ESTEE LAUDER COMPANIES INC
Form 10-Q/A
December 01, 2006

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

FORM 10-Q/A

Amendment No.1

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

For the quarterly period ended September 30, 2006

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 Estee Lauder Companies Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer X Accelerated filer Non-accelerated filer

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

At October 20, 2006, 123,960,382 shares of the registrant's Class A Common Stock, $.01 par value, and 84,805,915 shares of the registrant's Class B Common Stock, $.01 par value, were outstanding.

THE ESTEE LAUDER COMPANIES INC.

EXPLANATORY NOTE

The Estee Lauder Companies Inc. filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 on October 26, 2006. The single document posted in the EDGAR system that day included the body of the Quarterly Report and the five exhibits to the Quarterly Report (including the certifications pursuant to sections 302 and 906 of the Sarbanes-Oxley Act of 2002 by the CEO and CFO) that were not incorporated by reference. This amendment is being made solely to post the body of the Quarterly Report and each of the five exhibits separately.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months E September 3
	2006
	(In millions, except p
Net Sales	$ 1,593.5
Cost of Sales	428.1
Gross Profit	1,165.4
Operating expenses:	
Selling, general and administrative	1,065.0
Special charges related to cost savings initiative	0.5
	1,065.5
Operating Income	99.9
Interest expense, net	6.7
Earnings before Income Taxes, Minority Interest and Discontinued Operations	93.2
Provision for income taxes	33.4
Minority interest, net of tax	(1.8)
Net Earnings from Continuing Operations	58.0

Discontinued operations, net of tax		0.3
Net Earnings	$	58.3
Basic net earnings per common share:		
Net earnings from continuing operations	$	.28
Discontinued operations, net of tax		.00
Net earnings	$	.28
Diluted net earnings per common share:		
Net earnings from continuing operations	$	.27
Discontinued operations, net of tax		.00
Net earnings	$	.27
Weighted-average common shares outstanding:		
Basic		211.1
Diluted		213.6

See notes to consolidated financial statements.

THE ESTEE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

		September 30 2006 (Unaudited)
		($ in millio
ASSETS		
Current Assets		
Cash and cash equivalents	$	180.7
Accounts receivable, net		980.1
Inventory and promotional merchandise, net		834.0
Prepaid expenses and other current assets		276.6
Total current assets		2,271.4
Property, Plant and Equipment, net		775.8
Other Assets		
Investments, at cost or market value		21.7
Goodwill, net		682.6
Other intangible assets, net		80.2

Other assets, net	114.3
Total other assets	898.8
Total assets	$ 3,946.0

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Short-term debt	$ 204.4
Accounts payable	303.9
Accrued income taxes	149.1
Other accrued liabilities	983.0
Total current liabilities	1,640.4
Noncurrent Liabilities	
Long-term debt	438.6
Other noncurrent liabilities	255.8
Total noncurrent liabilities	694.4
Minority Interest	22.5
Stockholders' Equity	
Common stock, $.01 par value; 650,000,000 shares Class A authorized; shares issued: 165,508,239 at September 30, 2006 and 164,837,563 at June 30, 2006; 240,000,000 shares Class B authorized; shares issued and outstanding: 84,805,915 at September 30, 2006 and 85,305,915 at June 30, 2006	2.5
Paid-in capital	600.7
Retained earnings	2,420.2
Accumulated other comprehensive income	63.6
	3,087.0
Less: Treasury stock, at cost; 41,380,958 Class A shares at September 30, 2006 and 38,382,458 Class A shares at June 30, 2006	(1,498.3)
Total stockholders' equity	1,588.7
Total liabilities and stockholders' equity	$ 3,946.0

See notes to consolidated financial statements.

THE ESTEE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Month Septembe 2006 (In mill
Cash Flows from Operating Activities	
Net earnings	$ 58.3
Adjustments to reconcile net earnings to net cash flows from operating activities:	
Depreciation and amortization	50.9
Deferred income taxes	(6.0)
Minority interest, net of tax	1.8
Non-cash stock compensation	14.8
Excess tax benefits from stock-based compensation arrangements	(0.1)
Loss on disposal of fixed assets	1.4
Discontinued operations, net of tax	(0.3)
Other non-cash items	0.2
Changes in operating assets and liabilities	
Increase in accounts receivable, net	(209.2)
Increase in inventory and promotional merchandise, net	(68.8)
Increase in other assets, net	(13.8)
Increase in accounts payable	39.9
Increase in accrued income taxes	13.6
Increase in other accrued liabilities	48.7
Increase (decrease) in other noncurrent liabilities	(1.5)
Net cash flows used for operating activities of continuing operations	(70.1)
Net cash flows used for operating activities of discontinued operations	(1.2)
Net cash flows used for operating activities	(71.3)
Cash Flows from Investing Activities	
Capital expenditures	(67.3)
Capital expenditures of discontinued operations	-
Acquisition of businesses, net of cash acquired	(56.7)
Proceeds from disposition of long-term investments	-
Purchases of long-term investments	(0.3)
Net cash flows used for investing activities	(124.3)
Cash Flows from Financing Activities	
Increase (decrease) in short-term debt, net	115.3
Repayments and redemptions of long-term debt	(0.4)
Net proceeds from stock-based compensation transactions	3.6
Excess tax benefits from stock-based compensation arrangements	0.1
Payments to acquire treasury stock	(110.5)
Distributions made to minority holders of consolidated subsidiaries	(1.4)
Net cash flows provided by (used for) financing activities	6.7
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1.0

Net Decrease in Cash and Cash Equivalents		(187.9)
Cash and Cash Equivalents at Beginning of Period		368.6
Cash and Cash Equivalents at End of Period	$	180.7

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Estee Lauder Companies Inc. and its subsidiaries (collectively, the "Company") as continuing operations, with the exception of the operating results of its reporting unit that marketed and sold Stila brand products, which have been reflected as discontinued operations for the three-month periods ended September 30, 2006 and 2005. All significant intercompany balances and transactions have been eliminated.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

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

Net Earnings Per Common Share

For the three month periods ended September 30, 2006 and 2005, net earnings per common share ("basic EPS") is computed by dividing net earnings by the weighted-average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings per common share assuming dilution ("diluted EPS") is computed by reflecting potential dilution from stock-based awards.

