

NBT BANCORP INC
Form S-3ASR
April 30, 2018
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As filed with the Securities and Exchange Commission on April 30, 2018

Registration No. 333-

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NBT BANCORP INC.
(Exact name of registrant as specified in its charter)

Delaware	16-1268674
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

52 South Broad Street
Norwich, New York 13815
Telephone: (607) 337-2265
(Address, including zip code, and telephone number, including area code, of registrants' principal executive offices)

John H. Watt, Jr.
President & Chief Executive Officer
52 South Broad Street
Norwich, New York 13815
Telephone: (607) 337-2265
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Richard A. Schaberg, Esq.
Gregory F. Parisi, Esq.
Hogan Lovells US LLP

**555 Thirteenth Street, N.W.
Washington, D.C. 20004-1109
(202) 637-5600**

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered⁽¹⁾	Amount to be Registered⁽²⁾	Proposed Maximum Offering Price Per Security⁽²⁾	Proposed Maximum Aggregate Offering Price⁽²⁾	Amount of Registration Fee⁽³⁾
NBT Bancorp Inc.:				

Common
Stock, par
value \$0.01 per
share
Preferred
Stock, par
value \$0.01 per
share
Depositary
Shares
Debt
Securities⁽⁴⁾
Purchase
Contracts
Units
Warrants
exercisable for
debt securities,
common stock
or preferred
stock

- (1) The securities covered by this registration statement may be sold or otherwise distributed separately, together or as units with other securities covered by this registration statement.
- (2) An indeterminate amount of securities are being registered as may from time to time be sold at indeterminate prices by NBT Bancorp Inc. or by one or more selling stockholders to be identified in the future.
In accordance with Rules 456(b) and 457(r) under the Securities Act, NBT Bancorp Inc. hereby defers payment of
- (3) the registration fee required in connection with this registration statement. In connection with the securities offered hereby, NBT Bancorp Inc. will pay pay-as-you-go registration fees in accordance with Rule 456(b).
- (4) This registration statement covers senior and subordinated debt securities of NBT Bancorp Inc.

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PROSPECTUS

NBT BANCORP INC.

Common Stock
Preferred Stock
Depositary Shares
Debt Securities
Purchase Contracts
Units and Warrants

NBT Bancorp, Inc. or one or more selling securityholders may offer the securities listed above from time to time in one or more offerings.

When we or any selling securityholders offers securities, you will be provided a prospectus supplement describing the specific terms of the securities, including the price.

We or any selling securityholders may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

Investing in our securities involves risks. See Risk Factors in our most recent annual report on Form 10-K, which is incorporated herein by reference, and in any of our subsequently filed quarterly and current reports that are incorporated herein by reference and any applicable prospectus supplement.

You should read this prospectus and any prospectus supplement carefully before you decide to invest. This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement that further describes the securities being delivered to you.

NBT Bancorp Inc. s common stock is listed for trading on the NASDAQ Global Select Market under the symbol NBTB. We have not yet determined whether any of the other securities that may be offered by this prospectus will be listed on any exchange, or included in any inter-dealer quotation system or over-the-counter market. If we decide to seek the listing or inclusion of any such securities upon issuance, the prospectus supplement relating to those securities will disclose the exchange, quotation system or market on or in which the securities will be listed or included.

The offered securities are not deposits or obligations of a bank or savings associations and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other governmental agency.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 30, 2018.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus or any accompanying prospectus supplement. You must not rely on any unauthorized information or representations. This prospectus and any prospectus supplement together are an offer to sell only the securities offered hereby and thereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained herein and in any accompanying prospectus supplement is current only as of its date.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the SEC) using a shelf registration process. Under this shelf registration statement, we may sell, either separately or together, common stock, preferred stock, debt securities, depository shares, purchase contracts, units and warrants.

Each time we or a selling securityholder sells securities, we or they will provide a prospectus supplement containing specific information about the terms of the securities being offered. The prospectus supplement may include a discussion of any risk factors or other special considerations that apply to those securities. The prospectus supplement may also add, update or change the information in this prospectus. If there is any inconsistency between the information in this prospectus (including the information incorporated by reference herein) and any prospectus supplement, you should rely on the information in the applicable prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information.

We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus, or any supplement to this prospectus, is accurate at any date other than the date indicated on the cover page of these documents.

References in this prospectus to NBT Bancorp, the Corporation, we, us and our are to NBT Bancorp Inc. In this prospectus, we sometimes refer to the debt securities, common stock, preferred stock, depository shares, purchase contracts, units, and warrants collectively as offered securities.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Because our common stock trades on the NASDAQ Global Select Market under the symbol NBTB, those materials can also be inspected and copied at the offices of that organization. Here are ways you can review and obtain copies of this information:

What is Available

Paper copies of information

Where to Get it

SEC's Public Reference Room
100 F Street, N.E.
Washington, D.C. 20549

On-line information, free of charge

SEC's website at www.sec.gov

Information about the SEC's Public Reference Room Call the SEC at 1-800-SEC-0330

We have filed with the SEC a registration statement on Form S-3 under the Securities Act of 1933, as amended (the Securities Act), relating to the securities covered by this prospectus. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and the securities. This prospectus does not contain all of the information set forth in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, the reference is only a summary and you should refer to the exhibits that form a part of the registration statement for a copy of the contract or other document. You can get a copy of the registration statement, at prescribed rates, from the sources listed above. The registration statement and the documents referred to below under Incorporation of Certain Documents by Reference are also available on our website, www.nbtbancorp.com. **Other than any documents expressly incorporated by reference herein, the information contained on our website does not constitute a part of this prospectus.** You can also obtain these documents from us, without charge (other than exhibits, unless the exhibits are specifically incorporated by reference), by requesting them in writing or by telephone at the following address:

NBT Bancorp Inc.
52 South Broad Street
Norwich, New York 13815
(607) 337-2265
Attn: Corporate Secretary
Website: www.nbtbancorp.com

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this prospectus, except for any information that is superseded by other information that is included in or incorporated by reference into this document.

This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC. These documents contain important information about us:

- our Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 1, 2018 (including information incorporated by reference in the Form 10-K from our definitive proxy statement for the 2018 annual meeting of stockholders, which was filed on April 6, 2018);
- our Current Report on Form 8-K filed with the SEC on April 5, 2018 (except for portions of such report which were deemed to be furnished and not filed); and
- the description of our common stock contained in our Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating such description.

We incorporate by reference any additional documents that we may file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (other than those furnished pursuant to Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC), from the date of the registration statement of which this prospectus is part until the termination of the offering of the securities. These documents may include annual, quarterly and current reports, as well as proxy statements. Any material that we later file with the SEC will automatically update and replace the information previously filed with the SEC. These documents are available to you without charge. See [Where You Can Find More Information](#).

For purposes of this registration statement, any statement contained in a document incorporated or deemed to be incorporated herein by reference shall be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated herein by reference modifies or supersedes such statement in such document.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information included or incorporated by reference in it include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of phrases such as anticipate, believe, expect, forecasts, projects, will, can, would, may, or other similar terms. There are a number of factors, many of which are beyond the Company's control that could cause actual results to differ materially from those contemplated by the forward-looking statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities:

- local, regional, national and international economic conditions and the impact they may have on us and our customers and our assessment of that impact;
- changes in the level of non-performing assets and charge-offs;
- changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;
- the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- inflation, interest rate, securities market and monetary fluctuations;
- political instability;
- acts of war or terrorism;
- the timely development and acceptance of new products and services and perceived overall value of these products and services by users;
- changes in consumer spending, borrowings and savings habits;
- changes in the financial performance and/or condition of our borrowers;
- technological changes;
- acquisitions and integration of acquired businesses;
- the ability to increase market share and control expenses;
- changes in the competitive environment among financial holding companies;
- the effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which we and our subsidiaries must comply including those under the Dodd-Frank Act;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters;
- changes in our organization, compensation and benefit plans;
- the costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews;
- greater than expected costs or difficulties related to the integration of new products and lines of business; and
- our success at managing the risks involved in the foregoing items.

Some of these and other factors are discussed in our annual and quarterly reports previously filed with the SEC. These factors could have an adverse impact on our financial position and our results of operations.

The forward-looking statements are based upon management's beliefs and assumptions and are made as of the date of this prospectus. You should not place undue reliance on any forward-looking statements, which speak only as of the date made, and various factors including, but not limited to, those described above, could affect our financial performance and could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected.

Unless required by law, we do not undertake, and we specifically disclaim any obligations to, publicly release any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated

events or circumstances after the date of such statements.

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ABOUT NBT BANCORP INC.

We are a bank holding company registered with the Board of Governors of the Federal Reserve System (the Federal Reserve) and have been registered with the Federal Reserve as a financial holding company since June 22, 2000. We are the parent holding company of NBT Bank, N.A. (NBT Bank), NBT Financial Services, Inc., NBT Holdings, Inc. (which operates NBT Insurance Agency, LLC), Hathaway Agency, Inc., and CNBF Capital Trust I, NBT Statutory Trust I, NBT Statutory Trust I , Alliance Financial Capital Trust I and Alliance Financial Capital Trust II. Our principal sources of revenue are the management fees and dividends it receives from the Bank, NBT Financial and NBT Holdings. At March 31, 2018, we had \$9.2 billion in assets and \$953.9 million of stockholders' equity. Our common stock is traded on the NASDAQ Global Select Market under the symbol NBTB.

