesser extent, debt also includes capital lease obligations for which the carrying amount approximates the fair value. The Company's debt is classified within Level 2 of the valuation hierarchy.

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

<b>(In millions)</b>	<b>September 30 2012</b>		<b>June 30 2012</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Nonderivatives</b>				
Cash and cash equivalents	\$ 1,053.7	\$ 1,053.7	\$ 1,347.7	\$ 1,347.7
Available-for-sale securities	6.3	6.3	5.9	5.9
Current and long-term debt	1,354.7	1,544.3	1,288.1	1,478.9
<b>Derivatives</b>				
Foreign currency forward contracts — asset (liability)	(3.6)	(3.6)	11.5	11.5

# THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2012.

The components of net periodic benefit cost for the three months ended September 30, 2012 and 2011 consisted of the following:

(In millions)	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
	2012	2011	2012	2011	2012	2011
Service cost	\$ 8.5	\$ 6.9	\$ 5.9	\$ 5.9	\$ 1.2	\$ 0.9
Interest cost	6.7	7.4	4.5	4.9	1.9	2.1
Expected return on plan assets	(11.3)	(9.7)	(4.8)	(5.4)	(0.5)	(0.3)
Amortization of <sup>(1)</sup> :						
Prior service cost	0.1	0.2	0.7	1.0	0.2	—
Actuarial loss	3.6	2.0	2.3	1.2	1.1	0.5
Settlements and curtailments	—	—	0.8	—	—	—
Net periodic benefit cost	<u>\$ 7.6</u>	<u>\$ 6.8</u>	<u>\$ 9.4</u>	<u>\$ 7.6</u>	<u>\$ 3.9</u>	<u>\$ 3.2</u>

<sup>(1)</sup> The benefit (provision) for deferred income taxes on the amount of net periodic benefit cost amortized from accumulated OCI related to the Company's pension and post-retirement plans was \$1.4 million and \$3.0 million for the three months ended September 30, 2012 and 2011, respectively.

During the three months ended September 30, 2012, the Company made contributions to its international pension plans totaling approximately \$3 million.

### 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, financial condition or cash flows. 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. Except as disclosed below, reasonably possible losses in addition to the amounts accrued for litigation and other legal proceedings are not material to the Company's consolidated financial statements.

During the fiscal 2007 fourth quarter, the former owner of the Darphin brand initiated litigation in the Paris Commercial Court against the Company and one of its subsidiaries seeking to recover €60.0 million (\$78.2 million at the exchange rate at September 30, 2012) that he claims he was owed as additional consideration for the sale of Darphin to the Company in April 2003. On December 23, 2011, the Paris Commercial Court issued its judgment, awarding the former owner €22.9 million (\$29.9 million at the exchange rate at September 30, 2012) plus interest from 2007. The Company has filed its appeal with the Paris Court of Appeal. In accordance with the judgment, in January 2012, the Company paid €25.3 million (\$33.0 million at the exchange rate at September 30, 2012) to the former owner and received from him a bank guarantee to assure repayment to the Company of such sum (or any part thereof) in the event that the judgment is reversed by the Paris Court of Appeal. Based upon its assessment of the case, as well as the advice of external counsel, the Company is maintaining the amount it previously accrued as an amount that it believes will ultimately be paid based on the probable outcome of the appeal. Such amount is less than the Paris Commercial Court's award.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Other Income***

In September 2012, the Company earned \$1.8 million as contingent consideration in accordance with the agreement related to the August 2007 sale of Rodan + Fields.

**NOTE 9 — STOCK-BASED COMPENSATION**

The Company has various stock-based compensation programs (the "Plans") under which awards, including stock options, performance share units ("PSU"), restricted stock units ("RSU"), market share units ("MSU"), performance share units based on total stockholder return, and share units, may be granted. As of September 30, 2012, approximately 18,482,000 shares of the Company's Class A Common Stock were reserved and available to be granted pursuant to these Plans.

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

(In millions)	Three Months Ended September 30	
	2012	2011
Compensation expense	\$ 54.5	\$ 45.4
Income tax benefit	17.6	14.9

As of September 30, 2012, the total unrecognized compensation cost related to unvested stock-based awards was \$183.0 million and the related weighted-average period over which it is expected to be recognized is approximately 2.3 years.

***Stock Options***

The following is a summary of the Company's stock option programs as of September 30, 2012 and changes during the three months then ended:

(Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value <sup>(1)</sup> (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2012	15,810.8	\$ 28.86		
Granted at fair value	3,189.3	59.78		
Exercised	(730.2)	22.17		
Expired	(10.4)	24.20		
Forfeited	(55.8)	37.62		
Outstanding at September 30, 2012	<u>18,203.7</u>	34.52	<u>\$ 492.5</u>	<u>7.4</u>
Vested and expected to vest at September 30, 2012	<u>17,930.1</u>	34.22	<u>\$ 490.3</u>	<u>7.3</u>
Exercisable at September 30, 2012	<u>7,361.8</u>	22.52	<u>\$ 287.5</u>	<u>5.7</u>

<sup>(1)</sup> 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 ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(In millions, except per share data)	Three Months Ended September 30	
	2012	2011
Per-share weighted-average grant date fair value of stock options granted	\$ 20.36	\$ 17.34
Intrinsic value of stock options exercised	\$ 27.3	\$ 5.5

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 September 30	
	2012	2011
Weighted-average expected stock-price volatility	34%	35%
Weighted-average expected option life	8 years	8 years
Average risk-free interest rate	1.2%	1.7%
Average dividend yield	1.0%	1.0%

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. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior of past grants and models the pattern of aggregate exercises. The average risk-free interest rate is based on the U.S. Treasury strip rate for the expected term of the options and the average dividend yield is based on historical experience.

***Performance Share Units***

During the three months ended September 30, 2012, the Company granted approximately 250,800 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, 2015, all subject to continued employment or retirement of the grantees. Certain PSUs granted in fiscal 2013 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. Other PSUs granted in fiscal 2013 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. In September 2012, approximately 495,900 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 330,600 PSUs that vested as of June 30, 2012.

The following is a summary of the status of the Company's PSUs as of September 30, 2012 and activity during the three months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2012	625.9	\$ 37.31
Granted	250.8	59.08
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2012	<u>876.7</u>	43.54

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Restricted Stock Units*

The Company granted approximately 1,279,900 RSUs during the three months ended September 30, 2012 which, at the time of grant, were scheduled to vest as follows: 635,400 on October 31, 2013, 335,400 on October 31, 2014, 32,600 on June 30, 2015, 4,900 on September 4, 2015, 206,600 on November 2, 2015, 32,600 on June 30, 2016 and 32,600 on June 30, 2017, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2013 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 2013 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

The following is a summary of the status of the Company's RSUs as of September 30, 2012 and activity during the three months then ended:

<b>(Shares in thousands)</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Nonvested at June 30, 2012	2,392.9	\$ 38.22
Granted	1,279.7	59.25
Vested	(79.6)	16.75
Forfeited	(28.6)	41.97
Nonvested at September 30, 2012	<u>3,564.4</u>	<u>46.22</u>

### *Performance Share Units Based on Total Stockholder Return*

During the three months ended September 30, 2012, the Company granted PSUs to an executive of the Company with an aggregate target payout of 162,760 shares of the Company's Class A Common Stock, subject to continued employment through the end of the relative performance periods, which end June 30, 2015, 2016 and 2017. Such PSUs will be settled based upon the Company's relative total stockholder return ("TSR") over the relevant performance period as compared to companies in the S&P 500 on July 1, 2012. No settlement will occur if the Company's TSR falls below a minimum threshold, and up to an aggregate of 260,416 shares of the Company's Class A Common Stock will be issued depending on the extent to which the Company's TSR equals or exceeds the minimum threshold. The PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSUs.

The grant date fair value of the PSUs of \$11.0 million was estimated using a lattice model with a Monte Carlo simulation and the following assumptions for each performance period, respectively: contractual life of 33, 45 and 57 months, average risk-free interest rate of 0.3%, 0.5% and 0.7% and a dividend yield of 1.0%. Using the historical stock prices and dividends from public sources, the Company estimated the covariance structure of the returns on S&P 500 stocks. The volatility for the Company's stock produced by this estimation was 32%. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant and the dividend yield is based on historical experience.

### *Market Share Unit*

As of September 30, 2012, the Company had one outstanding market share unit with a grant date fair value of \$10.6 million that was estimated using a lattice model with a Monte Carlo simulation and the following assumptions: contractual life of 41 months, a weighted-average expected volatility of 29%, a weighted-average risk-free interest rate of 1.6% and a weighted-average dividend yield of 1.0%. The Company used an expected stock-price volatility assumption that is a combination of both current and historical implied volatilities from options on the underlying stock. The implied volatilities were obtained from publicly available data sources. The expected life is equal to the contractual term of the grant. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant and the average dividend yield is based on historical experience.



**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Share Units**

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The following is a summary of the status of the Company's share units as of September 30, 2012 and activity during the three months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Outstanding at June 30, 2012	73.7	\$ 28.69
Granted	—	—
Dividend equivalents	—	—
Converted	—	—
Outstanding at September 30, 2012	<u>73.7</u>	28.69

**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 \$1.6 million as compensation expense and \$1.5 million as compensation income to reflect additional deferrals and the change in the market value for the three months ended September 30, 2012 and 2011, 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.

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

(In millions, except per share data)	Three Months Ended September 30	
	2012	2011
<b>Numerator:</b>		
Net earnings attributable to The Estée Lauder Companies Inc.	\$ 299.5	\$ 278.6
<b>Denominator:</b>		
Weighted-average common shares outstanding — Basic	387.8	390.5
Effect of dilutive stock options	5.7	6.5
Effect of restricted stock units	1.7	2.1
Effect of market share unit	0.3	0.2
Weighted-average common shares outstanding — Diluted	<u>395.5</u>	<u>399.3</u>
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share:</b>		
Basic	\$ .77	\$ .71
Diluted	.76	.70



# THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2012 and 2011, outstanding options to purchase 3.2 million and 0.8 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. As of September 30, 2012 and 2011, 0.9 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 — Stock-Based Compensation.

### NOTE 11 — EQUITY

(In millions)	Total Stockholders' Equity — The Estée Lauder Companies Inc.						Non-controlling Interests	Total Equity
	Common Stock	Paid-in Capital	Retained Earnings	AOCI	Treasury Stock	Total		
Balance — June 30, 2012	\$ 5.5	\$ 2,006.1	\$ 4,764.9	\$ (212.9)	\$ (3,830.4)	\$ 2,733.2	\$ 14.3	\$ 2,747.5
Net earnings	—	—	299.5	—	—	299.5	0.1	299.6
Other comprehensive income	—	—	—	68.5	—	68.5	0.9	69.4
Acquisition of treasury stock	—	—	—	—	(149.8)	(149.8)	—	(149.8)
Stock-based compensation	—	89.3	—	—	(15.5)	73.8	—	73.8
Balance — September 30, 2012	\$ 5.5	\$ 2,095.4	\$ 5,064.4	\$ (144.4)	\$ (3,995.7)	\$ 3,025.2	\$ 15.3	\$ 3,040.5

On November 1, 2012, the Company's Board of Directors declared a dividend in the amount of \$.72 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on December 17, 2012 to stockholders of record at the close of business on November 30, 2012. The Company plans on transitioning to a quarterly dividend payout schedule for its Class A and Class B Common Stock beginning in calendar year 2013.