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

Three Months E

	September 3	
	2006	
	(Unaudited	
	(In millions, except p	
Numerator:		
Net earnings from continuing operations	$ 58.0	$
Discontinued operations, net of tax	0.3	
Net earnings	$ 58.3	$
Denominator:		
Weighted-average common shares outstanding - Basic	211.1	
Effect of dilutive securities: Stock-based compensation	2.5	
Weighted-average common shares outstanding - Diluted	213.6	
Basic net earnings per common share:		
Net earnings from continuing operations	$ .28	$
Discontinued operations, net of tax	.00	
Net earnings	$ .28	$
Diluted net earnings per common share:		
Net earnings from continuing operations	$ .27	$
Discontinued operations, net of tax	.00	
Net earnings	$ .27	$

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As of September 30, 2006 and 2005, outstanding options to purchase 15.1 million and 14.9 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because the exercise prices of those options were greater than the average market price of the common stock and their inclusion would be anti-dilutive.

Supplemental Disclosures of Cash Flow Information

Supplemental cash flow information for the three months ended September 30, 2006 and 2005 were as follows:

	2006
	(Unaudite
	(In millio

Cash	
Cash paid during the period for interest	$ 10.1
Cash paid during the period for income taxes	$ 30.0
Non-cash	
Incremental tax benefit from the exercise of stock options	$ 0.3
Capital lease obligations incurred	$ 0.2
Accrued distributions to minority holders	$ 0.6
Interest rate swap derivative mark to market	$ (6.9)

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions of $29.8 million and $27.1 million as of September 30, 2006 and June 30, 2006, respectively.

Inventory and Promotional Merchandise

Inventory and promotional merchandise only includes inventory considered saleable or usable in future periods, and is stated at the lower of cost or fair-market value, with cost being determined on the first-in, first-out method. Cost components include raw materials, componentry, direct labor and overhead (e.g., indirect labor, utilities, depreciation, purchasing, receiving, inspection and warehousing) as well as inbound freight. Promotional merchandise is charged to expense at the time the merchandise is shipped to the Company's customers.

	September 30 2006 (Unaudited) (In millio
Inventory and promotional merchandise consists of:	
Raw materials	$ 157.7
Work in process	41.3
Finished goods	456.8
Promotional merchandise	178.2
	$ 834.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment

Property, plant and equipment, including leasehold and other improvements that extend an asset's useful life or productive capabilities, are carried at cost less accumulated depreciation and amortization. For financial statement purposes, depreciation is provided principally on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lives of the respective leases or the expected useful life of those improvements.

	September 30 2006 (Unaudited) (In milli
Assets (Useful Life)	
Land	$ 13.7
Buildings and improvements (10 to 40 years)	160.1
Machinery and equipment (3 to 10 years)	843.4
Furniture and fixtures (5 to 10 years)	102.2
Leasehold improvements	817.6
	1,937.0
Less accumulated depreciation and amortization	1,161.2
	$ 775.8

Depreciation and amortization of property, plant and equipment was $48.7 million and $45.3 million during the three months ended September 30, 2006 and 2005, respectively. Depreciation and amortization related to the Company's manufacturing process is included in cost of sales and all other depreciation and amortization is included in selling, general and administrative expenses in the accompanying consolidated statements of earnings.

Goodwill and Other Intangible Assets

During the three months ended September 30, 2006, the Company purchased the remaining minority equity interest in Bumble and Bumble Products, LLC and Bumble and Bumble, LLC, acquired a business engaged in the wholesale distribution and retail sale of Aveda products as well as completed the acquisition of an international distributor all of which resulted in an increase to goodwill of $46.5 million and other intangible assets of $4.6 million.

Operating Leases

The Company recognizes rent expense from operating leases with periods of free and scheduled rent increases on a straight-line basis over the applicable lease term. The Company considers lease renewals in the useful life of its leasehold improvements when such renewals are reasonably assured. From time to time, the Company may receive capital improvement funding from its lessors. These amounts are recorded as deferred liabilities and amortized over the remaining lease term as a reduction of rent expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pension and Post-retirement Benefit Plans

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. The Company also maintains a domestic post-retirement benefit plan which provides certain medical and dental benefits to eligible employees. Descriptions of these plans are discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

The components of net periodic benefit cost for the three months ended September 30, 2006 and 2005 consisted of the following:

	Pension Plans				P
	U.S.		International		Po
	2006	2005	2006	2005	2006
(Unaudited)					
(In millions)					
Service cost, net	$ 4.6	$ 5.4	$ 3.9	$ 3.1	$ 1
Interest cost	6.3	5.3	3.2	2.5	1
Expected return on plan assets	(7.2)	(6.2)	(3.4)	(2.9)	
Amortization of:					
Prior service cost	0.2	0.2	0.1	-	
Actuarial loss	0.4	1.5	1.9	2.1	0
Settlements and curtailments	-	-	-	0.2	
Net periodic benefit cost	$ 4.3	$ 6.2	$ 5.7	$ 5.0	$ 3

During the first quarter of fiscal 2007, the Pension Protection Act of 2006 was adopted into law in the United States. Certain provisions of this Act changed the calculation related to the maximum contribution amount deductible for income tax purposes. As a result of these provisions, the Company now expects to make a discretionary contribution of $20.0 million to its trust-based, noncontributory qualified defined benefit pension plan in fiscal 2007. As of September 30, 2006, the Company's expected benefit payments to be made under its non-qualified domestic noncontributory pension plan and expected contributions to its international pension plans for the fiscal year ending June 30, 2007 are $10.3 million and $18.8 million, respectively, as previously disclosed.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. The Company's most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension and other postretirement benefit costs, goodwill and other intangible assets, income taxes, derivatives and stock-based compensation. Descriptions of these policies are discussed in the Company's Annual Report on Form 10-K for the year ended June 30, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 becomes effective for the Company in its fiscal year ending June 30, 2009. The Company is currently evaluating the impact of the provisions of SFAS No. 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires employers to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. Previous standards required employers to disclose the complete funded status of its plans only in the notes to the financial statements. Additionally, SFAS No. 158 requires employers to measure plan assets and obligations at their year-end balance sheet date. The Company will adopt SFAS No. 158 prospectively, as of the end of the current fiscal year, as required.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108") to provide guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Under SAB No. 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that existed in prior years existing in the current year's ending balance sheet. SAB No. 108 will become effective for the Company in its fiscal year ending June 30, 2007. The Company is currently evaluating the impact of the provisions of SAB No. 108 on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Comprehensive Income

The components of accumulated other comprehensive income ("OCI") included in the accompanying consolidated balance sheets consist of net unrealized investment gain (loss), net gain (loss) on derivative instruments designated and qualifying as cash-flow hedging instruments, net minimum pension liability adjustments and cumulative translation adjustments as of the end of each period.