Our business, primarily conducted through NBT Bank but also through its other subsidiaries, consists of providing commercial banking, retail banking and wealth management services primarily to customers in its market area, which includes central and upstate New York, northeastern Pennsylvania, southern New Hampshire, western Massachusetts, Vermont and the southern coastal Maine area. We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services. Our business philosophy is to operate as a community bank with local decision-making, providing a broad array of banking and financial services to retail, commercial and municipal customers.

Our principal executive offices are located at 52 South Broad Street, Norwich, New York 13815. Our telephone number is (607) 337-2265. Our website is www.nbtbancorp.com. References to our website and those of our subsidiaries are not intended to be active links and the information on such websites is not, and you must not consider the information to be, a part of this prospectus.

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RISK FACTORS

We have included discussions of cautionary factors describing risks relating to our business and an investment in our securities in our Annual Report on Form 10-K for the year ended December 31, 2017, as well as the risks, uncertainties and additional information set forth in the other documents incorporated by reference in this prospectus. For a description of these reports and documents, and information about where you can find them, see [Where You Can Find More Information](#) and [Incorporation of Certain Documents By Reference](#). Additional risks related to our securities may also be described in a prospectus supplement. Before purchasing our securities, you should carefully consider the risk factors we describe in any prospectus supplement or in any report incorporated by reference into this prospectus or such prospectus supplement. Although we discuss key risks in those risk factor descriptions, additional risks not currently known to us or that we currently deem immaterial also may impair our business. Our subsequent filings with the SEC may contain amended and updated discussions of significant risks. We cannot predict future risks or estimate the extent to which they may affect our financial performance.

TABLE OF CONTENTS**RATIOS OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

Our historical ratios of earnings to fixed charges for the periods indicated are set forth in the table below. As of March 31, 2018, we had no shares of preferred stock outstanding and no shares of preferred stock have been issued within the past five years. Therefore, the ratio of earnings to fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

The ratio of earnings to fixed charges is computed by dividing (1) income from continuing operations before income taxes and fixed charges by (2) total fixed charges. For purposes of computing these ratios:

• earnings consist of income before income taxes plus fixed charges;

• fixed charges, excluding interest on deposits, include interest expense (other than on deposits) and the estimated portion of rental expense attributable to interest, net of income from subleases; and

• fixed charges, including interest on deposits, include all interest expense and the estimated portion of rental expense attributable to interest, net of income from subleases.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Ratio of Earnings to Fixed Charges					
Including interest on deposits	5.95	6.28	6.66	5.84	3.94
Excluding interest on deposits	12.20	15.59	19.34	12.74	7.27

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USE OF PROCEEDS

Unless otherwise specified in the applicable prospectus supplement, we expect to use the net proceeds from the sale of offered securities for general corporate purposes, including:

- refinancing, reduction or repayment of debt;
- redeeming outstanding securities;
- funding investments in, or extensions of credit to, our banking subsidiary and our other subsidiaries as regulatory capital;
- financing of possible acquisitions;
- expansion of the business;
- investments at the holding company level; and
- working capital.

The prospectus supplement with respect to an offering of offered securities may identify different or additional uses for the proceeds of that offering.

Except as otherwise stated in an applicable prospectus supplement, pending the application of the net proceeds, we expect to temporarily invest the proceeds from the sale of offered securities in short-term obligations.

We will not receive proceeds from sales of securities by selling security holders except as otherwise stated in an applicable prospectus supplement.

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THE SECURITIES WE MAY OFFER

The descriptions of the securities contained in this prospectus, together with the applicable prospectus supplements, summarize certain material terms and provisions of the various types of securities that we or selling securityholders may offer. The particular material terms of the securities offered by a prospectus supplement will be described in that prospectus supplement. If indicated in the applicable prospectus supplement, the terms of the offered securities may differ from the terms summarized below. The prospectus supplement will also contain information, where applicable, about material U.S. federal income tax considerations relating to the offered securities, and the securities exchange, if any, on which the offered securities will be listed. The descriptions herein and in the applicable prospectus supplement do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the actual documents whose terms are summarized herein and in the applicable prospectus supplement, because those documents, and not the summaries, define your rights as holders of the relevant securities. For more information, please review the forms of these documents, which are or will be filed with the SEC and will be available as described under the heading "Where You Can Find More Information" above.

We or selling securityholders may offer and sell from time to time, in one or more offerings, the following:

- common stock;
- preferred stock;
- depositary shares;
- debt securities;
- purchase contracts;
- units; and/or
- warrants exercisable for debt securities, common stock or preferred stock.

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DESCRIPTION OF COMMON STOCK

The following description is a general summary of the terms of our common stock. The description below does not purport to be complete and is subject to and qualified in its entirety by reference to our Restated Certificate of Incorporation, as amended, and Amended and Restated By-laws, referred to herein as our certificate of incorporation and bylaws, respectively. The description herein does not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of our certificate of incorporation and bylaws because they, and not the summaries, define the rights of holders of shares of our common stock. You can obtain copies of our certificate of incorporation and bylaws by following the directions under the heading **Where You Can Find More Information**.

General

Our certificate of incorporation provides the authority to issue 100,000,000 shares of common stock, par value \$0.01 per share. At March 31, 2018, there were 43,615,653 shares of common stock issued and outstanding and we had outstanding stock options and restricted stock units granted to directors, officers and other employees for 617,030 shares of our common stock.

Each share of our common stock has the same relative rights and is identical in all respects to each other share of our common stock. Our common stock is non-withdrawable capital, is not of an insurable type and is not insured by the Federal Deposit Insurance Corporation or any other governmental entity.

Voting Rights

Holders of our common stock are entitled to one vote per share on each matter properly submitted to stockholders for their vote, including the election of directors. Holders of our common stock do not have the right to cumulate their votes for the election of directors, which means that the holders of more than 50% of the shares of common stock voting for the election of directors can elect 100% of the directors standing for election at any meeting if they choose to do so. In that event, the holders of the remaining shares voting for the election of directors will not be able to elect any person or persons to our board of directors at that meeting.

Liquidation Rights

The holders of our common stock and the holders of any class or series of stock entitled to participate with the holders of our common stock as to the distribution of assets in the event of any liquidation, dissolution or winding-up of NBT Bancorp, whether voluntary or involuntary, will become entitled to participate equally in the distribution of any of our assets remaining after we have paid, or provided for the payment of, all of our debts and liabilities and after we have paid, or set aside for payment, to the holders of any class of stock having preference over the common stock in the event of liquidation, dissolution or winding-up, the full preferential amounts, if any, to which they are entitled.

Dividends

The holders of our common stock and any class or series of stock entitled to participate with the holders of our common stock are entitled to receive dividends declared by our board of directors out of any assets legally available for distribution. The board of directors may not declare, and we may not pay, dividends or other distributions, unless we have paid or the board has declared or set aside all accumulated dividends and any sinking fund, retirement fund or other retirement payments on any class of stock having preference as to payments of dividends over our common stock. As a holding company, our ability to pay distributions is affected by the ability of our subsidiaries to pay dividends. The ability of our bank subsidiary, and our ability, to pay dividends in the future is, and could in the future

be further, influenced by bank regulatory requirements and capital guidelines.

Miscellaneous

The holders of our common stock have no preemptive or conversion rights for any shares that may be issued. Our common stock is not subject to additional calls or assessments, and all shares of our common stock currently outstanding are fully paid and nonassessable. All shares of common stock offered pursuant to a prospectus supplement, or issuable upon conversion, exchange or exercise of any preferred stock or other convertible securities, will, when issued, be fully paid and non-assessable, which means that the full purchase price of the shares will have been paid and the holders of the shares will not be assessed any additional monies for the shares.

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Delaware Law and Certain Certificate of Incorporation and Bylaw Provisions

We are subject to the provision of Section 203 of the Delaware General Corporation Law. Section 203 restricts transactions which may be entered into by a corporation and some of its stockholders. Section 203 provides, in essence, that a stockholder acquiring more than 15% of the outstanding voting stock of a corporation subject to the statute and that person's affiliates and associates, referred to in this section as an interested stockholder, but less than 85% of its shares may not engage in specified business combinations with the corporation for a period of three years after the date on which the stockholder became an interested stockholder unless before that date the corporation's board of directors approved either the business combination or the transaction in which the stockholder became an interested stockholder or at or after that time the business combination is approved by the corporation's board of directors and authorized at an annual or special meeting of stockholders by an affirmative vote of at least 66 2/3% of the outstanding voting stock of the corporation not owned by the interested stockholder. Section 203 defines the term business combination to include a wide variety of transactions with or caused by an interested stockholder, including mergers, consolidations, specified types of asset sales, specified issuances of additional shares to the interested stockholder, transactions with the corporation which increase the proportionate interest of the interested stockholder or transaction in which the interested stockholder receives specified other benefits.