#### Common Stock

During the three months ended September 30, 2012, the Company purchased approximately 3.0 million shares of its Class A Common Stock for \$165.4 million.

On November 1, 2012, the Company's Board of Directors authorized the repurchase of up to another 40.0 million shares of Class A Common Stock.

### NOTE 12 — STATEMENT OF CASH FLOWS

Supplemental cash flow information for the three months ended September 30, 2012 and 2011 is as follows:

(In millions)	2012	2011
Cash:		
Cash paid during the period for interest	\$ 27.5	\$ 4.7
Cash paid during the period for income taxes	\$ 67.3	\$ 27.7
Non-cash investing and financing activities:		
Incremental tax benefit from the exercise of stock options	\$ (1.8)	\$ (0.3)
Capital lease obligations incurred	\$ 0.6	\$ 0.4

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 — SEGMENT DATA AND RELATED INFORMATION**

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

The accounting policies for the Company's reportable segments are substantially the same as those for the consolidated financial statements, as described in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended June 30, 2012. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset values associated with the Company's segment data since June 30, 2012.

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

(In millions)	Three Months Ended September 30	
	2012	2011
<b>PRODUCT CATEGORY DATA</b>		
<b>Net Sales:</b>		
Skin Care	\$ 1,113.5	\$ 1,072.9
Makeup	960.4	928.8
Fragrance	347.6	356.8
Hair Care	113.9	103.8
Other	14.1	13.7
	<u>2,549.5</u>	<u>2,476.0</u>
Returns associated with restructuring activities	—	0.7
Net Sales	<u>\$ 2,549.5</u>	<u>\$ 2,476.7</u>
<b>Operating Income (Loss) before total charges associated with restructuring activities:</b>		
Skin Care	\$ 259.0	\$ 223.7
Makeup	161.3	159.6
Fragrance	53.4	48.3
Hair Care	10.7	5.1
Other	(2.0)	(2.6)
	<u>482.4</u>	<u>434.1</u>
<b>Reconciliation:</b>		
Total charges associated with restructuring activities	(0.4)	(4.1)
Interest expense, net	(15.8)	(16.0)
Interest expense on debt extinguishment	(19.1)	—
Other income	1.8	—
Earnings before income taxes	<u>\$ 448.9</u>	<u>\$ 414.0</u>
<b>GEOGRAPHIC DATA</b>		
<b>Net Sales:</b>		
The Americas	\$ 1,182.1	\$ 1,105.4
Europe, the Middle East & Africa	824.9	858.2
Asia/Pacific	542.5	512.4
	<u>2,549.5</u>	<u>2,476.0</u>
Returns associated with restructuring activities	—	0.7
Net Sales	<u>\$ 2,549.5</u>	<u>\$ 2,476.7</u>
<b>Operating Income (Loss):</b>		
The Americas	\$ 172.3	\$ 149.2
Europe, the Middle East & Africa	196.9	187.7
Asia/Pacific	113.2	97.2
	<u>482.4</u>	<u>434.1</u>
Total charges associated with restructuring activities	(0.4)	(4.1)
Operating Income	<u>\$ 482.0</u>	<u>\$ 430.0</u>

**THE ESTÉE LAUDER COMPANIES INC.**

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

**RESULTS OF OPERATIONS**

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for the three months ended September 30, 2012 and 2011, 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. Products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

(In millions)	Three Months Ended September 30	
	2012	2011
<b>NET SALES</b>		
<b>By Region:</b>		
The Americas	\$ 1,182.1	\$ 1,105.4
Europe, the Middle East & Africa	824.9	858.2
Asia/Pacific	542.5	512.4
	<u>2,549.5</u>	<u>2,476.0</u>
Returns associated with restructuring activities	—	0.7
Net Sales	<u>\$ 2,549.5</u>	<u>\$ 2,476.7</u>
<b>By Product Category:</b>		
Skin Care	\$ 1,113.5	\$ 1,072.9
Makeup	960.4	928.8
Fragrance	347.6	356.8
Hair Care	113.9	103.8
Other	14.1	13.7
	<u>2,549.5</u>	<u>2,476.0</u>
Returns associated with restructuring activities	—	0.7
Net Sales	<u>\$ 2,549.5</u>	<u>\$ 2,476.7</u>
<b>OPERATING INCOME (LOSS)</b>		
<b>By Region:</b>		
The Americas	\$ 172.3	\$ 149.2
Europe, the Middle East & Africa	196.9	187.7
Asia/Pacific	113.2	97.2
	<u>482.4</u>	<u>434.1</u>
Total charges associated with restructuring activities	(0.4)	(4.1)
Operating Income	<u>\$ 482.0</u>	<u>\$ 430.0</u>
<b>By Product Category:</b>		
Skin Care	\$ 259.0	\$ 223.7
Makeup	161.3	159.6
Fragrance	53.4	48.3
Hair Care	10.7	5.1
Other	(2.0)	(2.6)
	<u>482.4</u>	<u>434.1</u>
Total charges associated with restructuring activities	(0.4)	(4.1)
Operating Income	<u>\$ 482.0</u>	<u>\$ 430.0</u>

## THE ESTÉE LAUDER COMPANIES INC.

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

	<b>Three Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Net sales	100.0%	100.0%
Cost of sales	21.1	21.6
Gross profit	78.9	78.4
Operating expenses:		
Selling, general and administrative	60.0	60.9
Restructuring and other charges	—	0.1
	60.0	61.0
Operating income	18.9	17.4
Interest expense, net	0.6	0.7
Interest expense on debt extinguishment	0.8	—
Other income	0.1	—
Earnings before income taxes	17.6	16.7
Provision for income taxes	5.9	5.5
Net earnings	11.7	11.2
Net earnings attributable to noncontrolling interests	—	—
Net earnings attributable to The Estée Lauder Companies Inc.	11.7%	11.2%

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

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

### **Overview**

We believe that the best way to continue to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing consumers' changing shopping habits. To be the global leader in prestige beauty, we continued to implement a long-term strategy that is guiding us through fiscal 2015. The strategy has numerous initiatives across geographic regions, product categories, brands and functions that are designed to leverage our strengths, make us more productive and grow our sales.

We believe we have a strong, diverse brand portfolio with global reach and potential, and we plan to continue building upon and leveraging our history of outstanding creativity, innovation and entrepreneurship. We have succeeded in expanding our distinctive "High-Touch" service model and will continue to look for ways to expand it in newer channels and within geographic regions. As an example, we are developing capabilities to deliver superior retailing experiences, particularly in Company-operated retail stores. We are expanding our efforts to evolve our e-commerce-based online strategy into a multi-pronged digital strategy encompassing e-commerce, m-commerce, as well as digital and social media. We are leveraging our regional organization in an effort to assure that we are locally relevant with our products, services, marketing and visual merchandising.

## THE ESTÉE LAUDER COMPANIES INC.

As part of our strategy, we are continuing to shift our product category mix towards higher margin categories with greater global growth potential. Skin care, our most profitable product category, is a strategic priority for our innovation and investment spending, particularly in the Asia/Pacific region. We are also focusing our attention on luxury consumers across all product categories and have seen an improvement in the net sales of many of our higher-end prestige products. We will also continue to build our makeup product category through the introduction of new product offerings, continue expanding our hair care brands both in salons and in other retail channels and continue to focus our efforts to enhance our fragrance business.

We are strengthening our geographic presence by seeking share growth in large, image-building cities within core markets such as the United States, the United Kingdom, France, Italy and Japan. In addition, we continue to prioritize efforts to expand our presence and accelerate share growth in emerging markets such as China, the Middle East, Eastern Europe and Brazil and focus on consumers who purchase in the travel retail channel, in stores at their travel destinations or when they return to their home market. We also continue to expand our digital presence which has resulted in growth in the net sales of our products sold online. In North America, we continue to recognize the need to drive profitable growth in our traditional department store channel and see many benefits from the changes we have previously implemented. At the same time, we are also expanding our presence in other channels, such as specialty retailers, Company-operated stores and online. Internationally, we continue to take actions to grow profitability in European perfumeries and pharmacies and in department stores in Asia. In addition, we are emphasizing our skin care and makeup initiatives to boost our travel retail business and continuing efforts to grow our online, specialty retailer and prestige salon businesses. The travel retail business continues to be an important source of sales growth and profitability. Our business in this channel has benefitted from the implementation of programs we designed to target consumers in distinct travel corridors, enhance consumers' "High-Touch" experiences and convert travelers into purchasers.

We plan to continue to invest in the significant modernization of our global information systems, which includes the Strategic Modernization Initiative ("SMI") as well as other initiatives, and continue to shift our focus from gift with purchase activities to advertising, merchandising and sampling initiatives. These initiatives should over time enable overall profitability improvements by enhancing gross margin and supporting efficiencies in select operating expenses, while increasing our strategic investment spending.

We have a strong, diverse and highly valuable brand portfolio with global reach and potential, as well as a track record of outstanding creativity, innovation, entrepreneurship and healthy growth. We plan on continuing to bring highly innovative products to consumers and elevating our personalized "High-Touch" service model. We intend to invest in select areas of our business to improve our capabilities or develop new ones. Our main focus areas are digital, research and development, product innovation, consumer insight and local relevance. While our overall business is performing well, certain Western European countries and Korea are seeing worse-than-expected weakness due to economic uncertainties and volatility. We also saw a slowing in the exceptional growth we had experienced in travel retail, due in part to select retailer destocking and tighter working capital management, but in view of the activities we see at retail in the channel, we expect sales to improve throughout the remainder of the fiscal year. We believe we have and will continue to offset to some extent the impact of these events as a result of our strategy to mitigate weaknesses we find in certain areas with strengths in others. However, if adverse economic conditions or the degree of uncertainty or volatility worsen or are further prolonged, then we expect there to be a negative effect on ongoing consumer confidence, demand and spending and, as a result, our business. We will continue to monitor these and other risks that may affect our business.