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

	Three Mon Septem
	2006
	(Una (In m
Net earnings	$ 58.3
Other comprehensive income (loss):	
Net unrealized investment gain (loss)	-
Net derivative instruments gain (loss)	(1.2)
Translation adjustments	0.1
Other comprehensive income (loss)	(1.1)
Comprehensive income	$ 57.2

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

	Three Mon Septem
	2006
	(Una (In m

OCI-derivative instruments, beginning of period	$ 10.3
Gain (loss) on derivative instruments	(1.3)
Reclassification to earnings of net (gain) loss during the period	(0.5)
Benefit for deferred income taxes	0.6
Net derivative instruments gain (loss)	(1.2)
OCI-derivative instruments, end of period	$ 9.1

The $9.1 million, net of tax, derivative instrument gain recorded in OCI at the end of the current period substantially related to the gain on the settlement of treasury lock agreements upon issuance of the Company's 5.75% Senior Notes due October 2033, which will be reclassified to earnings as an offset to interest expense over the life of the debt.

At the end of the prior period, the $12.6 million, net of tax, derivative instrument gain recorded in OCI included $8.9 million, net of tax, related to the gain on the settlement of treasury lock agreements upon issuance of the Company's 5.75% Senior Notes due October 2033, which will be reclassified to earnings as an offset to interest expense over the life of the debt, and $3.7 million, net of tax, related to forward and option contracts which the Company reclassified to earnings.

Note 3 - Stock Programs

As of September 30, 2006, the Company has three active equity compensation plans which include the Amended and Restated Fiscal 2002 Share Incentive Plan, the Fiscal 1999 Share Incentive Plan and the Non-Employee Director Share Incentive Plan (collectively, the "Plans"). These Plans currently provide for the issuance of 32,894,400 shares, which consist of shares originally provided for and shares transferred to the Plans from a previous plan and employment agreement, to be granted in the form of stock-based awards to key employees, consultants and non-employee directors of the Company. As of September 30, 2006, approximately 8,371,200 shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company's stock compensation awards outstanding at September 30, 2006 include stock options, Performance Share Units ("PSU"), Restricted Stock Units ("RSU") and share units.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options, PSUs, RSUs and share units. Compensation expense attributable to net stock-based compensation during the three months ended September 30, 2006 and 2005 was $14.8 million and $13.2 million, respectively. As of September 30, 2006 and 2005, the total unrecognized compensation cost related to nonvested stock-based awards was $58.5 and $45.2 million, respectively and the related weighted-average period over which it is expected to be recognized is approximately 2.3 and 2.5 years, respectively.

Stock Options

A summary of the Company's stock option programs as of September 30, 2006 and changes during the three-month period then ended, is presented below:

>

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value(1) (in millions)	W C
Outstanding at June 30, 2006	26,215.7	$ 39.53		
Granted at fair value	1,617.9	39.56		
Exercised	(172.0)	27.34		
Expired	(57.0)	40.26		
Forfeited	(22.5)	40.03		
Outstanding at September 30, 2006	27,582.1	39.60	$ 105.6	
Exercisable at September 30, 2006	21,872.7	39.84	$ 91.6	

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

The exercise period for all stock options generally may not exceed ten years from the date of grant. Stock option grants to individuals generally become exercisable in three substantively equal tranches over a service period of up to four years.

The weighted-average grant date fair value of stock options granted for the three months ended September 30, 2006 and 2005 was $13.64 and $11.64, respectively. The total intrinsic value of stock options exercised during the three months ended September 30, 2006 and 2005 was $1.9 million and $19.4 million, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)	Three Months Ended September 30 2006	
Weighted-average expected stock-price volatility	24%	
Weighted-average expected option life	8 years	8
Average risk-free interest rate	4.7%	
Average dividend yield	1.2%	

In addition to awards made by the Company, stock options were assumed as part of the October 1997 acquisition of the companies that sold jane brand products. There were 4,100 options to acquire shares of the Company's Class A Common Stock outstanding and exercisable as of September 30, 2006 that will expire in October 2007.

Performance Share Units

During the three months ended September 30, 2006, the Company issued 119,038 PSUs, which will be settled in stock subject to the achievement of the Company's net sales and net earnings per share goals for the three years ending June 30, 2009. Settlement will be made pursuant to a range of opportunities relative to the net sales and earnings per share targets of the Company. No settlement will occur for results below the minimum threshold and additional shares shall be issued if performance exceeds the targeted performance goals. PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. These awards are subject to the provisions of the agreement under which the PSUs are granted. The PSUs were valued at $39.56 representing the closing market value of the Company's Class A Common Stock on the date of grant and generally vest at the end of the performance period. The compensation cost of the PSUs is subject to adjustment based upon the attainability of the target goals.