Our certificate of incorporation and bylaws provide that:

directors shall be elected annually by a majority of votes cast, unless the election is contested, in which case directors shall be elected by a plurality of the votes cast. An election shall be contested if, as determined by the board of directors, the number of nominees exceeds the number of directors to be elected;

any director may be removed with or without cause, by the affirmative vote of the holders of a majority of the shares then entitled to vote at an election of directors;

a vacancy on the board of directors may be filled by stockholders at a stockholder's meeting. In addition, directors may fill vacancies by a majority vote of the directors then in office. The director chosen by the current directors to fill the vacancy will hold office until the next election of directors, at which time the stockholders shall fill the vacancy for the remainder of the unexpired term. Directors may also fill newly created directorships other than an increase by more than three in the number of directors.

Our bylaws also provide that:

any action required or permitted to be taken by the stockholders at an annual meeting or special meeting of stockholders may only be taken if it is properly brought before such meeting; and

special meetings of the stockholders may be called by our board of directors or the chairman of the board of directors, or if there is none, by the President, or by the holders of at least 50% of all shares entitled to vote at the meeting.

Our bylaws provide that, in order for any stockholder business (other than stockholder nominations of directors) to be considered properly brought before a meeting, a stockholder must comply with requirements regarding advance notice to us. For business to be properly brought before a meeting by a stockholder, it must be a proper matter for stockholder action under the Delaware General Corporation Law, the stockholder must have given timely notice thereof in writing to our President, and the notice must comply with the procedures set forth in our bylaws. Except for stockholder proposals submitted in accordance with the federal proxy rules as to which the requirements specified therein shall control, a stockholder's notice, to be timely, must be delivered to or mailed and received at our principal executive offices at least 120 days prior to the anniversary date of the immediately preceding annual meeting of stockholder; provided, however, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, a stockholder's notice will be timely if delivered not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the date on which public announcement of the date of such meeting is first made by us.

Our bylaws also provide that subject to the rights of holders of any class or series of capital stock then outstanding, nominations for the election or re-election of directors at a meeting of the stockholders may be made by any stockholder entitled to vote in the election of directors generally who complies with the procedures set forth in our bylaws and who is a stockholder of record at the time notice is delivered to our President. Any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election or re-election as directors at a meeting called for such purpose only if timely notice of such stockholder's intent to make such nomination or

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nominations has been given in writing to our President. To be timely, nominations must be delivered at least 150 days prior to the one-year anniversary date of the prior-year's annual meeting of stockholders in the case of an annual meeting and at least 60 days prior to the meeting in the case of a special meeting, except that if a public announcement of a special meeting is not made at least 70 days prior to the meeting date, the nominations will be timely if received within 10 days following such announcement.

The purpose of requiring stockholders to give us advance notice of nominations and other stockholder business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of the other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders. These provisions could also delay stockholder actions which are favored by the holders of a majority of our outstanding voting securities until the next stockholders' meeting.

Our bylaws provide that a majority of our board of directors, or stockholders holding a majority of the outstanding shares entitled to vote, may make, amend or repeal the bylaws. The required vote of stockholders to amend the provisions of the bylaws related to the term of directors is 66-2/3% of the total number of issued and outstanding shares of stock entitled to vote. Our bylaws permit the stockholders to adopt, approve or designate bylaws that may not be amended, altered or repealed except by a specified percentage in interest of all stockholders or of a particular class of stockholders. Amendments to our certificate of incorporation generally require the approval of the board of directors and the approval of holders of a majority of the outstanding stock entitled to vote upon the amendment. Any amendment to those provisions of the certificate of incorporation that relate to business combinations involving NBT Bancorp or a subsidiary and a major stockholder or affiliate require the affirmative vote of at least 80% of the outstanding shares of voting stock, and if there is a major stockholder, such 80% vote must include the affirmative vote of at least 80% of the outstanding shares of voting stock held by stockholders other than the major stockholder and its affiliates.

NASDAQ Listing

Our common stock is listed on the NASDAQ Global Select Market under the symbol NBTB.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC.

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DESCRIPTION OF PREFERRED STOCK

The following description is a general summary of the terms of the preferred stock which we may issue. The description below and in any prospectus supplement does not purport to be complete and is subject to and qualified in its entirety by reference to our certificate of incorporation, and the applicable certificate of designation to our certificate of incorporation, determining the terms of the related series of preferred stock and our bylaws, each of which we will make available upon request. The descriptions herein and in the applicable prospectus supplement do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of our certificate of incorporation, the applicable certificate of designation and our bylaws because they, and not the summaries, define your rights as holders of shares of our common stock.

General

We are authorized to issue 2,500,000 shares of preferred stock, par value \$0.01 per share. As of March 31, 2018, no shares of preferred stock were issued and outstanding. Our certificate of incorporation, subject to limitations prescribed in our certificate of incorporation and subject to limitations prescribed by Delaware law, authorizes the board of directors, from time to time by resolution or duly authorizing committee of the board and without further stockholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the relative rights and preferences of the shares, including voting powers, dividend rights, liquidation preferences, redemption rights and conversion privileges. As a result of its broad discretion with respect to the creation and issuance of preferred stock without stockholder approval, the board of directors could adversely affect the voting power of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of NBT Bancorp.

Terms of the Preferred Stock That We May Offer and Sell to You

You should refer to the prospectus supplement relating to the class or series of preferred stock being offered for the specific terms of that class or series, including:

- the title and stated value of the preferred stock being offered;
- the number of shares of preferred stock being offered, their liquidation preference per share and their purchase price;
- the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculating the payment date(s) applicable to the preferred stock being offered;
- whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends on the preferred stock being offered will accumulate;
- the procedures for any auction and remarketing, if any, for the preferred stock being offered;
- the provisions for a sinking fund, if any, for the preferred stock being offered;
- the provisions for redemption, if applicable, of the preferred stock being offered;
- any listing of the preferred stock being offered on any securities exchange or market;
- the terms and conditions, if applicable, upon which the preferred stock being offered will be convertible into or exchangeable for other securities or rights, or a combination of the foregoing, including the name of the issuer of the securities or rights, conversion or exchange price, or the manner of calculating the conversion or exchange price, and the conversion or exchange date(s) or period(s) and whether we will have the option to convert such preferred stock into cash;
- voting rights, if any, of the preferred stock being offered;
- whether interests in the preferred stock being offered will be represented by depositary shares and, if so, the terms of those shares;
- a discussion of any material and/or special United States federal income tax considerations applicable to the preferred stock being offered;

the relative ranking and preferences of the preferred stock being offered as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of NBT Bancorp;

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any limitations on the issuance of any class or series of preferred stock ranking senior to or equally with the series of preferred stock being offered as to dividend rights and rights upon liquidation, dissolution or winding up of the affairs of NBT Bancorp; and

any other specific terms, preferences, rights, limitations or restrictions of the preferred stock being offered.

Ranking

Unless otherwise specified in the applicable prospectus supplement, the preferred stock will, with respect to distribution rights and rights upon liquidation, dissolution or winding up of NBT Bancorp, rank:

senior to all classes or series of our common stock and to all equity securities the terms of which specifically provide that the equity securities rank junior to the preferred stock being offered;

equally with all equity securities issued by us other than those referred to in the first and last bullet points of this subheading; and

junior to all equity securities issued by us the terms of which specifically provide that the equity securities rank senior to the preferred stock being offered.

For purposes of this subheading, the term equity securities does not include convertible debt securities.

Distributions

Holders of the preferred stock of each series will be entitled to receive, when, as and if declared by our board of directors, out of our assets legally available for payment to stockholders, cash distributions, or distributions in kind or in other property if expressly permitted and described in the applicable prospectus supplement, at the rates and on the dates as we will set forth in the applicable prospectus supplement. We will pay each distribution to holders of record as they appear on our stock transfer books on the record dates determined by our board of directors.

Distributions on any class or series of preferred stock, if cumulative, will be cumulative from and after the date set forth in the applicable prospectus supplement. If our board of directors fails to declare a distribution payable on a distribution payment date on any class or series of preferred stock for which distributions are non-cumulative, then the holders of that class or series of preferred stock will have no right to receive a distribution in respect of the distribution period ending on that distribution payment date, and we will have no obligation to pay the distribution accumulated for that period, whether or not distributions on that series are declared payable on any future distribution payment date.

If any shares of the preferred stock of any class or series are outstanding, no full dividends will be declared or paid or set apart for payment on our preferred stock of any other class or series ranking, as to dividends, equally with or junior to the preferred stock of the class or series for any period unless all required dividends are paid. The phrase all required dividends are paid when used in this prospectus with respect to class or series of preferred stock means that:

if the class or series of preferred stock has a cumulative dividend, full cumulative dividends on the preferred stock of the class or series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment is set apart for payment for all past dividend periods and the then current dividend period, or

if the class or series of preferred stock does not have a cumulative dividend, full dividends on the preferred stock of the class or series have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment is set apart for the payment for the then current dividend period.