### ***Returns and Charges Associated with Restructuring Activities***

In an effort to drive down costs and achieve synergies within our organization, in February 2009, we announced the implementation of a multi-faceted cost savings program (the "Program") to position the Company to achieve long-term profitable growth. We anticipate the Program will result in related restructuring and other charges, inclusive of cumulative charges recorded to date and through the remainder of the Program, totaling between \$350 million and \$450 million before taxes. While we will continue to seek cost savings opportunities, our current plans are to identify and approve specific initiatives under the Program through calendar 2012 and execute those initiatives through fiscal 2013. The total amount of charges (pre-tax) associated with the Program recorded, plus other initiatives approved through September 30, 2012, is approximately \$361 million to \$366 million, of which approximately \$251 million to \$253 million relates to restructuring charges, approximately \$50 million of other costs to implement the initiatives, approximately \$42 million to \$45 million in sales returns and approximately \$18 million in inventory write-offs. The restructuring charges are comprised of approximately \$188 million to \$190 million of employee-related costs, approximately \$40 million of other exit costs and contract terminations (substantially all of which have resulted in or will result in cash expenditures), and approximately \$23 million in non-cash asset write-offs. The total amount of cumulative charges (pre-tax) associated with the Program recorded from inception through September 30, 2012 was \$303.0 million.

## THE ESTÉE LAUDER COMPANIES INC.

We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately \$760 million to \$785 million through the end of fiscal 2013 including the reduction of certain costs relative to an assumed normalized spending pattern. Our long-range forecast for operating margin reflects these anticipated savings, net of strategic reinvestments.

The Program focuses on a redesign of our organizational structure in order to integrate the Company in a more cohesive way and operate more globally across brands and functions. The principal aspect of the Program was the reduction of the workforce by approximately 2,000 employees. Specific actions taken since Program inception included:

- **Resize and Reorganize the Organization** — We continued the realignment and optimization of our organization to better leverage scale, improve productivity, reduce complexity and achieve cost savings in each region and across various functions. This included reduction of the workforce which occurred through the consolidation of certain functions, which we achieved through a combination of normal attrition and job eliminations, and the closure and consolidation of certain distribution and office facilities.
- **Turnaround or Exit Unprofitable Operations** — To improve the profitability in certain of our brands and regions, we have selectively exited certain channels of distribution, categories and markets, and have made changes to turnaround others. This included the exit from the global wholesale distribution of our Prescriptives brand, the reformulation of Ojon brand products and the exit from the global distribution of Sean John products. In connection with these activities, we incurred charges for product returns, inventory write-offs, reduction of workforce and termination of contracts.
- **Outsourcing** — In order to balance the growing need for information technology support with our efforts to provide the most efficient and cost effective solutions, we continued the outsourcing of certain information technology processes. We incurred costs to transition services to outsource providers and employee-related termination costs.

### Restructuring Charges

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

(In millions)	Three Months Ended September 30	
	2012	2011
Employee-related costs	\$ 0.1	\$ 2.2
Asset write-offs	—	0.1
Contract terminations	—	0.1
Other exit costs	0.2	0.6
Total restructuring charges	<u>\$ 0.3</u>	<u>\$ 3.0</u>

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

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Fiscal 2012	37.1	1.7	12.6	2.2	53.6
Three months ended September 30, 2012	<u>0.1</u>	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>0.3</u>
Charges recorded through September 30, 2012	<u>\$ 162.0</u>	<u>\$ 19.3</u>	<u>\$ 21.3</u>	<u>\$ 11.5</u>	<u>\$ 214.1</u>

# THE ESTÉE LAUDER COMPANIES INC.

The following table presents accrued restructuring charges and the related activities under the Program to date:

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Charges	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Cash payments	(7.5)	—	(0.5)	(1.6)	(9.6)
Non-cash write-offs	—	(4.2)	—	—	(4.2)
Translation adjustments	0.6	—	—	—	0.6
Other adjustments	(2.4)	—	—	—	(2.4)
Balance at June 30, 2009	51.6	—	2.9	0.2	54.7
Charges	29.3	11.0	2.3	6.2	48.8
Cash payments	(49.5)	—	(5.1)	(6.0)	(60.6)
Non-cash write-offs	—	(11.0)	—	—	(11.0)
Translation adjustments	(0.8)	—	—	—	(0.8)
Balance at June 30, 2010	30.6	—	0.1	0.4	31.1
Charges	34.6	2.4	3.0	1.1	41.1
Cash payments	(30.6)	—	(2.4)	(1.4)	(34.4)
Non-cash write-offs	—	(2.4)	—	—	(2.4)
Translation adjustments	1.2	—	(0.1)	0.1	1.2
Balance at June 30, 2011	35.8	—	0.6	0.2	36.6
Charges	37.1	1.7	12.6	2.2	53.6
Cash payments	(23.6)	—	(12.4)	(2.0)	(38.0)
Non-cash write-offs	—	(1.7)	—	—	(1.7)
Translation adjustments	(1.4)	—	—	0.1	(1.3)
Balance at June 30, 2012	47.9	—	0.8	0.5	49.2
Charges	0.1	—	—	0.2	0.3
Cash payments	(8.8)	—	(0.3)	(0.3)	(9.4)
Translation adjustments	0.3	—	—	0.1	0.4
Balance at September 30, 2012	\$ 39.5	\$ —	\$ 0.5	\$ 0.5	\$ 40.5

Accrued restructuring charges at September 30, 2012 are expected to result in cash expenditures funded from cash provided by operations of approximately \$26 million, \$12 million and \$3 million in fiscal 2013, 2014 and 2015, respectively.

## *Total Returns and Other Charges Associated with Restructuring Activities*

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

(In millions)	Three Months Ended September 30	
	2012	2011
Sales returns (included in Net Sales)	\$ —	\$ (0.7)
Cost of sales	—	0.1
Restructuring charges	0.3	3.0
Other charges	0.1	1.7
Total returns and charges associated with restructuring activities	\$ 0.4	\$ 4.1



## THE ESTÉE LAUDER COMPANIES INC.

During the three months ended September 30, 2011, we recorded adjustments to reflect revised estimates of then-anticipated sales returns associated with prior initiatives. Other charges in connection with the implementation of the Program primarily relate to consulting and other professional services.

### *Other Intangible Asset Impairments*

During the fourth quarter of fiscal 2012, the Darphin reporting unit experienced an unanticipated deterioration in its results of operations due to softness in its European business, which is its primary market. Based on a qualitative analysis at that time, we reviewed and revised Darphin's long-term forecast. We concluded that these changes in circumstances triggered the need for an interim impairment test of the reporting unit's trademark and goodwill as of June 30, 2012. We determined that the trademark was not impaired, with the estimated fair value exceeding its carrying value by less than 2%. As of September 30, 2012, the carrying value of the trademark was \$8.2 million. The estimated fair value of the trademark was based on the use of a royalty rate to determine discounted projected future cash flows ("relief-from-royalty method"). The key assumptions that were used to determine the estimated fair value of the trademark were based on the expectation that the economic uncertainties in Europe would be temporary and not permanent in nature. If the decline in this market is more severe than we have anticipated, or other business disruptions arise, a resulting change in the key assumptions could have a negative impact on the estimated fair value of this trademark and it is possible we could recognize an impairment charge in the future. After completing the interim impairment test during the fourth quarter of fiscal 2012 on the trademark, we completed step one of the impairment test for goodwill and concluded that the fair value of the Darphin reporting unit was substantially in excess of its carrying value including goodwill.

### *First Quarter Fiscal 2013 as Compared with First Quarter Fiscal 2012*

#### **NET SALES**

Net sales increased 3%, or \$72.8 million, to \$2,549.5 million, primarily reflecting growth in each of our product categories, except for fragrance, which declined slightly. Geographically, net sales growth in the Americas and Asia/Pacific was partially offset by declines in Europe, the Middle East & Africa. Excluding the impact of foreign currency translation, net sales increased 6%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of an adjustment to reduce the reserve for then-anticipated returns associated with restructuring activities of \$0.7 million recorded during the prior-year period. We believe the following analysis of net sales better reflects the manner in which we conduct and view our business.

#### *Product Categories*

##### *Skin Care*

Net sales of skin care products increased 4%, or \$40.6 million, to \$1,113.5 million, primarily reflecting the continued success of our strategic focus on growing this category. The recent launches of Perfectionist CP+R and the Optimizer line of products from Estée Lauder, The Moisturizing Soft Cream from La Mer, and Even Better Eyes Dark Circle Corrector from Clinique, as well as higher sales of Advanced Night Repair Synchronized Recovery Complex from Estée Lauder, contributed approximately \$129 million, combined, to the increase. Partially offsetting these increases were lower sales of Idealist Even Skintone Illuminator and Idealist Cooling Eye Illuminator, both of which were new launches in the prior-year period, Perfectionist CP+ Serum and Resilience Lift Extreme from Estée Lauder and Repairwear Laser Focus from Clinique of approximately \$94 million, combined. Excluding the impact of foreign currency translation, skin care net sales increased 7%.

##### *Makeup*

Makeup net sales increased 3%, or \$31.6 million, to \$960.4 million. The recent launches of Pure Color Vivid Shine Lipstick and Pure Color Gelee Powder Eyeshadow from Estée Lauder, Pore Refining Solutions Makeup, High Impact Extreme Volume Mascara and Stay-Matte Oil-Free Makeup from Clinique, and Longwear Even Finish Foundation from Bobbi Brown, contributed approximately \$40 million, combined, to the increase. Higher sales from existing products, Chubby Stick Moisturizing Lip Colour from Clinique and Studio Fix Foundation from MAC contributed approximately \$14 million, combined, to the increase. Partially offsetting these increases were approximately \$29 million of lower sales of Pure Color Eyeshadow and Doublewear Stay-In-Place Makeup from Estée Lauder and Repairwear Laser Focus Makeup from Clinique, which were all new launches in the prior-year period. Excluding the impact of foreign currency translation, makeup net sales increased 6%.

## THE ESTÉE LAUDER COMPANIES INC.

### *Fragrance*

Net sales of fragrance products decreased 3%, or \$9.2 million, to \$347.6 million. Incremental sales from the recent launches of DKNY Be Delicious So Intense, Coach Poppy Blossom, Estée Lauder *pleasures* Eau Fraiche and Jo Malone Blackberry and Bay contributed approximately \$18 million to the category, combined. These launches were offset by approximately \$26 million of lower sales of DKNY Golden Delicious, Estée Lauder Sensuous Nude and Coach Poppy Flower, all which were new launches in the prior-year period. We continue to expect challenges in this category due to competitive dynamics. Excluding the impact of foreign currency translation, fragrance net sales were flat as compared with the prior-year period.

### *Hair Care*

Hair care net sales increased 10%, or \$10.1 million, to \$113.9 million, primarily reflecting the recent launches of the Invati Line of products and Pure Abundance Style Prep from Aveda. The category also benefited from sales generated from expanded global distribution, in particular, to salons and multi-brand specialty retailers. Partially offsetting these increases were lower net sales of Ojon brand products due, in part, to softness in our business in the direct response television channel. Excluding the impact of foreign currency translation, hair care net sales increased 12%.