The following is a summary of the status of the Company's PSUs as of September 30, 2006 and activity during the three months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted- Grant Fair V
Nonvested at June 30, 2006	111.1	$
Granted	119.0	
Vested	-	
Forfeited	-	
Nonvested at September 30, 2006	230.1	$

Restricted Stock Units

The Company issued 593,443 RSUs during the three months ended September 30, 2006, of which 326,371 are scheduled to vest on October 31, 2007, 171,327 on October 31, 2008 and 95,745 on November 2, 2009, all subject to the continued employment of the grantee. Certain RSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the RSU and as such were valued at $39.56 representing the closing market value of the Company's Class A Common Stock on the date of grant. Other RSUs 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the status of the Company's RSUs as of September 30, 2006 and activity during the three months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted- Grant Fair V
Nonvested at June 30, 2006	111.1	$
Granted	593.4	
Vested	-	
Forfeited	0.0	
Nonvested at September 30, 2006	704.5	$

Share Units

Certain non-employee directors defer cash compensation in the form of share units which are granted under the Non-Employee Director Share Incentive Plan and will be converted into shares of Class A Common Stock as provided for in that plan. Share units are accompanied by dividend equivalent rights that are converted to additional share units when such dividends are paid. The following is a summary of the status of the Company's share units as of September 30, 2006 and activity during the fiscal year then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted- Grant Fair V
Outstanding at June 30, 2006	13.1	$
Granted	-	
Dividend equivalents	-	
Converted	-	

Outstanding at September 30, 2006	13.1	$

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 $0.2 million and $0.1 million as compensation expense to reflect the change in the market value for the three months ended September 30, 2006 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Discontinued Operations

On September 30, 2005, the Company committed to a plan to sell and on April 10, 2006, completed the sale of certain assets and operations of the reporting unit that marketed and sold Stila brand products. As such, $0.3 million of income and $3.3 million of loss, both net of tax, for the three months ended September 30, 2006 and 2005, respectively, are reflected as discontinued operations in the accompanying statements of earnings. The current year income resulted from the Company providing certain transitional distribution and online services as well as the manufacture and sale to the purchaser of a limited range of products. In addition, the Company provided transitional services related to certain information systems, accounting and other back office services to the purchaser in exchange for monthly service fees designed to recover the estimated costs of providing these transition services. Transitional services are expected to conclude in fiscal 2007.

Note 5 - Cost Savings Initiative

During fiscal 2006, the Company recorded special charges associated with a cost savings initiative that was designed to support its long-term financial objectives. As part of this multi-faceted initiative, the Company has identified savings opportunities that include streamlined processes and organizational changes. As of September 30, 2006, substantially all employees have been separated.

During the three months ended September 30, 2006, the Company incurred an additional $0.5 million under this program primarily related to facility closings. At September 30, 2006, the accrued liability related to the cost savings initiative was $55.7 million of which $21.5 million and $34.2 million was reflected as other accrued liabilities and other noncurrent liabilities, respectively, in the accompanying consolidated balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Segment Data and Related Information

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the "Chief Executive") in deciding how to allocate resources and in assessing performance. Although the Company does business in one operating segment, beauty products, management also evaluates performance on a product category basis. Performance is measured based upon net sales and operating income. Operating income represents earnings before income taxes, minority interest, net interest expense and discontinued operations. The accounting policies for the Company's reportable segment are substantially the same as those for the consolidated financial statements, as described in the segment data and related information footnote included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset value associated with the Company's segment data since June 30, 2006.

	Three Mon Septem
	2006
	(Unau (In mi
PRODUCT CATEGORY DATA	
Net Sales:	
Skin Care	$ 567.0
Makeup	646.8
Fragrance	289.3
Hair Care	82.4
Other	8.0
	$ 1,593.5
Operating Income:	
Skin Care	$ 42.9
Makeup	49.9
Fragrance	5.1
Hair Care	3.9
Other	(1.4)
Special charges related to cost savings initiative	(0.5)
	99.9
Reconciliation:	
Interest expense, net	6.7
Earnings before income taxes, minority interest and discontinued operations	$ 93.2

GEOGRAPHIC DATA

Net Sales:	
The Americas	$ 900.5
Europe, the Middle East & Africa	471.9
Asia/Pacific	221.1
	$ 1,593.5
Operating Income:	
The Americas	$ 73.1
Europe, the Middle East & Africa	18.3
Asia/Pacific	9.0
Special charges related to cost savings initiative	(0.5)
	$ 99.9

THE ESTEE 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 130 countries and territories. The following is a comparative summary of operating results from continuing operations for the three months ended September 30, 2006 and 2005, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements - Summary of Significant Accounting Policies for all periods presented. Sales of products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

	Three Months September
	2006
	(In milli
NET SALES	
By Region:	
The Americas	$ 900.5
Europe, the Middle East & Africa	471.9
Asia/Pacific	221.1
	$ 1,593.5

By Product Category:	
Skin Care	$ 567.0
Makeup	646.8
Fragrance	289.3
Hair Care	82.4
Other	8.0
	$ 1,593.5
OPERATING INCOME (LOSS)	
By Region:	
The Americas	$ 73.1
Europe, the Middle East & Africa	18.3
Asia/Pacific	9.0
Special charges related to cost savings initiative	(0.5)
	$ 99.9
By Product Category:	
Skin Care	$ 42.9
Makeup	49.9
Fragrance	5.1
Hair Care	3.9
Other	(1.4)
Special charges related to cost savings initiative	(0.5)
	$ 99.9

THE ESTEE LAUDER COMPANIES INC.

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

	Three M Sept
	2006
Net sales	100.0%
Cost of sales	26.9
Gross profit	73.1
Operating expenses:	
Selling, general and administrative	66.9

Operating income	6.2
Interest expense, net	0.4
Earnings before income taxes, minority interest and discontinued operations	5.8
Provision for income taxes	2.1
Minority interest, net of tax	(0.1)
Net earnings from continuing operations	3.6
Discontinued operations, net of tax	0.0
Net earnings	3.6%

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

First Quarter Fiscal 2007 as Compared with First Quarter Fiscal 2006

Net Sales

Net sales increased 6% or $96.4 million to $1,593.5 million due to growth in our hair care, skin care and make up product categories. The net increase reflects sales growth in all geographic regions. The Americas region and the skin care, makeup and fragrance categories were adversely impacted by fewer department store doors during the current year quarter as compared to the prior year quarter resulting from the merger of Federated Department Stores, Inc. and The May Department Stores Company. Excluding the impact of foreign currency translation, net sales increased 5%.