When dividends are not paid in full, or a sum sufficient for the full payment is not so set apart, upon the shares of preferred stock of any class or series and the shares of any other class or series of preferred stock ranking equally as to dividends with the preferred stock of the class or series, all dividends declared upon shares of preferred stock of the class or series and any other class or series of preferred stock ranking equally as to dividends with the preferred stock will be declared equally so that the amount of dividends declared per share on the preferred stock of the class or series

and the other class or series of preferred stock will in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of preferred stock of the class or series, which will not include any

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accumulation in respect of unpaid dividends for prior dividend periods if the preferred stock does not have cumulative dividend, and the other class or series of preferred stock bear to each other. No interest, sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on preferred stock of the class or series which may be in arrears.

Except as provided in the immediately preceding paragraph, unless all required dividends are paid, no dividends, other than in common stock or other stock ranking junior to the preferred stock of the class or series as to dividends and upon liquidation, dissolution or winding-up of NBT Bancorp, will be declared or paid or set aside for payment or other distribution will be declared or made upon the common stock or any of our other stock ranking junior or equally with the preferred stock of the class or series as to dividends or upon liquidation, nor will any common stock or any of our other capital stock ranking junior to or equally with preferred stock of the class or series as to dividends or upon liquidation, dissolution or winding-up of NBT Bancorp be redeemed, purchased or otherwise acquired for any consideration, or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any stock, by us except by conversion into or exchange for our other stock ranking junior to the preferred stock of the class or series as to dividends and upon liquidation, dissolution or winding-up of NBT Bancorp.

Any dividend payment made on shares of a class or series of preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to shares of the class or series which remains payable.

Redemption

If so provided in the applicable prospectus supplement, the preferred stock will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in the prospectus supplement.

The prospectus supplement relating to a class series of preferred stock that is subject to mandatory redemption will specify the number of shares of the preferred stock that will be redeemed by us in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accumulated and unpaid dividends thereon, which will not, if the preferred stock does not have a cumulative dividend, include an accumulation in respect of unpaid dividends for prior dividends periods, to the date of redemption. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement. If the redemption price for preferred stock of any series is payable only from the net proceeds of the issuance of our stock, the terms of the preferred stock may provide that, if no stock will have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, the preferred stock will automatically and mandatorily be converted into shares of our applicable stock pursuant to conversion provisions specified in the applicable prospectus supplement.

Notwithstanding the foregoing, unless provided otherwise for any class or series of preferred stock, unless all required dividends are paid:

• no shares of the applicable class or series of preferred stock will be redeemed unless all outstanding shares of preferred stock of the class or series are simultaneously redeemed, and we will not purchase or otherwise acquire directly or indirectly any shares of the applicable class or series of preferred stock, except by conversion into or exchange for stock of NBT Bancorp ranking junior to the preferred stock of the class or series as to dividends and upon liquidation, dissolution or winding-up of NBT Bancorp, provided, however, that the above restrictions will not prevent the purchase or acquisition of shares of preferred stock of the class or series pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of preferred stock of the class or series.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of NBT Bancorp, then, before any distribution or payment will be made to the holders of any common stock or any other class or series of shares of our capital stock ranking junior to the preferred stock in the distribution of assets upon any liquidation, dissolution or winding up of NBT Bancorp, the holders of each series or class of preferred stock will be entitled to receive out of our assets legally available for distribution to stockholders liquidating distributions in the amount of the liquidation preference set forth in the applicable prospectus supplement, plus an amount equal to all accumulated and unpaid

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distributions. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of shares of preferred stock will have no right or claim to any of our remaining assets. If, upon the voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of preferred stock and the corresponding amounts payable on all shares of other classes or series of shares of our capital stock ranking equally with the preferred stock in the distribution of assets, then the holders of the preferred stock and all other classes or series of shares of capital stock will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions will have been made in full to all holders of preferred stock, our remaining assets will be distributed among the holders of any other classes or series of shares of capital stock ranking junior to the preferred stock upon liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares.

For those purposes, the consolidation or merger of NBT Bancorp with or into any other corporation, trust or entity, or the sale, lease or conveyance of all or substantially all of the property or business of NBT Bancorp, will not be deemed to constitute a liquidation, dissolution or winding up of NBT Bancorp.

Voting Rights

Holders of preferred stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law, or as otherwise provided in the certificate of designation or the resolutions establishing such series and as indicated in the applicable prospectus supplement.

Under the Delaware General Corporation Law, holders of outstanding shares of a series of preferred stock may be entitled to vote as a separate class on a proposed amendment to the terms of that series of preferred stock or our certificate of incorporation, if the amendment would:

- (1) increase or decrease the aggregate number of authorized shares of that series of preferred stock,
- (2) increase or decrease the par value of the shares of that series of preferred stock, or
alter or change the powers, preferences or special rights of the shares of such class so as to affect them adversely,
- (3) in which case the approval of the proposed amendment would require the affirmative vote of at least a majority of the outstanding shares of that series of preferred stock.

Conversion Rights

The terms and conditions, if any, upon which any class or series of preferred stock are convertible into or exchangeable for other securities or rights of NBT Bancorp or other issuers, including, without limitation, common stock, debt securities or another series of preferred stock, or any combination of the foregoing, will be set forth in the applicable prospectus supplement relating to the preferred stock. The terms will include the name of the issuer of the other securities or rights and the number or principal amount of the securities or rights into which the shares of preferred stock are convertible or exchangeable, the conversion or exchange price or rate or the manner of calculating the price, the conversion or exchange date(s) or period(s), provisions as to whether conversion or exchange will be at the option of the holders of the preferred stock or at NBT Bancorp's or other issuer's option, the events requiring an adjustment of the conversion or exchange price or rate and provisions affecting conversion or exchange in the event of the redemption of the series of preferred stock.

Transfer Agent and Registrar

The transfer agent and registrar for the preferred stock will be American Stock Transfer & Trust Company, LLC.

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DESCRIPTION OF DEPOSITARY SHARES

The following description, together with the applicable prospectus supplements, summarizes certain terms and provisions of the depositary shares that we may offer under this prospectus and the related deposit agreements and depositary receipts. The following summary relates to terms and conditions applicable to these types of securities generally. The particular terms of any series of depositary shares will be those set forth in the applicable deposit agreement and summarized in the applicable prospectus supplement. If indicated in the applicable prospectus supplement, the terms of any series may differ from the terms summarized below.

Specific deposit agreements and depositary receipts will contain additional important terms and provisions and will be incorporated by reference into the registration statement which includes this prospectus before we issue any depositary shares. The descriptions herein and in the applicable prospectus supplement do not restate those agreements and receipts in their entirety and do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the applicable deposit agreement and deposit certificate because they, and not the summaries, define your rights as holders of the depositary shares. For more information, please review the forms of these documents, which will be filed with the SEC promptly after the offering of depositary shares or depositary share units and will be available as described under the heading *Where You Can Find More Information* above.

General

We may elect to offer fractional shares of preferred stock rather than full shares of preferred stock. If so, we will issue depositary receipts for these depositary shares. Each depositary share will represent a fraction of a share of a particular series of preferred stock. Each holder of a depositary share will be entitled, in proportion to the fraction of preferred stock represented by that depositary share, to the rights and preferences of the preferred stock, including dividend, voting, redemption, conversion and liquidation rights, if any. We will enter into a deposit agreement with a depositary, which will be named in the related prospectus supplement.

In order to issue depositary shares, we will issue preferred stock and immediately deposit these shares with the depositary. The depositary will then issue and deliver depositary receipts to the persons who purchase depositary shares. Each whole depositary share issued by the depositary may represent a fraction of a share held by the depositary. The depositary will issue depositary receipts in a form that reflects whole depositary shares, and each depositary receipt may evidence any number of whole depositary shares.

Pending the preparation of definitive engraved depositary receipts, a depositary may, upon our written order, issue temporary depositary receipts, which will temporarily entitle the holders to all the rights pertaining to the definitive depositary receipts. We will bear the costs and expenses of promptly preparing definitive depositary receipts and of exchanging the temporary depositary receipts for definitive depositary receipts.

Dividends and Other Distributions

The depositary will distribute all cash and non-cash dividends and distributions it receives with respect to the underlying preferred stock to the record holders of depositary shares in proportion to the number of depositary shares they hold. In the case of non-cash distributions, the depositary may determine that it is not feasible to make the distribution. If so, the depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the holders. The amounts distributed by the depositary will be reduced by any amount required to be withheld by us or the depositary on account of taxes.

Redemption of Depositary Shares

If we redeem the series of preferred stock that underlies the depositary shares, the depositary will redeem the depositary shares from the proceeds it receives from the redemption of the preferred stock it holds. The depositary will redeem the number of depositary shares that represent the amount of underlying preferred stock that we have redeemed. The redemption price for depositary shares will be in proportion to the redemption price per share that we paid for the underlying preferred stock. If we redeem less than all of the depositary shares, the depositary will select which depositary shares to redeem by lot, or some substantially equivalent method.

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After a redemption date is fixed, the depositary shares to be redeemed no longer will be considered outstanding. The rights of the holders of the depositary shares will cease, except for the rights to receive money or other property upon redemption. In order to redeem their depositary shares, holders will surrender their depositary receipts to the depositary.