### *Geographic Regions*

Net sales in the Americas increased 7%, or \$76.7 million, to \$1,182.1 million. The increase during the current-year period was primarily attributable to growth in the United States of approximately \$72 million, primarily due to new product offerings from our heritage and makeup artist brands. Net sales in Canada increased approximately \$5 million, primarily reflecting increased sales from our heritage brands. These increases also reflect the efforts of our expanded pull/push activities, which include innovative advertising that continues to draw new consumers to our brands and our ongoing efforts to work with retailers in the United States and Canada on strengthening the "High-Touch" concepts used to help market our products. Net sales in Latin America decreased approximately \$1 million, primarily reflecting the impact of unfavorable exchange rates. Excluding the impact of foreign currency translation, net sales in the Americas increased 8%.

In Europe, the Middle East & Africa, net sales decreased 4%, or \$33.3 million, to \$824.9 million, primarily reflecting lower sales in Switzerland, France, Spain, Russia, Germany and the Balkans of approximately \$35 million, combined. The overall decline of net sales in this region was inclusive of unfavorable exchange rates due to the strengthening of the U.S. dollar of approximately \$53 million. With the exception of Russia, these lower net sales reflected the ongoing economic uncertainties in certain countries in Europe. Accordingly, we remain cautious in the near term. The lower net sales in Russia primarily reflected destocking associated with ongoing challenges with a certain customer. These declines were partially offset by higher net sales in the United Kingdom and the Middle East and from our travel retail business of approximately \$12 million, combined, reflecting retail sales growth, partially offset by select retailer destocking and tighter working capital management by certain key retailers. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 2%.

Net sales in Asia/Pacific increased 6%, or \$30.1 million, to \$542.5 million, primarily reflecting growth in our skin care product category, in line with our strategy. Approximately \$49 million of this increase was generated in China, primarily due to expanded distribution, Hong Kong and Thailand. These increases were partially offset by lower net sales in Korea and Australia of approximately \$20 million, combined, reflecting difficult economic conditions. We continue to see weakness in prestige beauty in Korea as a result of difficult economic conditions and competitive pressures. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 7%.

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

## THE ESTÉE LAUDER COMPANIES INC.

### COST OF SALES

Cost of sales as a percentage of total net sales decreased to 21.1% as compared with 21.6% in the prior-year period. This improvement primarily reflected strategic changes in the mix of our business of approximately 50 basis points, pricing of approximately 40 basis points and the favorable effect of exchange rates of approximately 10 basis points. These improvements were partially offset by a provision for foreign transactional taxes, unfavorable manufacturing variances and an increase in obsolescence charges of approximately 60 basis points, combined.

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

### OPERATING EXPENSES

Operating expenses as a percentage of net sales decreased to 60.0% as compared with 61.0% in the prior-year period. This improvement primarily reflected a decrease in general and administrative costs, as a percentage of net sales, of approximately 70 basis points, a favorable change in foreign exchange transactions of approximately 40 basis points and a decrease in charges associated with restructuring activities of approximately 20 basis points. Also contributing to the improvement, as a percentage of net sales, were decreased spending in advertising, merchandising and sampling costs, as well as lower selling and shipping costs of approximately 20 basis points, each. Partially offsetting these improvements were higher costs related to stock-based compensation of approximately 30 basis points and higher costs of global information technology systems and infrastructure of approximately 30 basis points.

Changes in advertising, merchandising and sampling spending result from the type, timing and level of activities related to product launches and rollouts, as well as the markets being emphasized. We expect the higher investment spending on global advertising, merchandising and sampling to support major launches and existing franchises to continue for the remainder of fiscal 2013.

### OPERATING RESULTS

Operating income increased 12%, or \$52.0 million, to \$482.0 million. Operating margin improved to 18.9% of net sales as compared with 17.4% in the prior-year period, reflecting our higher gross margin and the decrease in our operating expense margin, as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total returns and charges associated with restructuring activities of \$0.4 million, or less than 1% of net sales, for the three months ended September 30, 2012 and \$4.1 million, or less than 1% of net sales, for the three months ended September 30, 2011. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

#### *Product Categories*

All product categories benefited from initiatives we implemented as part of the Program including a more strategically focused approach to spending and gross margin improvement activities. Skin care operating income increased 16%, or \$35.3 million, to \$259.0 million, primarily reflecting improved results from higher-margin product launches from certain of our heritage brands, as well as increased results from higher-end prestige skin care products. Makeup operating income increased 1%, or \$1.7 million, to \$161.3 million, primarily reflecting improved results from new product launches. Fragrance operating results increased 11%, or \$5.1 million, to \$53.4 million, primarily reflecting a more strategically focused approach to spending from our heritage brands as part of our strategy to improve profitability and a favorable comparison to the prior-year period, which reflected higher spending in support of new launches of designer fragrances. Hair care operating results increased over 100%, or \$5.6 million, to \$10.7 million, primarily reflecting improved results driven by recent product launches and expanded global distribution.

#### *Geographic Regions*

Operating income in the Americas increased 15%, or \$23.1 million, to \$172.3 million, primarily reflecting improved results from certain of our heritage and hair care brands in the United States driven by improved category mix. These improvements were partially offset by a higher amount of investment spending in the current-year period, which are in line with our strategy, as well as a provision for foreign transactional taxes.

## **THE ESTÉE LAUDER COMPANIES INC.**

In Europe, the Middle East & Africa, operating income increased 5%, or \$9.2 million, to \$196.9 million. Higher results from our travel retail business, Russia, and South Africa totaled approximately \$15 million, combined. Partially offsetting these improvements were lower results in Germany, Spain and Italy of approximately \$7 million, combined.

In Asia/Pacific, operating income increased 16%, or \$16.0 million, to \$113.2 million. Higher results from China, Taiwan, Thailand and Japan totaled approximately \$23 million, combined. Partially offsetting these increases were lower operating results of approximately \$10 million in Korea and New Zealand, combined.

### **INTEREST EXPENSE, NET**

Net interest expense was \$15.8 million as compared with \$16.0 million in the prior-year period.

### **INTEREST EXPENSE ON DEBT EXTINGUISHMENT**

During the first quarter of fiscal 2013, we redeemed the \$230.1 million principal amount of our 7.75% Senior Notes due 2013 at a price of 108% of the principal amount. We recorded a pre-tax expense on the extinguishment of debt of \$19.1 million representing the call premium of \$18.6 million and the pro-rata write-off of \$0.5 million of issuance costs and debt discount.

### **PROVISION FOR INCOME TAXES**

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

The effective rate for income taxes was 33.3% for the three months ended September 30, 2012 as compared with 32.7% in the prior-year period. The increase in the effective income tax rate of 60 basis points was principally due to a slightly higher effective tax rate on our foreign operations.

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

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period increased 8%, or \$20.9 million, to \$299.5 million and diluted net earnings per common share increased 9% from \$.70 to \$.76.

### **FINANCIAL CONDITION**

#### **LIQUIDITY AND CAPITAL RESOURCES**

##### ***Overview***

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At September 30, 2012, we had cash and cash equivalents of \$1,053.7 million compared with \$1,347.7 million at June 30, 2012. Our cash and cash equivalents are maintained at a number of financial institutions. As of September 30, 2012, approximately 14% of the total balance was insured by governmental agencies. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and perform ongoing evaluations of these institutions to limit our concentration risk exposure.

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

## THE ESTÉE LAUDER COMPANIES INC.

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents balance at September 30, 2012 includes cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional taxes.

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

### *Credit Ratings*

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of October 25, 2012, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's and our long-term debt is rated A with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's.

### *Debt*

At September 30, 2012, our outstanding borrowings were as follows:

(In millions)	Long-term Debt	Current Debt	Total Debt
3.70% Senior Notes, due August 15, 2042 ("2042 Senior Notes") <sup>(1), (6)</sup>	\$ 248.9	\$ —	\$ 248.9
6.00% Senior Notes, due May 15, 2037 ("2037 Senior Notes") <sup>(2), (6)</sup>	296.5	—	296.5
5.75% Senior Notes, due October 15, 2033 ("2033 Senior Notes") <sup>(3)</sup>	197.7	—	197.7
2.35% Senior Notes, due August 15, 2022 ("2022 Senior Notes") <sup>(4), (6)</sup>	249.8	—	249.8
5.55% Senior Notes, due May 15, 2017 ("2017 Senior Notes") <sup>(5), (6)</sup>	333.2	—	333.2
Other borrowings	4.6	24.0	28.6
	<u>\$ 1,330.7</u>	<u>\$ 24.0</u>	<u>\$ 1,354.7</u>

(1) Consists of \$250.0 million principal and unamortized debt discount of \$1.1 million.

(2) Consists of \$300.0 million principal and unamortized debt discount of \$3.5 million.

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

(4) Consists of \$250.0 million principal and unamortized debt discount of \$0.2 million.

(5) Consists of \$300.0 million principal, unamortized debt discount of \$0.2 million and a \$33.4 million adjustment to reflect the termination value of interest rate swaps.

(6) As of September 30, 2012, we were in compliance with all restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance.

In August 2012, we issued \$250.0 million of 2.35% Senior Notes due August 15, 2022 ("2022 Senior Notes") and \$250.0 million of 3.70% Senior Notes due August 15, 2042 ("2042 Senior Notes") in a public offering. The 2022 Senior Notes were priced at 99.911% with a yield of 2.360%. The 2042 Senior Notes were priced at 99.567% with a yield of 3.724%. Interest payments on both notes are required to be made semi-annually on February 15 and August 15, commencing February 15, 2013. In September 2012, we used the net proceeds of the offering to redeem the \$230.1 million principal amount of our 7.75% Senior Notes due November 1, 2013 at a price of 108% of the principal amount and recorded a pre-tax expense on the extinguishment of debt of \$19.1 million representing the call premium of \$18.6 million and the pro-rata write-off of \$0.5 million of issuance costs and debt discount. We intend to use the remaining net proceeds of the offering for general corporate purposes.

We have a \$750.0 million commercial paper program under which we may issue commercial paper in the United States. As of September 30, 2012, we had repaid, using cash on hand, \$200.0 million of commercial paper that was outstanding at June 30, 2012. At September 30, 2012, we had no commercial paper outstanding.

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We have a \$1.0 billion senior unsecured revolving credit facility that expires on July 14, 2015 (the "Facility"). The Facility may be used to provide credit support for our commercial paper program and for general corporate purposes. Up to the equivalent of \$250 million of the Facility is available for multi-currency loans. The interest rate on borrowings under the Facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately \$1 million to establish the Facility which are being amortized over the term of the Facility. The Facility has an annual fee of \$0.7 million, payable quarterly, based on our current credit ratings. The Facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$100.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. At September 30, 2012, no borrowings were outstanding under this agreement.

We have a fixed rate promissory note agreement with a financial institution pursuant to which we may borrow up to \$150.0 million in the form of loan participation notes through one of our subsidiaries in Europe. The interest rate on borrowings under this agreement is at an all-in fixed rate determined by the lender and agreed to by us at the date of each borrowing. At September 30, 2012, 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 25.0 million Turkish lira (\$13.9 million at the exchange rate at September 30, 2012). The interest rate applicable to each such credit shall be up to a maximum of 175 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by us at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at September 30, 2012 was 21.2 million Turkish lira (\$11.8 million at the exchange rate at September 30, 2012) and is classified as short-term debt in our consolidated balance sheet.