Product Categories

Skin Care
Net sales of skin care products increased 8% or $43.6 million to $567.0 million. Approximately $59 million in net sales came from recently launched products, such as Advanced Night Repair Concentrate Recovery Boosting Treatment, and the growth in net sales of certain existing products, such as Advanced Night Repair Eye Recovery Complex, Resilience Lift Extreme Ultra Firming products and Re-Nutriv Ultimate Lifting Serum from Estee Lauder, as well as products in the Clinique 3-Step System, Turnaround Concentrate Visible Skin Renewer, Turnaround 15-Minute Facial, and the Repairwear line of products by Clinique. These improvements were partially offset by approximately $25 million of lower sales from the Resilience Lift, Idealist and Perfectionist lines of products by Estee Lauder, as well as Total Turnaround Visible Skin Renewer by Clinique. Excluding the impact of foreign currency translation, skin care net sales increased 7%.

Makeup

Makeup net sales increased 7% or $41.9 million to $646.8 million reflecting growth from our makeup artist brands of approximately $47 million. This increase was supported by new product launches which included Plushglass lip gloss, as well as M.A.C Viva Glam VI lip products, the proceeds of which are donated to AIDS-related charities. The growth was partially offset by weaknesses in our core brands and, as discussed above, the impact in the United States of fewer doors due to retailer consolidation. Excluding the impact of foreign currency translation, makeup net sales increased 6%.

Fragrance

Net sales of fragrance products decreased 1% or $3.9 million to $289.3 million as we continue to be challenged in this product category, particularly in the United States. Lower net sales volumes of True Star Men by Tommy Hilfiger, which launched in the prior-year period, and Estee Lauder Beyond Paradise, True Star by Tommy Hilfiger, Lauder Beyond Paradise Men, DKNY Be Delicious as well as declines across various other fragrance franchises contributed to the decrease of approximately $47 million. Substantially offsetting these decreases were the recent launches of DKNY Red Delicious and DKNY Red Delicious Men, Pure White Linen from Estee Lauder, Unforgivable by Sean John and Youth Dew Amber Nude from Tom Ford for Estee Lauder, as well as the initial rollout of Donna Karan Gold of approximately $43 million. Excluding the impact of foreign currency translation, fragrance net sales decreased 3%.

Hair Care

Hair care net sales increased 17% or $12.0 million to $82.4 million, primarily due to growth from Bumble and bumble and Aveda products. Bumble and bumble net sales benefited from growth in our existing salon distribution and new points of distribution. Aveda net sales increases benefited from the recent launch of Color Conserve Strengthening Treatment, strong demand for color products and from the recent acquisition of a distributor. Excluding the impact of foreign currency translation, hair care net sales increased 16%.

Geographic Regions

Net sales in the Americas increased 2% or $19.5 million to $900.5 million. The increase was led by growth in the United States of approximately $44 million from our makeup artist and hair care brands, our internet distribution, and the recent launch of the Unforgivable fragrance by Sean John. Partially offsetting this growth was approximately $24 million related to weaknesses in certain of our core brands as a result of competitive pressures and retailer consolidation. We expect these factors to continue to affect sales, with the impact of retailer consolidations easing during the second half of fiscal 2007. The prior-year period results were weakened by severe weather conditions, as well as rising gas prices, which we believed adversely influenced consumer spending habits. Net sales growth in Canada, Latin America and Mexico contributed an additional $4 million to the increase.

In Europe, the Middle East & Africa, net sales increased 13% or $54.4 million to $471.9 million, reflecting growth throughout the region led by the United Kingdom, our travel retail business, Germany, Spain, Russia and Italy. In the prior-year period, net sales in certain markets were adversely impacted by temporary disruptions due to the transition to a new regional inventory center in Belgium. On a local currency basis, net sales in Europe, the Middle East & Africa increased 10%.

Net sales in Asia/Pacific increased 11% or $22.5 million to $221.1 million. This increase reflected higher net sales of approximately $19 million in Korea, China, Hong Kong and Australia. Korea and China benefited from increased points of distribution as well as continued success of the makeup artist brands which also contributed to the positive results in Hong Kong. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 11%.

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

Cost of Sales

Cost of sales as a percentage of total net sales decreased to 26.9% as compared with 28.0% in the prior period. Cost of sales as a percentage of net sales reflected a decrease in the level and timing of promotions of 50 basis points, a decrease in obsolescence charges of approximately 40 basis points, a favorable change in the mix of our business of approximately 30 basis points and the effect of exchange rates of 20 basis points. Partially offsetting these improvements by 40 basis points were unfavorable changes in manufacturing variances.

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

Operating Expenses

Operating expenses increased to 66.9% of net sales as compared with 65.0% of net sales in the prior period. The increase in operating expense margin reflected our planned shift from promotional spending, which is captured in our cost of sales, to advertising, merchandising and sampling. Higher levels of spending provided support to the national nameplate change at Macy's in the United States, new product launches and growing and developing brands. We also incurred higher charitable contributions associated with the increased sales of our M.A.C Viva Glam products. Collectively, these activities contributed approximately 90 basis points to the increase in our operating expense margin. An increase of approximately 50 basis points in selling expenses reflected higher demonstration, field selling and training costs in support of our business endeavors, as well as investments in new channel initiatives. Approximately 40 basis points of the increase related to the combination of a charge incurred in anticipation of the settlement of an employment matter, incremental spending related to our strategic modernization initiative and stock-based compensation.

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

Operating Results

Based on the growth of net sales, the decreases in our cost of sales and the increase in operating expense margins as previously discussed, operating income decreased 5%, or $5.2 million, to $99.9 million as compared with the prior period. Operating margins were 6.0% of net sales in the current period as compared with 7.0% in the prior period.

Product Categories
Fragrance operating results increased over 100%, or $6.1 million, reflecting our

ongoing effort to balance sales levels with continued spending in support of our fragrances at the point of sale. Operating results increased 11% or $4.1 million in skin care reflecting higher net sales, which outpaced the increase of our spending in this category. Makeup results declined 18%, or $10.6 million, reflecting challenges among certain core brands, the impact of retailer consolidation, the increased cost associated with the M.A.C Viva Glam campaigns and the charge incurred in anticipation of the settlement of an employment matter. Hair care operating income decreased 26%, or $1.4 million, primarily reflecting spending in support of new distribution points, product launches and expenses related to our strategic modernization initiative.