Voting the Preferred Stock

We will notify the depositary about any meeting at which the holders of preferred stock are entitled to vote, and the depositary will mail the information to the record holders of depositary shares related to that preferred stock. Each record holder of depositary shares on the record date will be entitled to instruct the depositary on how to vote the shares of preferred stock represented by that holder's depositary shares. The depositary will vote the preferred stock represented by the depositary shares in accordance with these instructions, provided the depositary receives these instructions sufficiently in advance of the meeting. If the depositary does not receive instructions from the holders of the depositary shares, the depositary will abstain from voting the preferred stock that underlies those depositary shares.

Withdrawal of Preferred Stock

When a holder surrenders depositary receipts at the corporate trust office of the depositary, and pays any necessary taxes, charges or other fees, the holder will be entitled to receive the number of whole shares of the related series of preferred stock, and any money or other property, if any, represented by the holder's depositary shares. Once a holder exchanges depositary shares for whole shares of preferred stock, that holder cannot re-deposit these shares of preferred stock with the depositary, or exchange them for depositary shares. If a holder delivers depositary receipts that represent a number of depositary shares that exceeds the number of whole shares of related preferred stock the holder seeks to withdraw, the depositary will issue a new depositary receipt to the holder that evidences the excess number of depositary shares.

Amendment and Termination of the Deposit Agreement

NBT Bancorp and the depositary can agree, at any time, to amend the form of depositary receipt and any provisions of the depositary receipt and any provisions of the deposit agreement. However, if an amendment has a material adverse effect on the rights of the holders of related depositary shares, the holders of at least a majority of the depositary shares then outstanding must first approve the amendment. Every holder of a depositary receipt at the time an amendment becomes effective will be bound by the amended deposit agreement. However, subject to any conditions in the deposit agreement or applicable law, no amendment can impair the right of any holder of a depositary share to receive shares of the related preferred stock, or any money or other property represented by the depositary shares, when they surrender their depositary receipts.

We can terminate the deposit agreement at any time, as long as the depositary mails notice of termination to the record holders of depositary shares then outstanding at least 30 days prior to the date fixed for termination. Upon termination, the depositary shall deliver to each holder of depositary receipts, upon surrender of the depositary receipts held by such holder, such number of whole or fractional shares of preferred stock as are represented by the depositary shares evidenced by such depositary receipts, together with any other property held by the depositary with respect to such depositary receipt.

Charges of Depositary

We will pay all transfer and other taxes and the government charges that relate solely to the depositary arrangements. We will also pay the charges of each depositary, including charges in connection with the initial deposit of the related

series of preferred stock, the initial issuance of the depositary shares, and all withdrawals of shares of the related series of preferred stock. However, holders of depositary receipts will pay the fees and expenses of the depositary for any duties requested by such holders to be performed which are outside of those expressly provided for in the deposit agreement.

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Resignation and Removal of Depositary

The depositary may resign at any time by delivering written notice of its decision to us. We may remove the depositary at any time. Any resignation or removal will take effect when we appoint a successor depositary. We must appoint the successor depositary within 60 days after delivery of the notice of resignation or removal. The successor depositary must be a bank or trust company that has its principal office in the United States and has a combined capital and surplus of at least \$50,000,000.

Miscellaneous

We will be required to furnish certain information to the holders of the preferred stock underlying any depositary shares. The depositary, as the holder of the underlying preferred stock, will forward any report or information it receives from us to the holders of depositary shares.

Neither the depositary nor NBT Bancorp will be liable if its ability to perform its obligations under the deposit agreement is prevented or delayed by law or any circumstance beyond its control. Both NBT Bancorp and the depositary will be obligated to use their best judgment and to act in good faith in performing their respective duties under the deposit agreement. Each of NBT Bancorp and the depositary will be liable only for gross negligence and willful misconduct in performing their duties under the deposit agreement. They will not be obligated to appear in, prosecute or defend any legal proceeding with respect to any depositary receipts, depositary shares or preferred stock unless they receive what they, in their sole discretion, determine to be a satisfactory indemnity from one or more holders of the depositary shares. NBT Bancorp and the depositary will evaluate any proposed indemnity in order to determine whether the financial protection afforded by the indemnity is sufficient to reduce each party's risk to a satisfactory and customary level. NBT Bancorp and the depositary may rely on the advice of legal counsel or accountants of their choice. They may also rely on information provided by persons they believe, in good faith, to be competent, and on documents they believe, in good faith, to be genuine.

The applicable prospectus supplement will identify the depositary's corporate trust office. Unless the prospectus supplement indicates otherwise, the depositary will act as transfer agent and registrar for depositary receipts, and if we redeem shares of preferred stock, the depositary will act as redemption agent for the corresponding depositary receipts.

Title

NBT Bancorp, each depositary and any agent of NBT Bancorp or the applicable depositary may treat the registered owner of any depositary share as the absolute owner of the depositary shares for all purposes, including making payment, regardless of whether any payment in respect of the depositary share is overdue and regardless of any notice to the contrary.

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DESCRIPTION OF DEBT SECURITIES

Description of Senior Debt Securities and Subordinated Debt Securities

General

We may issue senior debt securities and/or subordinated debt securities, which in each case will be unsecured, direct, general obligations of NBT Bancorp.

The senior debt securities will rank equally with all our other unsecured and unsubordinated debt. The subordinated debt securities will be subordinate and junior in priority of payment to senior debt securities of NBT Bancorp, as described below under –Subordination of Subordinated Debt Securities and in the prospectus supplement applicable to any subordinated debt securities that we may offer. For purposes of the descriptions under the heading –Description of Senior Debt Securities and Subordinated Debt Securities, we may refer to the senior debt securities and the subordinated debt securities collectively as the debt securities. The debt securities will be effectively subordinated to the creditors and preferred equity holders of our subsidiaries.

We will issue senior debt securities under a senior debt indenture and subordinated debt securities under a separate subordinated debt indenture. Provisions relating to the issuance of debt securities may also be set forth in a supplemental indenture to either of the indentures. For purposes of the descriptions under the heading –Description of Senior Debt Securities and Subordinated Debt Securities, we may refer to the senior debt indenture and the subordinated debt indenture and any related supplemental indentures, as an indenture or, collectively, as the indentures. The indentures will be qualified under and governed by the Trust Indenture Act of 1939.

Each indenture will be between NBT Bancorp and a trustee that meets the requirements of the Trust Indenture Act. We expect that each indenture will provide that there may be more than one trustee under that indenture, each with respect to one or more series of debt securities. Any trustee under an indenture may resign or be removed with respect to one or more series of debt securities and, in that event, we may appoint a successor trustee. Except as otherwise provided in the indenture or supplemental indenture, any action permitted to be taken by a trustee may be taken by that trustee only with respect to the one or more series of debt securities for which it is trustee under the applicable indenture.

The descriptions under the heading –Description of Senior Debt Securities and Subordinated Debt Securities relating to the debt securities and the indentures are summaries of their provisions. The summaries are not complete and are qualified in their entirety by reference to the actual indentures and debt securities and the further descriptions in the applicable prospectus supplement. A form of the senior debt indenture and a form of the subordinated debt indenture under which we may issue our senior debt securities and subordinated debt securities, respectively, and the forms of the debt securities, have been filed with the SEC as exhibits to the registration statement that includes this prospectus and will be available as described under the heading Where You Can Find More Information above. Whenever we refer in this prospectus or in any prospectus supplement to particular sections or defined terms of an indenture, those sections or defined terms are incorporated by reference in this prospectus or in the prospectus supplement, as applicable. You should refer to the provisions of the indentures for provisions that may be important to you.

The terms and conditions described under this heading are terms and conditions that apply generally to the debt securities. The particular terms of any series of debt securities will be summarized in the applicable prospectus supplement. Those terms may differ from the terms summarized below.

Except as set forth in the applicable indenture or in a supplemental indenture and described in an applicable prospectus supplement, the indentures do not limit the amount of debt securities we may issue under the indentures.

We are not required to issue all of the debt securities of one series at the same time and, unless otherwise provided in the applicable indenture or supplemental indenture and described in the applicable prospectus supplement, we may, from time to time, reopen any series and issue additional debt securities under that series without the consent of the holders of the outstanding debt securities of that series. Additional notes issued in this manner will have the same terms and conditions as the outstanding debt securities of that series, except for their original issue date and issue price, and will be consolidated with, and form a single series with, the previously outstanding debt securities of that series.