Total debt as a percent of total capitalization (excluding noncontrolling interests) decreased to 31% at September 30, 2012 from 32% at June 30, 2012.

### ***Cash Flows***

Net cash used for operating activities was \$125.2 million during the three months ended September 30, 2012 as compared with \$36.2 million in the prior-year period. The increase in cash flows used for operating activities primarily reflected unfavorable changes in levels of accounts payable due to the timing of payments. This change also reflected an increase in the levels of inventory in line with forecasted sales activity to ensure acceptable service levels, as well as the building of safety stock for our upcoming implementation of SAP as part of our strategic modernization initiative at certain affiliates. In addition, accounts receivable increased due to the timing of shipments and the timing of collections. These changes were partially offset by an increase in other liabilities primarily due to the timing of advertising, merchandising and sampling activities.

Net cash used for investing activities was \$104.2 million during the three months ended September 30, 2012 as compared with \$88.5 million in the prior-year period. The increase primarily reflected an increase in capital expenditure activity in the current-year period primarily related to counters.

Net cash used for financing activities was \$70.8 million during the three months ended September 30, 2012 as compared with \$390.9 million in the prior-year period. The change in net cash used for financing activities primarily reflected the proceeds from the issuance of the 2022 Senior Notes and 2042 Senior Notes in August 2012 and lower treasury stock repurchases, partially offset by the redemption of the 2013 Senior Notes and repayment of outstanding commercial paper during the current-year period.



## THE ESTÉE LAUDER COMPANIES INC.

### *Dividends*

On November 3, 2011, our Board of Directors declared a two-for-one stock split on our Class A and Class B Common Stock to be effected in the form of a stock dividend. As a result of this action, one additional share was issued on January 20, 2012 for each share held by stockholders of record at the close of business on January 4, 2012. The stock split did not have an impact on our consolidated financial position or results of operations. Share and per share amounts have been restated for the stock split.

On November 1, 2012, our Board of Directors declared a dividend in the amount of \$.72 per share on our Class A and Class B Common Stock. The dividend is payable in cash on December 17, 2012 to stockholders of record at the close of business on November 30, 2012. We plan on transitioning to a quarterly dividend payout schedule for our Class A and Class B Common Stock beginning in calendar year 2013.

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

There have been no significant changes to our pension and post-retirement funding as discussed in our Annual Report on Form 10-K for the year ended June 30, 2012.

### *Commitments, Contingencies and Contractual Obligations*

There have been no significant changes to our commitments, contingencies and contractual obligations as discussed in our Annual Report on Form 10-K for the year ended June 30, 2012.

### *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, 2012.

### *Foreign Exchange Risk Management*

We enter into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that we receive from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. We may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of June 2014. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology. The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income (loss) are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of September 30, 2012, these foreign currency cash-flow hedges were highly effective in all material respects.

At September 30, 2012, we had foreign currency forward contracts in the amount of \$1,473.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$366.4 million), Euro (\$252.3 million), Canadian dollar (\$155.9 million), Swiss franc (\$128.0 million), Australian dollar (\$108.4 million), Japanese yen (\$76.0 million) and South Korean won (\$65.1 million).

### *Credit Risk*

As a matter of policy, we only enter into derivative contracts with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. 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 September 30, 2012. To manage this risk, we have established counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

## THE ESTÉE LAUDER COMPANIES INC.

Certain of our derivative financial instruments contain credit-risk-related contingent features. At September 30, 2012, we were in a net liability position for certain derivative contracts that contain such features with two counterparties. The fair value of those contracts as of September 30, 2012 was approximately \$0.2 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 to settle the instruments immediately if a triggering event were to occur, is estimated at approximately the fair value of the contracts. As of September 30, 2012, we were in compliance with such credit-risk-related contingent features.

### **Market Risk**

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, the high, low and average measured value-at-risk for the twelve months ended September 30, 2012 related to our foreign exchange contracts are as follows:

<u>(In millions)</u>	<u>High</u>	<u>Low</u>	<u>Average</u>
Foreign exchange contracts	\$ 47.1	\$ 9.0	\$ 24.4

The change in the value-at-risk measures from June 30, 2012 related to our foreign exchange contracts reflected an increase in foreign exchange volatilities and a different portfolio mix. We believe that any resulting loss incurred would be offset by the effects of market rate movements on the respective underlying transactions for which the derivative financial instrument was intended.

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **CRITICAL ACCOUNTING POLICIES**

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, income taxes and derivatives. Since June 30, 2012, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

### **RECENTLY ISSUED ACCOUNTING STANDARDS**

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



**THE ESTÉE LAUDER COMPANIES INC.**

**FORWARD-LOOKING INFORMATION**

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

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

**THE ESTÉE LAUDER COMPANIES INC.**

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

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

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

(14) our ability to acquire, develop or implement new information and distribution technologies and initiatives on a timely basis and within our cost estimates and our ability to maintain continuous operations of such systems and the security of data and other information that may be stored in such systems or other systems or media;

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

(16) consequences attributable to local or international conflicts around the world, as well as from any terrorist action, retaliation and the threat of further action or retaliation;

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

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

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

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

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

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of September 30, 2012 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 based technologies ("SAP"), with the majority of our locations being enabled through 2014.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the first quarter of fiscal 2013 that have materially affected, or are 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. Except as disclosed below, reasonably possible losses in addition to the amount accrued for litigation and other legal proceedings are not material to our consolidated financial statements.

During the fiscal 2007 fourth quarter, the former owner of the Darphin brand initiated litigation in the Paris Commercial Court against the Company and one of its subsidiaries seeking to recover €60.0 million (\$78.2 million at the exchange rate at September 30, 2012) that he claims he was owed as additional consideration for the sale of Darphin to the Company in April 2003. On December 23, 2011, the Paris Commercial Court issued its judgment, awarding the former owner €22.9 million (\$29.9 million at the exchange rate at September 30, 2012) plus interest from 2007. The Company has filed its appeal with the Paris Court of Appeal. In accordance with the judgment, in January 2012, the Company paid €25.3 million (\$33.0 million at the exchange rate at September 30, 2012) to the former owner and received from him a bank guarantee to assure repayment to the Company of such sum (or any part thereof) in the event that the judgment is reversed by the Paris Court of Appeal. Based upon our assessment of the case, as well as the advice of external counsel, we are maintaining the amount we previously accrued as an amount that we believe will ultimately be paid based on the probable outcome of the appeal. Such amount is less than the Paris Commercial Court's award.

**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 September 30, 2012, the stockholder set forth in the table below converted shares of Class B Common Stock into Class A Common Stock on the date set forth below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
Ronald S. Lauder	August 22, 2012	2,000,000

## THE ESTÉE LAUDER COMPANIES INC.

### Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 176.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of September 30, 2012, the cumulative total of acquired shares pursuant to the authorization was 163.8 million, reducing the remaining authorized share repurchase balance to 12.2 million. During the three months ended September 30, 2012, we purchased approximately 2.7 million shares pursuant to the authorization for \$149.8 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 <sup>(1)</sup>
July 2012	1,326,056 <sup>(2)</sup>	\$ 52.52	1,286,000	13,628,202
August 2012	932,600	55.23	932,600	12,695,602
September 2012	734,745 <sup>(3)</sup>	60.22	509,369	12,186,233
	<u>2,993,401</u>	<u>\$ 55.25</u>	<u>2,727,969</u>	<u>12,186,233</u>

<sup>(1)</sup> The initial program covering the repurchase of 16.0 million shares was announced in September 1998 and increased by 40.0 million shares each in November 2007, February 2007 and May 2005 and 20.0 million shares in both May 2004 and October 2002.

<sup>(2)</sup> Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of restricted stock units.

<sup>(3)</sup> Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of performance share units.

On November 1, 2012, our Board of Directors authorized the repurchase of up to another 40.0 million shares of Class A Common Stock. This increases the total authorization to 216.0 million shares.

**THE ESTÉE LAUDER COMPANIES INC.**

**Item 6. Exhibits.**

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

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

**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: November 2, 2012

By: /s/TRACEY T. TRAVIS  
Tracey T. Travis  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

**THE ESTÉE LAUDER COMPANIES INC.****INDEX TO EXHIBITS**

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

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

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

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

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

2. **Exercise Period.**

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

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

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

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

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program of similar purpose), the Employee will have deemed to be retired as of the date of death and this Section 2(c) will apply rather than Section 2(b). If the Employee dies or becomes disabled after retirement as contemplated by this Section 2(c), the provisions of this section shall apply.

d. Other Termination of Employment.

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

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

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

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

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

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

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

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

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

the Employee's employment by reason of retirement in accordance with Section 2c, or due to termination by the Employee or termination by the Company or relevant subsidiary without Cause in accordance with Section 2d, is subject to satisfaction of the conditions precedent that the Employee neither (i) competes with, takes other employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts herself or himself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company. All Stock Options that cannot be exercised after termination of the Employee's employment will be forfeited.

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

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

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

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

6. **Transferability.** Stock Options granted under this Agreement may be transferred under laws of descent and distribution or, during Employee's lifetime, solely to the Employee's spouse, siblings, parents, children and grandchildren or trusts for the benefits of such persons, or partnerships, corporations, limited liability companies, or other entities owned solely by such persons, including trusts for such

persons. Any transfer of Stock Options will have no effect until written notice (providing sufficient details relating to the proposed transfer, as required by the Company at that time) is received and confirmed by the Company. The Employee will remain liable for all obligations of Employee and his or her transferee or transferees. Each transferee will also be subject to the Employee's obligations under this Agreement relating to the Stock Options transferred to him or her.

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

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

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

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

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

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

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

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

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

all Stock Options or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in the Employee's favor, for purposes of managing and administering the Plan ("Data").

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

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

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

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

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

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

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

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

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

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

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

f. The Award of the Stock Options will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;

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

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

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

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

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

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

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

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

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

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

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

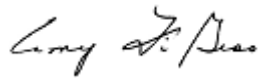
13. **Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under this Stock Option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

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

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

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

The Estée Lauder Companies Inc.