Geographic Regions

Operating income in the Americas decreased 9% or $7.3 million to $73.1 million. These results were impacted adversely by approximately $21 million, collectively, due to the reduced sales levels attributable to retailer consolidations coupled with our strategic investments to further build new and existing brands, as well as the charge incurred in anticipation of the settlement of an employment matter. Offsetting these declines was the combined positive effect of continued growth from our makeup artist brands and internet distribution as well as cost-control efforts from certain core brands of approximately $20 million. The prior-year period results were weakened by severe weather conditions, as well as rising gas prices, which we believed adversely influenced consumer spending habits.

In Europe, the Middle East & Africa, operating income decreased 18% or $4.1 million to $18.3 million primarily due to lower results in France, the United Kingdom, our distributor business and Switzerland of approximately $9 million, collectively. Improved results in Germany and Italy of approximately $6 million partially offset those decreases. Although sales increased throughout the region, particularly in the United Kingdom and from our travel retail business, the decreases in profitability reflected our continuing efforts to support our brands through advertising, merchandising and sampling as well as higher selling expenses.

In Asia/Pacific, operating income increased over 200% or $6.7 million to $9.0 million. Improved results in China coupled with positive results from Australia and Korea contributed approximately $7 million, collectively. Slightly offsetting the increase were lower contributions of approximately $1 million from Taiwan and Japan.

Interest Expense, Net

Net interest expense was $6.7 million as compared with $5.6 million in the prior period. The increase in net interest expense was primarily due to reduced interest income generated from lower cash balances partially offset by the capitalization of interest expenses on internally developed software in connection with the upgrade of our information systems.

Provision for Income Taxes

The provision for income taxes represents Federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from quarter to quarter based on non-recurring and recurring factors including, but not limited to, the geographical mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit settlements and the interaction of various global tax strategies. The effective rate for income taxes for the three months ended September 30, 2006 was 35.9% as compared with 36.0% in the prior period. The change in the effective income tax rate of 10 basis points primarily reflects the positive impact attributable to the tax effect of our foreign operations (40 basis points) partially offset by a decrease in tax credits (20 basis points).

Discontinued Operations

On September 30, 2005, we committed to a plan to sell and on April 10, 2006, we completed the sale of certain assets and operations of our reporting unit that marketed and sold Stila brand products. As such, $0.3 million of operating income and $3.3 million of operating loss, both net of tax, for the three months ended September 30, 2006 and 2005, respectively, are reflected as discontinued operations in the accompanying statements of earnings. The current year operating income resulted from us providing certain transitional distribution and online services as well as the manufacture and sale to the purchaser of a limited range of products. In addition, we provided transitional services related to certain information systems, accounting and other back office services to the purchaser in exchange for monthly service fees designed to recover the estimated costs of providing these transition services. Transitional services are expected to conclude in fiscal 2007.

Financial Condition

Liquidity and Capital Resources

Our principal sources of funds historically have been cash flows from operations and borrowings under commercial paper, 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, 2006, we had cash and cash equivalents of $180.7 million compared with $368.6 million at June 30, 2006.

At September 30, 2006, our outstanding borrowings of $643.0 million included: (i) $236.9 million of 6% Senior Notes due January 2012 consisting of $250.0 million principal, unamortized debt discount of $0.6 million and a $12.5 million adjustment to reflect the fair value of an outstanding interest rate swap; (ii) $197.4 million of 5.75% Senior Notes due October 2033 consisting of $200.0 million principal and unamortized debt discount of $2.6 million; (iii) $152.3 million of outstanding short-term commercial paper payable through November 2006 at an average interest rate of 5.26%; (iv) a 3.0 billion yen short-term borrowing under a revolving credit facility (approximately $25.5 million at the exchange rate at September 30, 2006); (v) $6.8 million of capital lease obligations and (vi) $24.1 million of other short-term and long-term borrowings.

We have a $750.0 million commercial paper program under which we may issue commercial paper in the United States. Our commercial paper is currently rated A-1 by Standard & Poor's and P-1 by Moody's. Our long-term credit ratings are A+ with a stable outlook by Standard & Poor's and A1 with a stable outlook by Moody's. At September 30, 2006, we had $152.3 million of commercial paper outstanding, which we may refinance on a periodic basis as it matures at then prevailing market interest rates. We also have an effective shelf registration statement covering the potential issuance of up to an additional $300.0 million in debt securities and $151.8 million in additional uncommitted credit facilities, of which $22.1 million was used as of September 30, 2006.

We have an unused $600.0 million senior revolving credit facility that expires on May 27, 2010. The facility may be used for general corporate purposes, including financing working capital, and also as credit support for our commercial paper program. Up to the equivalent of $250 million of the facility is available for multi-currency loans. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or 1/2% plus the Federal funds rate. The credit facility has an annual fee of $0.4 million, payable quarterly, based on our current credit ratings. As of September 30, 2006, we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens.

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, 2006, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

We have a 3.0 billion yen revolving credit facility that expires on March 24, 2009. The interest rate on borrowings under the credit facility is based on TIBOR (Tokyo Interbank Offered Rate) and a 10 basis point facility fee is incurred on the undrawn balance. The outstanding balance at September 30, 2006 ($25.5 million at the exchange rate at September 30, 2006) is classified as short-term debt on our consolidated balance sheet.

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 the revolving credit facility.

Total debt as a percent of total capitalization was 29% at September 30, 2006 and 24% at June 30, 2006.

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

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 and capital expenditures on both a near-term and long-term basis.

Cash Flows

Net cash used for operating activities from continuing operations was $70.1 million during the three months ended September 30, 2006 as compared with net cash used of $61.6 million in the prior period. The net cash flows used for operating activities held steady during the three-month period reflecting our efforts to balance our working capital components, specifically accounts receivable, accounts payable and other accrued liabilities.

Net cash used for investing activities was $124.3 million during the three months ended September 30, 2006 compared with $45.8 million in the prior period.