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Terms of Debt Securities to be Included in the Prospectus Supplement

The prospectus supplement relating to any series of debt securities that we may offer will set forth the price or prices at which the debt securities will be offered, and will contain the specific terms of the debt securities of that series. These terms may include, without limitation, the following:

- the title of the debt securities and whether they are senior debt securities or subordinated debt securities;
- the amount of debt securities issued and any limit on the amount that may be issued;
- the price(s) (expressed as a percentage of the principal amount) at which the debt securities will be issued;
- if other than the principal amount of those debt securities, the portion of the principal amount payable upon declaration of acceleration of the maturity of those debt securities;
 - the maturity date or dates, or the method for determining the maturity date or dates, on which the principal of the debt securities will be payable and any rights of extension;
- the rate or rates, which may be fixed or variable, or the method of determining the rate or rates at which the debt securities will bear interest, if any;
- the date or dates from which any interest will accrue and the date or dates on which any interest will be payable, the regular related record dates and whether we may elect to extend or defer such interest payment dates;
- the place or places where payments will be payable, where the debt securities may be surrendered for registration of transfer or exchange and where notices or demands to or upon us may be served;
- the period or periods within which, the price or prices at which and the other terms and conditions upon which the debt securities may be redeemed, in whole or in part, at our option, if we are to have such an option;
- our obligation, if any, to redeem, repay or purchase the debt securities pursuant to any sinking fund or analogous provision or at the option of a holder of the debt securities, and the period or periods within which, or the date and dates on which, the price or prices at which and the other terms and conditions upon which the debt securities will be redeemed, repaid or purchased, in whole or in part, pursuant to that obligation;
- the currency or currencies in which the debt securities may be purchased, are denominated and are payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the related terms and conditions, including whether we or the holders of any such debt securities may elect to receive payments in respect of such debt securities in a currency or currency unit other than that in which such debt securities are stated to be payable;
- whether the amount of payments of principal of and premium, if any, or interest, if any, on the debt securities may be determined with reference to an index, formula or other method, which index, formula or method may, but need not be, based on a currency, currencies, currency unit or units or composite currency or currencies or with reference to changes in prices of particular securities or commodities, and the manner in which the amounts are to be determined;
- any additions to, modifications of or deletions from the terms of the debt securities with respect to events of default, amendments, merger, consolidation and sale or covenants set forth in the applicable indenture;
- whether the debt securities will be issued in certificated or book-entry form;
- whether the debt securities will be in registered or bearer form or both and, if in registered form, their denominations, if other than \$1,000 and any integral multiple thereof, and, if in bearer form, their denominations, if other than \$5,000, and the related terms and conditions;
- if the debt securities will be issuable only in global form, the depository or its nominee with respect to the debt securities and the circumstances under which the global security may be registered for transfer or exchange in the name of a person other than the depository or its nominee;
- the applicability, if any, of the defeasance and covenant defeasance provisions of the indenture and any additional or different terms on which the series of debt securities may be defeased;

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whether and the extent to which the debt securities will be guaranteed, any guarantors and the form of any guarantee;
whether the debt securities can be converted into or exchanged for other securities of NBT Bancorp, and the related terms and conditions;
in the case of subordinated debt securities, provisions relating to any modification of the subordination provisions described elsewhere in this prospectus;
whether the debt securities will be sold as part of units consisting of debt securities and other securities;
if the debt securities are to be issued upon the exercise of warrants, the time, manner and place for the debt securities to be authenticated and delivered;
any trustee, depository, authenticating agent, paying agent, transfer agent, registrar or other agent with respect to the debt securities; and
any other terms of the debt securities.

Unless otherwise specified in the applicable prospectus supplement, the debt securities will not be listed on any securities exchange.

We may offer and sell our debt securities at a substantial discount below their stated principal amount. These debt securities may be original issue discount securities, which means that less than the entire principal amount of the original issue discount securities will be payable upon declaration of acceleration of their maturity. Special federal income tax, accounting and other considerations applicable to original issue discount securities will be described in the applicable prospectus supplement.

We may issue debt securities with a fixed interest rate or a floating interest rate. Any material federal income tax considerations applicable to any discounted debt securities or to debt securities issued at par that are treated as having been issued at a discount for federal income tax purposes will be described in the applicable prospectus supplement.

Except as set forth in the applicable indenture or in a supplemental indenture, the applicable indenture will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of debt securities protection in the event of a highly leveraged or similar transaction involving NBT Bancorp. The applicable indenture may contain provisions that would afford debt security holders protection in the event of a change of control. You should refer to the applicable prospectus supplement for information with respect to any deletions from, modifications of or additions to the events of default or covenants of NBT Bancorp that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

For purposes of the descriptions under the heading –Description of Senior Debt Securities and Subordinated Debt Securities :

subsidiary means a corporation or a partnership or a limited liability company a majority of the outstanding voting stock or partnership or membership interests, as the case may be, of which is owned or controlled, directly or indirectly, by NBT Bancorp or by one or more other subsidiaries of NBT Bancorp. For the purposes of this definition, voting stock means stock having voting power for the election of directors, or trustees, as the case may be, whether at all times or only so long as no senior class of stock has voting power by reason of any contingency; and significant subsidiary means any subsidiary of NBT Bancorp that is a significant subsidiary, within the meaning of Regulation S-X promulgated by the SEC under the Securities Act.

Ranking

Senior Debt Securities

Payment of the principal of and premium, if any, and interest on debt securities we issue under the senior debt indenture will rank equally with all of our unsecured and unsubordinated debt.

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Subordination of Subordinated Debt Securities

To the extent provided in the subordinated debt indenture and any supplemental indenture, and as described in the prospectus supplement describing the applicable series of subordinated debt securities, the payment of the principal of and premium, if any, and interest on any subordinated debt securities, including amounts payable on any redemption or repurchase, will be subordinated in right of payment and junior to senior debt, which is defined below. If there is a distribution to creditors of NBT Bancorp in a liquidation or dissolution of NBT Bancorp, or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to NBT Bancorp, the holders of senior debt will first be entitled to receive payment in full of all amounts due on the senior debt (or provision shall be made for such payment in cash) before any payments may be made on the subordinated debt securities. Because of this subordination, general creditors of NBT Bancorp may recover more, ratably, than holders of subordinated debt securities in the event of a distribution of assets upon insolvency.

The supplemental indenture will set forth the terms and conditions under which, if any, we will not be permitted to pay principal, premium, if any, or interest on the related subordinated debt securities upon the occurrence of an event of default or other circumstances arising under or with respect to senior debt.

The indentures will place no limitation on the amount of senior debt that we may incur. We expect to incur from time to time additional indebtedness constituting senior debt, which may include indebtedness that is senior to the subordinated debt securities but subordinate to our other obligations.

Senior debt means the principal of, and premium, if any, and interest, including interest accruing after the commencement of any bankruptcy proceeding relating to NBT Bancorp, on, or substantially similar payments we will make in respect of the following categories of debt, whether that debt is outstanding at the date of execution of the applicable indenture or thereafter incurred, created or assumed:

- other indebtedness of NBT Bancorp evidenced by notes, debentures, or bonds or other securities issued under the provisions of any indenture, fiscal agency agreement, note purchase agreement or other agreement, including the senior debt securities that may be offered by means of this prospectus and one or more prospectus supplements;
- indebtedness of NBT Bancorp for money borrowed or represented by purchase-money obligations, as defined below;
- our obligations as lessee under leases of property either made as part of a sale and leaseback transaction to which we are a party or otherwise;
- indebtedness, obligations and liabilities of others in respect of which we are liable contingently or otherwise to pay or advance money or property or as guarantor, endorser or otherwise or which we have agreed to purchase or otherwise acquire and indebtedness of partnerships and joint ventures which is included in the Company's consolidated financial statements;
- reimbursement and other obligations relating to letters of credit, bankers' acceptances and similar obligations;
- obligations under various hedging arrangements and agreements, including interest rate and currency hedging agreements;
- all our obligations issued or assumed as the deferred purchase price of property or services, but excluding trade accounts payable and accrued liabilities arising in the ordinary course of business; and
- deferrals, renewals or extensions of any of the indebtedness or obligations described in the eight clauses above.

However, senior debt excludes:

any indebtedness, obligation or liability referred to in the eight clauses above as to which, in the instrument creating or evidencing that indebtedness, obligation or liability, it is expressly provided that the indebtedness, obligation or liability is not senior in right of payment to subordinated debt securities or ranks equally with the subordinated debt securities,

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any indebtedness, obligation or liability which is subordinated to indebtedness of NBT Bancorp to substantially the same extent as or to a greater extent than the subordinated debt securities are subordinated, and, unless expressly provided in the terms thereof,

any indebtedness of NBT Bancorp to its subsidiaries.

As used above, the term purchase-money obligations means indebtedness, obligations or guarantees evidenced by a note, debenture, bond or other instrument, whether or not secured by a lien or other security interest, and any deferred obligation for the payment of the purchase price of property but excluding indebtedness or obligations for which recourse is limited to the property purchased, issued or assumed as all or a part of the consideration for the acquisition of property or services, whether by purchase, merger, consolidation or otherwise, but does not include any trade accounts payable. There will not be any restrictions in an indenture relating to subordinated debt securities upon the creation of additional senior debt.

The applicable prospectus supplement may further describe the provisions, if any, applicable to the subordination of the subordinated debt securities of a particular series. The applicable prospectus supplement or the information incorporated by reference in the applicable prospectus supplement or in this prospectus will describe as of a recent date the approximate amount of our senior debt outstanding as to which the subordinated debt securities of that series will be subordinated.