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

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

Participant:                                **«Employee\_Name»**

Employee Number:                       **«Employee\_Number\_TEXT»**

Grant Date:

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

Exercise Price per Share:

Aggregate number of Shares subject to your options: **«Equity\_in\_Options»**

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

Number of Shares	Date Exercisable	Expiration Date
«Options_Vest_1114»		
«Options_Vest_1115»		
«Options_Vest_1116»		

Questions regarding the stock option program can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

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

Enclosure: Share Incentive Plan Overview

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

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

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

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

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

**3. Payment of Awards.**

- (a) Payments under this Agreement will be made in the number of Shares that is equivalent to the number of Performance Share Units earned and payable to the Participant pursuant to paragraph 2 above. Except as otherwise provided in paragraph 4 below, payments will be made as soon as practicable after the Award Period ends, but in no event later than 2 and 1/2 months following the last day of the calendar year in which the Award Period ends. The form of payout will be in Shares. In addition, each Performance Share Unit that becomes earned and payable pursuant to paragraph 2 above carries a Dividend Equivalent Right, payable in cash at the same time as the payment of Shares in accordance with this paragraph 3 and paragraph 4.
  - (b) In the event of a Change in Control that constitutes a "change in control event" within the meaning of Section 409A of the Code, the Company may, in its sole discretion and in
-



accordance with Treasury Regulation § 1.409A-3(j)(4)(ix)(B), vest and settle the Performance Share Units and terminate this Agreement. In such event, settlement of the Performance Share Units shall be made within two weeks following the Change in Control. In the event that Performance Share Units are not settled pursuant to the immediately preceding sentence, such Performance Share Units shall be assumed by an acquirer in which case, vesting will be subject to Sections 2 and 4. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control.

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

- (a) **Death.** If the Participant dies, the Performance Share Units will be paid as a pro rata Target Award for the number of full months employed during the Award Period (i.e., the proration of the Target Award equals a fraction, the numerator of which is the number of full calendar months of service completed during the Award Period through the Participant's death and the denominator of which is the number of full calendar months in the Award Period). Payment will occur on the 75<sup>th</sup> day following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid based on actual Plan Achievement, at the same time the awards are paid to active employees. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) on or prior to the end of the first year of the Award Period, the Performance Share Unit Award will be forfeited. If such termination occurs after the end of the first year of the Award Period, the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during

the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.

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

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

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

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

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

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

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

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

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

*a. By acknowledging and agreeing to or signing and returning the attached Notice of Grant, and as a condition of the grant of the Performance Share Units, the Participant hereby expressly and unambiguously consents to the collection, use, and transfer of personal data, including sensitive data, as described in this paragraph and below by and among, as necessary and*

*applicable, the Employer, the Company and its subsidiaries and by any agent of the Company or its subsidiaries for the exclusive purpose of implementing, administering and managing Participant's participation in the Plan.*

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

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

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

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

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

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

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

- a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;
- b. The award of Performance Share Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Performance Share Units, or benefits in lieu of Performance Share Units, even if Performance Share Units have been awarded repeatedly in the past.
- c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;
- d. Participant's participation in the Plan is voluntary;
- e. Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant's employment at any time;
- f. The Award of the Performance Share Units will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;
- g. Performance Share Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;
- h. The Performance Share Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;
- i. In the event the Participant is not an employee of the Company, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;
- j. The future value of the underlying Shares is unknown and cannot be predicted with certainty;
- k. In consideration of the award of the Performance Share Units, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Units or diminution in value of the Performance Share Units, or Shares acquired upon vesting of the Performance Share Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Performance Share Units, Participant irrevocably releases the Company and any subsidiary from any

such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acknowledging and agreeing to or signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

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

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

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

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

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

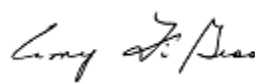
**14. Partial Invalidity.** The invalidity or illegality of any provision of the Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

**16. Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to Performance Share Units awarded under the Plan or future Performance Share Units that may be awarded under the Plan by electronic means or request Participant's consent to participate in the Plan by electronic means. Participant hereby consents to receive such documents by electronic delivery and

agrees to participate in the Plan through any on-line or electronic system established and maintained by the Company or another third party designated by the Company.

The Estée Lauder Companies Inc.

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

**Schedule "A"**

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

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

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

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

**For ROIC Cumulative Annual Growth Rate:**

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

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

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



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

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

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

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

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

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

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

Participant:

Employee Number:

Grant Date:

Award Period:

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

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

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

**Net Sales Cumulative Annual Growth Rate**  
%

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

**ROIC Cumulative Annual Growth Rate**  
%

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

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

Enclosure: Performance Share Unit Fact Sheet

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

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

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

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

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

**3. Payment of Awards.**

- (a) Payments under this Agreement will be made in the number of Shares that is equivalent to the number of Performance Share Units earned and payable to the Participant pursuant to paragraph 2 above. Except as otherwise provided in paragraph 4 below, payments will be made as soon as practicable after the Award Period ends, but in no event later than 2 and 1/2 months following the last day of the calendar year in which the Award Period ends. The form of payout will be in Shares.
  - (b) In the event of a Change in Control that constitutes a "change in control event" within the meaning of Section 409A of the Code, the Company may, in its sole discretion and in accordance with Treasury Regulation § 1.409A-3(j)(4)(ix)(B), vest and settle the Performance Share Units and terminate this Agreement. In such event, settlement of the Performance Share Units shall be made within two weeks following the Change in Control.
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In the event that Performance Share Units are not settled pursuant to the immediately preceding sentence, such Performance Share Units shall be assumed by an acquirer in which case, vesting will be subject to Sections 2 and 4. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control.

- (c) Any dividends or other distributions on Shares received after vesting of the Performance Share Units, after applicable withholding, that are held in an account for Participant at the agent engaged by the Company for the purposes of holding the shares for Participant upon Vesting (the "Agent"), will be automatically reinvested by default, in accordance with the Agent's applicable procedures, in additional whole and/or fractional Shares. If you do not wish to have your dividends or other distributions reinvested or if you would like to change your current election you must notify the Agent prior to the record date for such dividend or distribution (or such earlier date as may be required by the Agent).

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

- (a) **Death.** If the Participant dies, the Performance Share Units will be paid as a pro rata Target Award for the number of full months employed during the Award Period (i.e., the proration of the Target Award equals a fraction, the numerator of which is the number of full calendar months of service completed during the Award Period through the Participant's death and the denominator of which is the number of full calendar months in the Award Period). Payment will occur on the 75<sup>th</sup> day following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid based on actual Plan Achievement, at the same time the awards are paid to active employees. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.

- (d) Termination of Employment Without Cause. If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) on or prior to the end of the first year of the Award Period, the Performance Share Unit Award will be forfeited. If such termination occurs after the end of the first year of the Award Period, the Performance Share Unit Award will continue through the Award Period and the Participant will be paid a pro rata amount for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 4(a)) based on actual Plan Achievement. Payment will occur at the same time the awards are paid to active employees.
- (e) Termination of Employment By Employee. If the Participant terminates his or her employment (*e.g.*, by voluntary resigning) other than by retirement, which is subject to paragraph 4(b) above, the Performance Share Unit Award will be forfeited.
- (f) Termination of Employment With Cause. If the Participant is terminated for Cause, the Performance Share Unit Award will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including any employment agreement entered into after the Award Date. In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Conduct.
- (g) Post Employment Conduct. Payout of any Performance Share Unit Award after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company. If the Participant's employment terminates after the expiration of the Award Period but prior to payout, payout will be subject to this paragraph 4(g).

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

**6. Withholding.** Regardless of any action the Company or the Participant's employer (the "Employer") takes with respect to any or all income tax, social security, payroll tax, or other tax-related withholding ("Tax-Related Items"), Participant acknowledges that the ultimate liability for all Tax-Related Items legally due by Participant is and remains his or her responsibility. Furthermore, Participant acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Share Units, including the grant of the Performance Share Units, the vesting of the Performance Share

Units, the delivery of Shares, the subsequent sale of Shares acquired under the Plan; and (ii) do not commit to structure the terms of the grant of the Performance Share Units or any aspect of Participant's participation in the Plan to reduce or eliminate his or her liability for Tax-Related Items.

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

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

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

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

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

## 10. Disclosure and Use of Information.

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

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

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

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

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

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

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

*Company in writing. The Participant further understands that withdrawing consent may affect his or her ability to participate in the Plan.*

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

- a. The Plan is established voluntarily by the Company, it is discretionary in nature, and it may be modified, amended, suspended or terminated by the Company at any time, unless otherwise provided in the Plan and this Agreement;
- b. The award of Performance Share Units is voluntary and occasional, and does not create any contractual or other right to receive future awards of Performance Share Units, or benefits in lieu of Performance Share Units, even if Performance Share Units have been awarded repeatedly in the past.
- c. All decisions with respect to future awards, if any, will be at the sole discretion of the Company;
- d. Participant's participation in the Plan is voluntary;
- e. Participant's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Company or the Employer to terminate Participant's employment at any time;
- f. The Award of the Performance Share Units will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;
- g. Performance Share Units are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any subsidiary, and which is outside the scope of Participant's employment or service contract, if any;
- h. The Performance Share Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any subsidiary;
- i. In the event the Participant is not an employee of the Company, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company; and furthermore, the Performance Share Units and Participant's participation in the Plan will not be interpreted to form an employment or service contract with any subsidiary of the Company;
- j. The future value of the underlying Shares is unknown and cannot be predicted with certainty;
- k. In consideration of the award of the Performance Share Units, no claim or entitlement to compensation or damages shall arise from termination of the Performance Share Units or diminution in



value of the Performance Share Units, or Shares acquired upon vesting of the Performance Share Units, resulting from termination of Participant's employment by the Company or any subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the award of the Performance Share Units, Participant irrevocably releases the Company and any subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by acknowledging and agreeing to or signing the Notice of Grant, Participant shall be deemed irrevocably to have waived his or her right to pursue or seek remedy for any such claim or entitlement;

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

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

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

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

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

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

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

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

The Estée Lauder Companies Inc.

By: 

Amy DiGeso  
Executive Vice President,  
Global Human Resources

**Schedule "A"**

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

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

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

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

**For ROIC Cumulative Annual Growth Rate:**

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

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

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

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

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

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

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

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

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

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

Participant:

Employee Number:

Grant Date:

Award Period:

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

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

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

**Net Sales Cumulative Annual Growth Rate**  
%

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

**ROIC Cumulative Annual Growth Rate**  
%

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

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

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

Enclosure: Performance Share Unit Fact Sheet

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

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

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

**1. Award Grant.** The Company hereby awards to the Participant an award of Restricted Stock Units in respect of the number of Shares set forth in the Notice of Grant.

**2. Vesting.** The Restricted Stock Units granted to the Participant will vest and become payable in accordance with the Vesting Schedule in the Notice of Grant. This schedule indicates the vesting date upon which the Participant will be entitled to receive Shares. Except as otherwise provided in this Agreement, any Restricted Stock Units that are unvested when the Participant terminates employment with the Company will be forfeited.

**3. Payment of Awards.**

- (a) Each Restricted Stock Unit represents the right to receive one Share when the Restricted Stock Unit vests.
  - (b) In addition, each Restricted Stock Unit carries a Dividend Equivalent Right, payable in cash at the same time as payment of Restricted Stock Units in Shares in accordance with this paragraph 3 and paragraph 4. Dividend Equivalent Rights are deemed part of the related Restricted Stock Units under this Agreement.
  - (c) In the event of a Change in Control that constitutes a "change in control event" within the meaning of Section 409A of the Code, the Company may, in its sole discretion and in accordance with Treasury Regulation § 1.409A-3(j)(4)(ix)(B), vest and settle the Restricted Stock Units and terminate this Agreement. In such event, settlement of the Restricted Stock Units shall be made within two weeks following the Change in Control. In the event that Restricted Stock Units are not settled pursuant to the immediately preceding sentence,
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such Restricted Stock Units shall be assumed by an acquirer in which case, vesting will be subject to Sections 2 and 4. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control.