The increase in cash flows used for investing activities during the fiscal 2007 quarter primarily reflected the cash payment related to the acquisition of the remaining minority equity interest in the Bumble & bumble business, and to a lesser extent, Aveda distributor acquisitions. Capital expenditures also increased in the fiscal 2007 quarter primarily reflecting our continuing company-wide initiative to upgrade our information systems, which was initiated in fiscal 2005. For the fiscal 2006 quarter, the use of cash primarily reflected capital expenditures.

Net cash provided by financing activities was $6.7 million during the three months ended September 30, 2006 compared to net cash used for financing activities of $53.3 million in the prior period. This change from the prior period primarily reflected an increase in commercial paper borrowings, and to a lesser extent, a decrease in proceeds from the exercise of stock options and more cash used for share repurchases than in the same period a year ago.

Dividends

Total dividends declared for the three months ended September 30, 2005 represented dividends on the 2015 Preferred Stock of $0.4 million. These dividends were characterized as interest expense in the accompanying consolidated statements of earnings for the three months ended September 30, 2005. The 2015 Preferred Stock was redeemed in October 2005.

On October 25, 2006, the Board of Directors declared an annual dividend of $.50 per share on our Class A and Class B Common Stock. The dividend will be paid on December 27, 2006 to stockholders of record at the close of business on December 8, 2006.

Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 48.0 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, 2006, the cumulative total of acquired shares pursuant to the authorization was 41.6 million, reducing the remaining authorized share repurchase balance to 6.4 million. During the first three months of fiscal 2007, we purchased approximately 3.0 million shares for $110.5 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(1)	Ma S Ye Un
July 2006	-	-	-	
August 2006	1,655,000	$35.83	1,655,000	
September 2006	1,344,800	$38.11	1,344,800	
	2,999,800	$36.85	2,999,800	

(1) The publicly announced repurchase program was last increased by 20.0 million

shares on May 18, 2005. The initial program covering the repurchase of 8.0 million shares was announced in September 1998 and increased by 10.0 million shares on both May 11, 2004 and October 30, 2002. As of October 20, 2006, we puchased an additional 0.2 million shares for $8.0 million, bringing the cumulative total of acquired shares to 41.8 million.

Commitments and Contingencies

During the first quarter of fiscal 2007, we purchased the remaining minority equity interest in Bumble and Bumble Products, LLC and Bumble and Bumble, LLC.

Contractual Obligations

Since June 30, 2006, we made additional commitments pursuant to employment agreements of approximately $24 million, which are expected to be paid through fiscal 2010.

Pension Plan Funding

During the first quarter of fiscal 2007, the Pension Protection Act of 2006 was adopted into law in the United States. Certain provisions of this Act changed the calculation related to the maximum contribution amount deductible for income tax purposes. As a result of these provisions, we now expect to make discretionary contributions of $20.0 million to our trust-based noncontributory qualified defined benefit pension plan in fiscal 2007. We previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006, that we did not expect to make any contributions to this plan during fiscal 2007.

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, 2006.

Foreign Exchange Risk Management

We enter into forward exchange contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on our costs and on the cash flows that we receive from foreign subsidiaries. Almost all foreign currency contracts are denominated in currencies of major industrial countries and are with large financial institutions rated as strong investment grade by a major rating agency. We also enter into foreign currency options to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The forward exchange contracts and foreign currency options entered into to hedge anticipated transactions have been designated as cash-flow hedges. Hedge effectiveness of forward exchange contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology. The ineffective portion of both forward exchange and foreign currency option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in other comprehensive income are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses accumulated in other comprehensive income are reclassified to current-period earnings. As of June 30, 2006, these cash-flow hedges were highly effective, in all material respects.

As a matter of policy, we only enter into contracts with counterparties that have at least an "A" (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. We do not have significant exposure to any one counterparty. Our exposure to credit loss in the event of nonperformance by any of the counterparties is limited to only the recognized, but not realized, gains attributable to the contracts. Management believes risk of loss under these hedging contracts is remote and in any event would not be material to the consolidated financial results. The contracts have varying maturities through the end of June 2007. Costs associated with entering into such contracts have not been material to our consolidated financial results. We do not utilize derivative financial instruments for trading or speculative purposes. At September 30, 2006, we had foreign currency contracts in the form of forward exchange contracts and option contracts in the amount of $684.4 million and $52.9 million, respectively. The foreign currencies included in forward exchange contracts (notional value stated in U.S. dollars) are principally the Euro ($196.7 million), Swiss franc ($96.2 million), British pound ($78.0 million), Japanese yen ($55.3 million), Canadian dollar ($53.6 million), Australian dollar ($49.8 million) and South Korean won ($24.6 million). The foreign currencies included in the option contracts (notional value stated in U.S. dollars) are principally the Canadian dollar ($17.7 million), Euro ($15.9 million), Japanese yen ($10.4 million) and British pound ($8.9 million).

Interest Rate Risk Management

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

We have an interest rate swap agreement with a notional amount of $250.0 million to effectively convert fixed interest on the existing $250.0 million 6% Senior Notes to variable interest rates based on LIBOR. We designated the swap as a fair-value hedge. As of September 30, 2006, the fair-value hedge was highly effective, in all material respects.

Market Risk

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006, our average value-at-risk, calculated for the most recent twelve months, is $11.4 million related to our foreign exchange contracts. As of September 30, 2006, our average value-at-risk related to our interest rate contracts for the twelve month period for which these contracts were outstanding was $6.9 million. There have been no significant changes in market risk since June 30, 2006 that would have a material effect on our calculated value-at-risk exposure, as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2006, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, concentration of credit risk, inventory, pension and other postretirement benefit costs, goodwill and other intangible assets, income taxes, derivatives and stock-based compensation. Since June 30, 2006, there have been no significant changes to the assumptions and estimates related to those critical accounting policies.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157") to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 becomes effective for us in our fiscal year ending June 30, 2009. We are currently evaluating the impact of the provisions of SFAS No. 157 on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires employers to recognize a net liability or asset and an offsetting adjustment to accumulated other comprehensive income to report the funded status of defined benefit pension and other postretirement benefit plans. Previous standards required employers to disclose the complete funded status of its plans only in the notes to the financial statements. Additionally, SFAS No. 158 requires employers to measure plan assets and obligations at their year-end balance sheet date. We will adopt SFAS No. 158 prospectively, as of the end of the current fiscal year, as required.