Structural Subordination

Because NBT Bancorp is a holding company, our cash flows and consequent ability to service our obligations, including our debt securities, are dependent on distributions and other payments of earnings and other funds by our subsidiaries to us. The payment of dividends and other distributions by our subsidiaries is contingent on their earnings and is subject to the requirements of federal banking regulations and other restrictions. In addition, the debt securities will be structurally subordinated to all indebtedness and other liabilities of NBT Bancorp's subsidiaries, since any right of NBT Bancorp to receive any assets of its subsidiaries upon their liquidation or reorganization, and the consequent right of the holders of the debt securities to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors. NBT Bancorp itself is recognized as a creditor of that subsidiary, the claims of NBT Bancorp would still be subordinate to any security interest in the assets of that subsidiary and any indebtedness of that subsidiary senior to that held by NBT Bancorp. Claims from creditors (other than us), on subsidiaries may include long-term and medium-term debt and substantial obligations related to deposit liabilities, federal funds purchased, securities sold under repurchase agreements and other short-term borrowings. Any capital loans that we make to NBT Bank, N.A. would be subordinate in right of payment to deposits and to other indebtedness of the bank.

Conversion or Exchange of Debt Securities

The applicable prospectus supplement will set forth the terms, if any, on which a series of debt securities may be converted into or exchanged for our other securities. These terms will include whether conversion or exchange is mandatory, or is at our option or at the option of the holder. We will also describe in the applicable prospectus supplement how we will calculate the number of securities that holders of debt securities would receive if they were to convert or exchange their debt securities, the conversion price and other terms related to conversion and any anti-dilution protections.

Redemption of Securities

We may redeem the debt securities at any time, in whole or in part, at the prescribed redemption price, at the times and on the terms described in the applicable prospectus supplement.

From and after notice has been given as provided in the indentures, if we have made available funds for the redemption of any debt securities called for redemption on the applicable redemption date, the debt securities will cease to bear interest on the date fixed for the redemption specified in the notice, and the only right of the holders of the debt securities will be to receive payment of the redemption price.

Notice of any optional redemption by us of any debt securities is required to be given to holders at their addresses, as shown in the security register. The notice of redemption will be required to specify, among other items, the redemption price and the principal amount of the debt securities held by the holder to be redeemed.

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If we elect to redeem debt securities, we will be required to notify the trustee of the aggregate principal amount of debt securities to be redeemed and the redemption date. If fewer than all the debt securities are to be redeemed, the trustee is required to select the debt securities to be redeemed equally, by lot or in a manner it deems fair and appropriate.

Denomination, Interest, Registration and Transfer

Unless otherwise specified in the applicable prospectus supplement, we will issue the debt securities (i) in denominations of \$1,000 or integral multiples of \$1,000 if the debt securities are in registered form and (ii) in denominations of \$5,000 if the debt securities are in bearer form.

Unless otherwise specified in the applicable prospectus supplement, we will pay the principal of, and applicable premium, if any, and interest on any series of debt securities at the corporate trust office of the trustee, the address of which will be stated in the applicable prospectus supplement. At our option, we may pay interest by check mailed to the address of the person entitled to the interest payment as it appears in the register for the applicable debt securities or by wire transfer of funds to that person at an account maintained within the United States.

Any defaulted interest, which means interest not punctually paid or duly provided for on any interest payment date with respect to a debt security, will immediately cease to be payable to the registered holder on the applicable regular record date by virtue of his having been the registered holder on such date. We may pay defaulted interest either to the person in whose name the debt security is registered at the close of business on a special record date for the payment of the defaulted interest to be fixed by the trustee, notice of which is to be given to the holder of the debt security not less than ten days before the special record date, or at any time in any other lawful manner, all as more completely described in the applicable indenture or supplemental indenture.

Subject to limitations imposed upon debt securities issued in book-entry form, the holder may exchange debt securities of any series for other debt securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of the debt securities at the corporate trust office of the applicable trustee. In addition, subject to limitations imposed upon debt securities issued in book-entry form, the holder may surrender debt securities of any series for registration of transfer or exchange at the corporate trust office of the applicable trustee. Every debt security surrendered for registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be imposed for any registration of transfer or exchange of any debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any registration of transfer or exchange of any debt securities. If the applicable prospectus supplement refers to any transfer agent, in addition to the applicable trustee, initially designated by us with respect to any series of debt securities, we may at any time rescind the designation of that transfer agent or approve a change in the location through which any transfer agent acts, except that we will be required to maintain a transfer agent in each place of payment for that series. We may at any time designate additional transfer agents with respect to any series of debt securities.

If we redeem the debt securities of any series, neither we nor any trustee will be required to:

- issue, register the transfer of, or exchange debt securities of any series during a period beginning at the opening of business 15 days before any selection of debt securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption;
- register the transfer of, or exchange any debt security, or portion of any debt security, called for redemption, except the unredeemed portion of any debt security being redeemed in part; or
- issue, register the transfer of, or exchange any debt security that has been surrendered for repayment at the option of the holder, except the portion, if any, of the debt security not to be repaid.

Global Securities

We may issue the debt securities of a series in whole or in part in the form of one or more global securities to be deposited with, or on behalf of, a depository or with a nominee for a depository identified in the applicable prospectus supplement relating to that series. We may issue global securities in either registered or bearer form and in either temporary or permanent form. The specific terms of the depository arrangement with respect to a series of debt securities will be described in the prospectus supplement relating to that series.

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Our obligations with respect to the debt securities, as well as the obligations of the applicable trustee, run only to persons who are registered holders of debt securities. For example, once we make payment to the registered holder, we have no further responsibility for that payment even if the recipient is legally required to pass the payment along to an individual investor but fails to do so. As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depository, as well as general laws relating to transfers of debt securities.

An investor should be aware that when debt securities are issued in the form of global securities:

- the investor cannot have debt securities registered in his or her own name;
- the investor cannot receive physical certificates for his or her debt securities;
- the investor must look to his or her bank or brokerage firm for payments on the debt securities and protection of his or her legal rights relating to the debt securities;
- the investor may not be able to sell interests in the debt securities to some insurance or other institutions that are required by law to hold the physical certificates of debt that they own;
- the depository's policies will govern payments, transfers, exchanges and other matters relating to the investor's interest in the global security; and
- the depository will usually require that interests in a global security be purchased or sold within its system using same-day funds.

The prospectus supplement for a series of debt securities will list the special situations, if any, in which a global security will terminate and interests in the global security will be exchanged for physical certificates representing debt securities. After that exchange, the investor may choose whether to hold debt securities directly or indirectly through an account at the investor's bank or brokerage firm. In that event, investors must consult their banks or brokers to find out how to have their interests in debt securities transferred to their own names so that they may become direct holders. When a global security terminates, the depository, and not us or one of the trustees, is responsible for deciding the names of the institutions that will be the initial direct holders.

Merger, Consolidation or Sale of Assets

We will not be permitted to consolidate with or merge into any other entity, or sell, lease, transfer or convey all or substantially all of our properties and assets, either in one transaction or a series of transactions, to any other entity and no other entity will consolidate with or merge into us, or sell, lease, transfer or convey all or substantially all of its properties and assets to us unless:

(1) either:

- NBT Bancorp is the continuing entity, or
 - the successor entity, if other than NBT Bancorp, formed by or resulting from any consolidation or merger, or which has received the transfer of NBT Bancorp's assets, expressly assumes payment of the principal of, and premium, if any, and interest on all of the outstanding debt securities and the due and punctual performance and observance of all of the covenants and conditions contained in the indentures, and immediately after giving effect to the transaction and treating any indebtedness that becomes an obligation of NBT Bancorp or any subsidiary as a result of that transaction as having been incurred by NBT Bancorp or a subsidiary at
- (2) the time of the transaction, no event of default under the indentures or supplemental indentures, and no event which, after notice or the lapse of time, or both, would become an event of default, will have occurred and be continuing;

provided, however, that the conditions described in (1) and (2) above will not apply to the direct or indirect transfer of the stock, assets or liabilities of any of our subsidiaries to another of our direct or indirect subsidiaries.

Except as provided in this prospectus or as may otherwise be provided in the applicable prospectus supplement, the indenture and the terms of the debt securities will not contain any event risks or similar covenants that are intended to afford protection to holders of any debt securities in the event of a merger, a highly leveraged transaction or other significant corporate event involving us or our subsidiaries, whether or not resulting in a change of control, which may adversely affect holders of the debt securities.

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Additional Covenants and/or Modifications to the Covenant Described Above

Any additional covenants of NBT Bancorp and/or modifications to the covenant described above with respect to any series of debt securities, including any covenants relating to limitations on incurrence of indebtedness or other financial covenants, will be set forth in the applicable indenture or supplemental indenture and described in the prospectus supplement relating to that series of debt securities.

Unless the applicable prospectus supplement indicates otherwise, the subordinated indenture does not contain the restrictive covenant stated above, nor does it contain any other provision which restricts us from, among other things:

- incurring or becoming liable on any secured or unsecured senior indebtedness or general obligations; or
- paying dividends or making other distributions on our capital stock; or
- purchasing or redeeming our capital stock; or
- creating any liens on our property for any purpose.

Events of Default, Waiver and Notice

Events of Default.