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

- (a) **Death.** If the Participant dies, the Restricted Stock Units will vest pro rata for the number of full months the Participant was employed during the Vesting Period (i.e., the proration equals a fraction, the numerator of which is the number of full calendar months of service completed during the Vesting Period through the Participant's death and the denominator of which is the number of full calendar months in the Vesting Period). Payment of the Restricted Stock Units will occur on the 75<sup>th</sup> day following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the unvested Restricted Stock Units will continue to vest and be paid in accordance with the Vesting Schedule. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.
- (c) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)). The Restricted Stock Units will be paid in accordance with the Vesting Schedule (i.e., on the next vesting date during the Vesting Period).
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below), any unvested Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. Restricted Stock Units will be paid in accordance with the Vesting Schedule.
- (e) **Termination of Employment By Employee.** If the Participant voluntarily terminates his or her employment (e.g., by voluntary resigning) other than by retirement, which is subject to paragraph 4(b) above, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited.

- (f) Termination of Employment With Cause. If the Participant is terminated for Cause, all Restricted Stock Units that are not vested as of the effective date of termination will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including an employment agreement entered into after the Grant Date (or "Award Date"). In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Corporate Conduct.
- (g) Termination After a Change in Control. If, on or after a Change in Control, the Participant terminates for Good Reason (as defined below), dies, becomes disabled as described in paragraph 4(c), formally retires as described in paragraph 4(b) or is terminated at the instance of the Company or relevant subsidiary without Cause, the unvested Restricted Stock Units will immediately vest in full and, solely if such Change in Control constitutes a "change in control event" within the meaning of Section 409A of the Code and such termination occurs within two (2) years of such "change in control event," will be immediately paid. Otherwise, such Restricted Stock Units will immediately vest, but will only be paid at such times as they would otherwise be paid in accordance with this Agreement. For this purpose, "Good Reason" means the occurrence of any of the following, without the express written consent of the Participant:
- (i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant's position, authority or responsibilities immediately prior to the Change in Control, or any other material adverse change in such position, including title, authority or responsibilities;
  - (ii) any failure by the Company to pay any amounts for compensation or benefits owed to the Participant or a material reduction of the overall amounts of compensation and benefits in effect prior to the Change in Control, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;
  - (iii) the Company's requiring the Participant to be based at any office or location more than fifty (50) miles from that location at which he performed his or her services for the Company immediately prior to the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or
  - (iv) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor, unless such assumption occurs by operation of law.
- (h) Post Employment Conduct. Payment in respect of any Restricted Stock Unit after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company.



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

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

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

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

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

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

Shares is not secured by a trust, insurance contract or other funding medium, and the Participant does not have any interest in any fund or specific asset of the Company by reason of this Award or the

account established on his or her behalf. A Restricted Stock Unit award confers no rights as a shareholder of the Company until Shares are actually delivered to the Participant.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

f. The Award of the Restricted Stock Units will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;

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

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

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

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

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

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

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

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

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

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

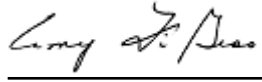
**14. Partial Invalidity.** The invalidity or illegality of any provision of this Agreement will be deemed not to affect the validity of any other provision.

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. The Company reserves the unilateral right to

amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

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

The Estée Lauder Companies Inc.

By: 

Amy DiGeso  
Executive Vice President,  
Global Human Resources

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

Participant:                                **«Employee\_Name»**  
Employee Number:                       **«Employee\_Number\_TEXT»**  
Number of Restricted Stock Units:     **«Equity\_in\_RSUs»**

Grant Date:

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

Shares	Vesting Date

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

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

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

Enclosure: Share Incentive Plan Overview

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

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

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

**1. Award Grant.** The Company hereby awards to the Participant an award of Restricted Stock Units in respect of the number of Shares set forth in the Notice of Grant.

**2. Vesting.** The Restricted Stock Units granted to the Participant will vest and become payable in accordance with the Vesting Schedule in the Notice of Grant. This schedule indicates the vesting date upon which the Participant will be entitled to receive Shares. Except as otherwise provided in this Agreement, any Restricted Stock Units that are unvested when the Participant terminates employment with the Company will be forfeited.

**3. Payment of Awards.**

- (a) Each Restricted Stock Unit represents the right to receive one Share when the Restricted Stock Unit vests.
  - (b) In the event of a Change in Control that constitutes a "change in control event" within the meaning of Section 409A of the Code, the Company may, in its sole discretion and in accordance with Treasury Regulation § 1.409A-3(j)(4)(ix)(B), vest and settle the Restricted Stock Units and terminate this Agreement. In such event, settlement of the Restricted Stock Units shall be made within two weeks following the Change in Control. In the event that Restricted Stock Units are not settled pursuant to the immediately preceding sentence, such Restricted Stock Units shall be assumed by an acquirer in which case, vesting will be subject to Sections 2 and 4. If the Shares cease to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the
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consideration to be received per Share will equal the consideration paid to each stockholder per Share generally upon the Change in Control.

- (c) Any dividends or other distributions on Shares received after vesting of the Restricted Stock Units, after applicable withholding, that are held in an account for Participant at the agent engaged by the Company for the purposes of holding the shares for Participant upon Vesting (the "Agent"), will be automatically reinvested by default, in accordance with the Agent's applicable procedures, in additional whole and/or fractional Shares. If you do not wish to have your dividends or other distributions reinvested or if you would like to change your current election you must notify the Agent prior to the record date for such dividend or distribution (or such earlier date as may be required by the Agent).

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

- (a) **Death.** If the Participant dies, unvested Restricted Stock Units will vest on the date of death pro rata based on the number of full months the Participant was employed during the Vesting Period after the last vesting date (i.e., the proration equals a fraction, the numerator of which is the number of full calendar months of service completed during the Vesting Period after the last vesting date through the Participant's death and the denominator of which is the number of full calendar months after the last vesting date that are remaining in the Vesting Period). For this purpose, "last vesting date" is the grant date if the first vesting date has not yet occurred. Payment of the vested Restricted Stock Units will occur on the 75<sup>th</sup> day following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Retirement.** If the Participant formally retires under the terms of The Estée Lauder Companies Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the unvested Restricted Stock Units will continue to vest and be paid in accordance with the Vesting Schedule. Vesting and payment in respect of any unvested Restricted Stock Unit after retirement will be subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company. If the Participant dies during active employment after the attainment of age 55 and the completion of 10 or more years of service, or after the attainment of age 65 and the completion of 5 or more years of service, without formally retiring under the terms of the Estée Lauder Inc. Retirement Growth Account Plan (or an affiliate or a successor plan or program of similar purpose), the Participant will have deemed to be retired as of the date of death and this Section 4(b) will apply rather than Section 4(a). If the Participant dies or becomes disabled after retirement as contemplated by this Section 4(b), the provisions of this section shall apply.



- (c) Disability. If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the unvested Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. The vested Restricted Stock Units will be paid in accordance with the Vesting Schedule (i.e., on the next vesting date during the Vesting Period).
- (d) Termination of Employment Without Cause. If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below), any unvested Restricted Stock Units will vest pro rata for full months employed during the Vesting Period (determined under the proration methodology in paragraph 4(a)) on the next vesting date during the Vesting Period. Restricted Stock Units will be paid in accordance with the Vesting Schedule and payment in respect of any unvested Restricted Stock Unit after last day of active employment will be subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself or herself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company.
- (e) Termination of Employment By Employee. If the Participant voluntarily terminates his or her employment (e.g., by voluntarily resigning) other than due to retirement or disability, which are subject to paragraphs 4(b) and 4(c) above, respectively, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited.
- (f) Termination of Employment With Cause. If the Participant is terminated for Cause, all Restricted Stock Units that are not vested as of the effective date of resignation will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including an employment agreement entered into after the Grant Date (or "Award Date"). In the absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Corporate Conduct.
- (g) Termination After a Change in Control. If, on or after a Change in Control, the Participant terminates for Good Reason (as defined below), dies, becomes disabled as described in paragraph 4(c), formally retires as described in paragraph 4(b) or is terminated at the instance of the Company or relevant subsidiary without Cause, the unvested Restricted Stock Units will immediately vest in full and, solely if such Change in Control constitutes a "change in control event" within the meaning of Section 409A of the Code and such termination occurs within two (2) years of such "change in control event," will be immediately paid. Otherwise, such Restricted Stock Units will immediately vest, but will only be paid at such times as they would otherwise be paid in accordance with this Agreement. For this purpose, "Good Reason" means the occurrence of any of the following, without the express written consent of the Participant:

- (i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant's position, authority or responsibilities immediately prior to the Change in Control, or any other material adverse change in such position, including title, authority or responsibilities;
- (ii) any failure by the Company to pay any amounts for compensation or benefits owed to the Participant or a material reduction of the overall amounts of compensation and benefits in effect prior to the Change in Control, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;
- (iii) the Company's requiring the Participant to be based at any office or location more than fifty (50) miles from that location at which he performed his or her services for the Company immediately prior to the Change in Control, except for travel reasonably required in the performance of the Participant's responsibilities; or
- (iv) any failure by the Company to obtain the assumption and agreement to perform this Agreement by a successor, unless such assumption occurs by operation of law.

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

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

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

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

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

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

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

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

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

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

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

*incentive plans, pursuant to a prior transfer made with the Participant's consent in respect of any previous grant of restricted stock units or other awards.*

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

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

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

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

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

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

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

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

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

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

f. The Award of the Restricted Stock Units will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;

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

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

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

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

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

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

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

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

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

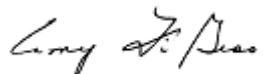
**13. Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York, that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under the Restricted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

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

**15. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant in order to prevent taxation under Code section 409A.

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

The Estée Lauder Companies Inc.

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



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

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

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

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

2. **Exercise Period.**

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

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

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

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

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program of similar purpose), the Employee will have deemed to be retired as of the date of death and this Section 2(c) will apply rather than Section 2(b). If the Employee dies or becomes disabled after retirement as contemplated by this Section 2(c), the provisions of this section shall apply.

d. Other Termination of Employment.

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

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

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

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

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

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

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

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

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

by the Employee or termination by the Company or relevant subsidiary without Cause in accordance with Section 2d, is subject to satisfaction of the conditions precedent that the Employee neither (i) competes with, takes other employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts herself or himself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company. All Stock Options that cannot be exercised after termination of the Employee's employment will be forfeited.