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108") to provide guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Under SAB No. 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that existed in prior years existing in the current year's ending balance sheet. SAB No. 108 will become effective for us in our fiscal year ending June 30, 2007. We are currently evaluating the impact of the provisions of SAB No. 108 on our consolidated financial statements.

THE ESTEE 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" 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 and future operations or operating results. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations. Factors that could cause actual results to differ from expectations include, without limitation:

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

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

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

(4) destocking by retailers;

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

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

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

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

(9) foreign currency fluctuations affecting our results of operations and

the value of our foreign assets, the relative prices at which we and our foreign competitors sell products in the same markets and our operating and manufacturing costs outside of the United States;

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

(11) shipment delays, depletion of inventory and increased production costs resulting from disruptions of operations at any of the facilities that manufacture nearly all of our supply of a particular type of product (i.e., focus factories) or at our distribution or inventory centers;

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

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

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

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

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

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

(18) additional factors as described in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended June 30, 2006.

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. 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, 2006 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

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 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

On March 30, 2005, the United States District Court for the Northern District of California entered into a Final Judgment approving the settlement agreement we entered into in July 2003 with the plaintiffs, the other Manufacturer Defendants (as defined below) and the Department Store Defendants (as defined below) in a consolidated class action lawsuit that had been pending in the Superior Court of the State of California in Marin County since 1998. On April 29, 2005, notices of appeal were filed by representatives of two members of the purported class of consumers. One of those appeals has since been withdrawn. If the appeal is resolved satisfactorily, the Final Judgment will result in the plaintiffs' claims being dismissed, with prejudice, in their entirety in both the Federal and California actions. There has been no finding or admission of any wrongdoing by us in this lawsuit. We entered into the settlement agreement solely to avoid protracted and costly litigation. In connection with the settlement agreement, the defendants, including the Company, will provide consumers with certain free products and pay the plaintiffs' attorneys' fees. To meet its obligations under the settlement, we took a special pre-tax charge of $22.0 million, or $13.5 million after-tax, equal to $.06 per diluted common share in the fourth quarter of fiscal 2003. At September 30, 2006, the remaining accrual balance was $16.3 million. The charge did not have a material adverse effect on our consolidated financial condition. In the Federal action, the plaintiffs, purporting to represent a class of all U.S. residents who purchased prestige cosmetics products at retail for personal use from eight department stores groups that sold such products in the United States (the "Department Store Defendants"), alleged that the Department Store Defendants, the Company and eight other manufacturers of cosmetics (the "Manufacturer Defendants") conspired to fix and maintain retail prices and to limit the supply of prestige cosmetics products sold by the Department Store Defendants in violation of state and Federal laws. The plaintiffs sought, among other things, treble damages, equitable relief, attorneys' fees, interest and costs.

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

PART II. OTHER INFORMATION

On March 30, 2006, a purported securities class action complaint captioned Thomas S. Shin, et al. v. The Estee Lauder Companies Inc., et al., was filed against the Company and certain of our officers and directors (collectively the "Defendants") in the United States District Court for the Southern District of New York. The complaint alleged that the Defendants made statements during the period April 28, 2005 to October 25, 2005 in press releases, the Company's public filings and during conference calls with analysts that were materially false and misleading and that artificially inflated the price of the Company's stock. The complaint alleged claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. The complaint also asserted that during the class period, certain executive officers and the trust for the benefit of a director sold shares of our Class A Common Stock at artificially inflated prices. Three additional purported securities class action complaints were subsequently filed in the United States District Court for the Southern District of New York containing similar allegations. On July 10, 2006, the Court consolidated these actions under the caption In re: Estee Lauder Companies Securities Litigation, appointed lead plaintiff, and approved the selection of lead counsel. A consolidated amended complaint addressing the same issues as the original complaint was filed on September 8, 2006. The Defendants plan to file a motion to dismiss the amended complaint on or before November 7, 2006. The Defendants believe that the claims asserted in the consolidated amended complaint are without merit and they intend to defend the consolidated action vigorously.

On April 10, 2006, a shareholder derivative action complaint captioned Miriam Loveman v. Leonard A. Lauder, et al., was filed against certain of our officers and all of our directors as of that date (collectively the "Derivative Action Defendants") in the United States District Court for the Southern District of New York. The complaint alleges that the Derivative Action Defendants breached their fiduciary duties to the Company based on the same alleged course of conduct identified in the complaint described above. On May 4, 2006, the derivative action was reassigned to the judge assigned to the consolidated securities action. On September 1, 2006, the Derivative Action Defendants filed a motion to dismiss and are awaiting a response by the plaintiff. The defendants believe that this complaint is without merit and intend to defend the action vigorously.

THE ESTEE LAUDER COMPANIES INC.

PART II. OTHER INFORMATION

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, 2006, the holders set forth in the table converted shares of Class B Common Stock into Class A Common Stock on the dates set forth in the table below:

Stockholder That Converted Class B Common Stock to Class A Common Stock	Date of Conversion	Number of Shares Converted/ Received
Ronald S. Lauder	September 29, 2006	500,000

Share Repurchase Program

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

Item 6. Exhibits.

Exhibit Number	Description
10.1	Form of Performance Share Unit Award Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan (including Form of Notice of Grant) (attached as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 25, 2006). *+
10.2	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Executive Officers (including Form of Notice of Grant) (attached as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 25, 2006). *+
10.3	Form of Restricted Stock Unit Agreement under The Estee Lauder Companies Inc. Amended and Restated Fiscal 2002 Share Incentive Plan for Employees other than Executive Officers (including Form of Notice of Grant) (attached as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on September 25, 2006). *+
10.4	Employment Agreement with Richard W. Kunes. +
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)

* Incorporated herein by reference.
\+ 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 ESTEE LAUDER COMPANIES INC.

Date: October 25, 2006

By: /s/Richard W. Kunes

Richard W. Kunes
Executive Vice President
and Chief Financial Officer
(Principal Financial and
Accounting Officer)

THE ESTEE LAUDER COMPANIES INC.

INDEX TO EXHIBITS

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