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

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

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

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

6. **Transferability.** Stock Options granted under this Agreement may be transferred under laws of descent and distribution or, during Employee's lifetime, solely to the Employee's spouse, siblings, parents, children and grandchildren or trusts for the benefits of such persons, or partnerships, corporations, limited liability companies, or other entities owned solely by such persons, including trusts for such persons. Any transfer of Stock Options will have no effect until written notice (providing sufficient details

relating to the proposed transfer, as required by the Company at that time) is received and confirmed by the Company. The Employee will remain liable for all obligations of Employee and his or her transferee or transferees. Each transferee will also be subject to the Employee's obligations under this Agreement relating to the Stock Options transferred to him or her.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

f. The Award of the Stock Options will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Award Date to the Equity Based Compensation Department of the Company in New York;

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

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

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

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

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

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

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

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

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

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

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

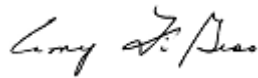
13. **Governing Law.** This Agreement is governed by and is to be construed according to the laws of the State of New York that apply to agreements made and performed in that state, without regard to its choice of law provisions. For purposes of litigating any dispute that arises under this Stock Option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

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

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

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

The Estée Lauder Companies Inc.

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

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

Participant:                                **«Employee\_Name»**

Employee Number:                       **«Employee\_Number\_TEXT»**

Grant Date:

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

Exercise Price per Share:

Aggregate number of Shares subject to your options: **«Equity\_in\_Options»**

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

Number of Shares	Date Exercisable	Expiration Date
«Options_Vest_1114»		
«Options_Vest_1115»		
«Options_Vest_1116»		

Questions regarding the stock option program can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

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

Enclosure: Share Incentive Plan Overview

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

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

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

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

**2. Right to Payment of Performance Share Units.** It is understood that the percentage of the Target Award earned and paid will be established by the Committee based on the plan achievement (the "Plan Achievement") during the Performance Period specified in the Notice of Grant (the "Award Period"). Except as otherwise provided in paragraph 3, 4 or 5 below, at the end of the Performance Period, the number of Shares earned in respect of the Performance Share Units will be determined in accordance with the notice of grant.

**3. Payment of Awards.**

Payments under this Agreement will be made in the number of Shares that is equivalent to the number of Performance Share Units earned and payable to the Participant pursuant to paragraph 2 above. Except as otherwise provided in paragraph 4 or 5 below, payments will be made as soon as practicable after the Award Period ends, but in no event later than 2 and 1/2 months following the last day of the calendar year in which the Award Period ends. The form of payout will be in Shares. In addition, each Performance Share Unit that becomes earned and payable pursuant to paragraph 2 above carries a Dividend Equivalent Right, payable in cash at the same time as the payment of Shares in accordance with this paragraph 3 and paragraph 4 or 5.

**4. Change in Control.** In the event of a Change in Control that occurs during employment, each Performance Share Unit with a Performance Period ending after the Change in Control will become payable to the Participant with the total number of Shares to be paid equal to the number of Shares earned in accordance with the Notice of Grant as if the Performance Period ended on the date of the

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Change in Control. Payment of Shares so earned will be made in two weeks following the date of the Change in Control. If the Shares ceased to be outstanding immediately after the Change in Control (e.g., due to a merger with and into another entity), then the consideration to be received in respect of each Share earned under a Performance Share Unit will equal the consideration paid to each stockholder per Share generally upon the Change in Control. If the Performance Period ends on or prior to the Change in Control, the Performance Share Units shall be paid out in accordance with paragraph 3 or 5 of this Agreement, as applicable.

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

- (a) **Death.** If the Participant dies, the Performance Share Units will be paid as a pro rata Target Award for the number of full months employed during the Service Period (i.e., the proration of the Target Award equals a fraction, the numerator of which is the number of full calendar months of service completed during the Award Period through the Participant's death and the denominator of which is the number of full calendar months in the Award Period). Payment will occur on the 75<sup>th</sup> day following the Participant's death and in accordance with any applicable laws or Company procedures regarding the payments.
- (b) **Disability.** If the Participant becomes totally and permanently disabled (as determined under the Company's long-term disability program), the Performance Period will terminate and the Participant will be vest in a pro rata amount of Performance Share Units for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 5(a)) based on actual Plan Achievement through the date the Participant becomes totally and permanently disabled. Payment of Shares earned in respect so such Performance Share Units will be made within two weeks following the date on which Participant terminates employment as a result of total and permanent disability.
- (d) **Termination of Employment Without Cause.** If the Participant's employment is terminated at the instance of the Company or relevant subsidiary without Cause (as defined below) on or prior to the end of the first year of the Award Period, the Performance Share Unit Award will be forfeited. If such termination occurs after the end of the first year after the Grant Date, the Performance Share Unit Award will continue through the Award Period and the Participant will vest in a pro rata amount of Performance Share Units for the number of full months employed during the Award Period (determined under the proration methodology in paragraph 5(a)) based on actual Plan Achievement [through the date of termination]. Payment of Shares earned in respect of such Performance Share Units will be made within two weeks following the date of termination.
- (e) **Termination of Employment By Employee.** If the Participant terminates his or her employment (e.g., by voluntary resigning), the Performance Share Unit Award will be forfeited.
- (f) **Termination of Employment With Cause.** If the Participant is terminated for Cause, the Performance Share Unit Award will be forfeited. For this purpose, "Cause" is defined in the employment agreement in effect between the Participant and the Company or any subsidiary, including any employment agreement entered into after the Grant Date. In the

absence of an employment agreement, "Cause" means any breach by the Participant of any of his or her material obligations under any Company policy or procedure, including, without limitation, the Code of Conduct.

- (g) **Post Employment Conduct.** Payout of any Performance Share Unit Award after termination of employment is subject to satisfaction of the conditions precedent that the Participant neither (i) competes with, takes employment with, or renders services to a competitor of the Company, its subsidiaries, or affiliates without the Company's written consent, nor (ii) conducts himself in a manner adversely affecting the Company. The term "competitor" means any business that is engaged in, or is preparing to become engaged in, the makeup, skin care, hair care, toiletries or fragrance business or other business in which the Company is engaged or preparing to become engaged, or that otherwise competes with, or is preparing to compete with, the Company. If the Participant's employment terminates after the expiration of the Award Period but prior to payout, payout will be subject to this paragraph 5(g).

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

**7. Clawback.** Shares earned or delivered under any Performance Share Unit Award shall be subject to any recoupment policy for awards under the Plan adopted by the Company as such policy exists from time to time.

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

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

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

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

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

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

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

**12. Disclosure and Use of Information.**

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

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

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

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

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

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

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

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

**13. Discretionary Nature and Acceptance of Award.** The Participant agrees to be bound by the terms of this Agreement and acknowledges that:

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

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

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

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

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

f. The Award of the Performance Share Units will be deemed accepted unless the Award is declined by way of written notice by the Participant within 30 days of the Grant Date to the Equity Based Compensation Department of the Company in New York;

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

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

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

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

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

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

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

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

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

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

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

**17. Section 409A Compliance.** This Agreement is intended to comply with section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations, rulings, or guidance provided thereunder. Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may the Participant, directly or indirectly, designate the calendar year of any payment to be made under this Agreement. The Company reserves the unilateral right to amend this Agreement upon written notice to the Participant to prevent taxation under Code section 409A.

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

The Estée Lauder Companies Inc.

By: /s/ Amy DiGeso  
Amy DiGeso  
Executive Vice President,  
Global Human Resources

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

Participant:

Employee Number:

Grant Date:

Target Number of Shares:

Service Period:

Performance Period:

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

**Plan Achievement goal for Performance Period:** Except as otherwise provided in Section 4 or 5 of the Agreement, the number of Shares that may be earned under the Performance Share Award shall be the product of the Target Number of Shares and the "% of Performance Shares Earned" based on the table below:

EL TSR Performance vs S&P 500 TSR	% of Performance Shares Earned
>=90 <sup>th</sup> Percentile	160%
80 <sup>th</sup> Percentile	140%
70 <sup>th</sup> Percentile	120%
60 <sup>th</sup> Percentile	100%
Median	70%
40 <sup>th</sup> Percentile	35%
<40 <sup>th</sup> Percentile	0

For purposes hereof:

- "EL TSR" means the total return to stockholders of the Company's Class A Common Stock during the Performance Period and is calculated at the ratio of (i) the Average Final Price (as defined below) plus the dividends paid per share during the Performance Period less (B) the closing stock price for the Company's Class A Common Stock on the New York Stock Exchange on June 30, 2012 (i.e. \$54.12) and (ii) the closing stock price for the Company's Class A Common Stock on the New York Stock Exchange on June 30, 2012 (i.e. \$54.12). The closing stock price on June 30, 2012 is subject to adjustment under those circumstances where adjustments to the Performance Share Units are made under the Plan (e.g., by reason of a stock split after the Grant Date). For purposes hereof, "Average Final Price" means the average of the daily closing stock prices for the Company's Class A Common Stock on the New York Stock Exchange over the ten trading days ending on the last day of the Performance Period (if such last day is not a trading day, then the last trading day preceding such last day).
- "S&P 500 TSR" means the total return to stockholders of each of the 500 companies, other than the Company, comprising the Standard & Poors 500 ("S&P 500") Index during the Performance Period. Total return to stockholders for each such company is calculated in the same way under "EL TSR" in item 1 above. In the event that a company is no longer in the S&P 500 at the end of the Performance Period, such company will be excluded from the calculation of S&P 500 TSR; likewise, if a company is in the S&P 500 at the end of the Performance Period and was not in the S&P 500 on the first day of the Performance Period, such company will be excluded from the calculation of S&P 500 TSR.

3. If actual EL TSR Performance vs. S&P 500 TSR results in a percentile ranking not listed on the table above, the % of Performance Shares Earned will be interpolated on a straight-line basis between the percentile ranking immediately above and below the calculated results.
4. If the Participant's employment is terminated by reason of, or pursuant to, Paragraph 5(a), 5(b) or 5(c) of the Agreement, then in determining the "% of Performance Shares Earned," the Performance Period shall end on the date of termination. If there is a Change in Control, then evaluation of performance and payout shall be in accordance with Paragraph 4 of the Agreement and the Performance Period shall end on the date of the Change in Control.
5. The Committee may reduce the payment based on other factors at the discretion of the Committee unless a Change in Control has occurred.

Questions regarding the award can be directed to Thomas Fellenbaum at (212) 572-3705 or Patricia Zakrzewski at (212) 572-6953.

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

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

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

By /s/ Fabrizio Freda Date September 24, 2012



**Certification**

I, Fabrizio Freda certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Estée Lauder Companies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2012

/s/ FABRIZIO FREDA

Fabrizio Freda  
President and Chief Executive Officer

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**Certification**

I, Tracey T. Travis certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Estée Lauder Companies Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2012

/s/ TRACEY T. TRAVIS

Tracey T. Travis

Executive Vice President and Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and the information contained in the 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2012

/s/ FABRIZIO FREDA

Fabrizio Freda  
President and Chief Executive Officer

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

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

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

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (15 U.S.C. 78m or 78o(d)), and the information contained in the 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2012

/s/ TRACEY T. TRAVIS

Tracey T. Travis

Executive Vice President and Chief Financial Officer

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

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