The events of default with respect to any series of debt securities issued under it, subject to any modifications or deletions provided in any supplemental indenture with respect to any specific series of debt securities, include the following events:

- failure to pay any installment of interest or any additional amounts payable on any debt security of the series for 30 days;
- failure to pay principal of, or premium, if any, on, any debt security of the series when due, whether at maturity, upon redemption, by declaration or acceleration of maturity or otherwise;
- default in making any sinking fund payment when due, for any debt security of the series;
- default in the performance or breach of any other covenant or warranty of NBT Bancorp contained in the applicable indenture, other than a covenant added to the indenture solely for the benefit of any other series of debt securities issued under that indenture, continued for 90 days after written notice as provided in the applicable indenture;
- specific events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of NBT Bancorp or any significant subsidiary or either of their property; and
- any other event of default provided with respect to a particular series of debt securities.

If an event of default under any indenture with respect to debt securities of any series at the time outstanding occurs and is continuing, then in every case other than in the case described in clause (5) above, in which case acceleration will be automatic, the applicable trustee or the holders of not less than 25% of the principal amount of the outstanding debt securities of that series will have the right to declare the principal amount, or, if the debt securities of that series are original issue discount securities or indexed securities, the portion of the principal amount as may be specified in the terms of that series, of all the debt securities of that series to be due and payable immediately by written notice to us, and to the applicable trustee if given by the holders. At any time after a declaration of acceleration has been made with respect to debt securities of a series, or of all debt securities then outstanding under any indenture, as the case may be, but before a judgment or decree for payment of the money due has been obtained by the applicable trustee, however, the holders of not less than a majority in principal amount of the outstanding debt securities of that series, or of all debt securities then outstanding under the applicable indenture, as the case may be, may annul the declaration of acceleration and waive any default in respect of those debt securities if:

- we have deposited with the applicable trustee all required payments due otherwise than by acceleration of the principal of, and premium, if any, and interest on the debt securities of that series, or of all debt securities then outstanding under the applicable indenture, as the case may be, plus specified fees, expenses, disbursements and

advances of the applicable trustee, and

- all events of default, other than the non-payment of all or a specified portion of the accelerated principal, with respect to debt securities of that series, or of all debt securities then outstanding under the applicable indenture, as the case may be, have been cured or waived as provided in the applicable indenture.

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Waiver

Each indenture also will provide that the holders of not less than a majority in principal amount of the outstanding debt securities of any series, or of all debt securities then outstanding under the applicable indenture, as the case may be, may waive any past default with respect to that series and its consequences, except a default:

in the payment of the principal of, or premium, if any, or interest on any debt security of that series, or in respect of a covenant or provision contained in the applicable indenture that, by the terms of that indenture, cannot be modified or amended without the consent of each affected holder of an outstanding debt security.

Notice

Each trustee will be required to give notice to the holders of the applicable debt securities within 90 days of a default under the applicable indenture unless the default has been cured or waived; but the trustee may withhold notice of any default, except a default in the payment of the principal of, or premium, if any, or interest on the debt securities or in the payment of any sinking fund installment in respect of the debt securities, if specified responsible officers of the trustee consider the withholding to be in the interest of the holders.

The holders of debt securities of any series may not institute any proceedings, judicial or otherwise, with respect to the indentures or for any remedy under the indentures, except in the case of failure of the applicable trustee, for 60 days, to act after the trustee has received a written request to institute proceedings in respect of an event of default from the holders of not less than 25% in principal amount of the outstanding debt securities of that series, as well as an offer of indemnity reasonably satisfactory to the trustee, and provided that no direction inconsistent with such written request has been given to the trustee during such 60-day period by the holders of a majority of the outstanding debt securities of that series. However, any holder of debt securities is not prohibited from instituting suit for the enforcement of payment of the principal of, and premium, if any, and interest on the debt securities at their respective due dates.

Subject to the trustee's duties in case of default, no trustee will be under any obligation to exercise any of its rights or powers under an indenture at the request or direction of any holders of any series of debt securities then outstanding under that indenture, unless the holders offer to the trustee reasonable security or indemnity. Subject to such provisions for the indemnification of the trustee, the holders of not less than a majority in principal amount of the outstanding debt securities of any series, or of all debt securities then outstanding under an indenture, as the case may be, will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the applicable trustee, or of exercising any trust or power conferred upon the trustee. A trustee may refuse, however, to follow any direction that is in conflict with any law or the applicable indenture that may involve the trustee in personal liability or may be unduly prejudicial to the holders of debt securities of that series not joining in the direction.

Within 180 days after the end of each fiscal year, we will be required to deliver to each trustee a certificate, signed by one of several specified officers, stating whether or not that officer has knowledge of any default under the applicable indenture and, if so, specifying each default and the nature and status of the default.

Modification of the Indentures

Except as otherwise specifically provided in the applicable indenture, with the consent of the holders of not less than a majority in principal amount of all outstanding debt securities issued under that indenture that are affected by the modification or amendment, we may enter into supplemental indentures with the trustee for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of such indenture or of modifying in any manner the rights of the holders under debt securities issued under such indenture. However, no modification or amendment may, without the consent of the holder of each debt security affected by the modification or amendment:

except as described in the prospectus supplement relating to such debt security:

- extend the stated maturity of the principal of, or any installment of interest or any additional amounts, or the premium, if any, on, any debt security,

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reduce the principal amount of, or the rate or amount of interest on, or change the manner of calculating the rate, or any premium payable on redemption of, any debt security, or reduce the amount of principal of an original issue discount security that would be due and payable upon declaration of acceleration of its maturity or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any debt security,

extend the time of payment of interest on any debt security or any additional amounts,

change any of the conversion, exchange or redemption provisions of any debt security,

change the place of payment, or the coin or currency for payment, of principal, or premium, if any, including any amount in respect of original issue discount or interest on any debt security,

impair the right to institute suit for the enforcement of any payment on or with respect to any debt security or for the conversion or exchange of any debt security in accordance with its terms,

release any guarantors from their guarantees of the debt securities, or, except as contemplated in any supplemental indenture, make any change in a guarantee of a debt security that would adversely affect the interests of the holders of those debt securities,

in the case of subordinated debt securities, modify the ranking or priority of the securities,

reduce the percentage of outstanding debt securities of any series necessary to modify or amend the applicable indenture, to waive compliance with specific provisions of or certain defaults and consequences under the applicable indenture, or to reduce the quorum or voting requirements set forth in the applicable indenture, or

modify any of the provisions relating to the waiver of specific past defaults or specific covenants, except to increase the required percentage to effect that action or to provide that specific other provisions may not be modified or waived without the consent of the holder of that debt security.

The holders of not less than a majority in principal amount of the outstanding debt securities of each series affected by the modification or amendment will have the right to waive compliance by NBT Bancorp with specific covenants in the indenture.

NBT Bancorp and the respective trustee may modify and amend an indenture without the consent of any holder of debt securities for any of the following purposes:

- to evidence the succession of another person to NBT Bancorp as obligor under the indenture or to evidence the addition or release of any guarantor in accordance with the indenture or any supplemental indenture;
- to add to the covenants of NBT Bancorp for the benefit of the holders of all or any series of debt securities or to surrender any right or power conferred upon NBT Bancorp in the indenture;
- to add events of default for the benefit of the holders of all or any series of debt securities;
- to add or change any provisions of the indenture to facilitate the issuance of, or to liberalize specific terms of, debt securities in bearer form, or to permit or facilitate the issuance of debt securities in uncertificated form, provided that the action will not adversely affect the interests of the holders of the debt securities of any series in any material respect;
- to change or eliminate any provisions of an indenture, if the change or elimination becomes effective only when there are no debt securities outstanding of any series created prior to the change or elimination that are entitled to the benefit of the changed or eliminated provision;
- to secure or provide for the guarantee of the debt securities;
- to establish the form or terms of debt securities of any series and any related coupons;
- to provide for the acceptance of appointment by a successor trustee or facilitate the administration of the trusts under an indenture by more than one trustee;
- to cure any ambiguity or correct any inconsistency in an indenture provided that the cure or correction does not adversely affect the holders of the debt securities;

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to supplement any of the provisions of an indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of debt securities, provided that the supplement does not adversely affect the interests of the holders of the debt securities of any series in any material respect;

to make provisions with respect to the conversion or exchange terms and conditions applicable to the debt securities of any series;

to add to, delete from or revise the conditions, limitations or restrictions on issue, authentication and delivery of debt securities;

to conform any provision in an indenture to the requirements of the Trust Indenture Act; or

to make any change that does not adversely affect the legal rights under an indenture of any holder of debt securities of any series issued under that indenture.

In determining whether the holders of the requisite principal amount of outstanding debt securities of a series have given any request, demand, authorization, direction, notice, consent or waiver under the indenture or whether a quorum is present at a meeting of holders of debt securities:

the principal amount of an original issue discount security that is deemed to be outstanding will be the amount of the principal of that original issue discount security that would be due and payable as of the date of the determination upon declaration of acceleration of the maturity of that original issue discount security;

the principal amount of any debt security denominated in a foreign currency that is deemed outstanding will be the U.S. dollar equivalent, determined on the issue date for that debt security, of the principal amount, or, in the case of an original issue discount security, the U.S. dollar equivalent on the issue date of that debt security of the amount determined as provided in the immediately preceding bullet point;

the principal amount of an indexed security that is deemed outstanding will be the principal face amount of the indexed security at original issuance, unless otherwise provided with respect to the indexed security under the applicable indenture; and

debt securities owned by NBT Bancorp or any other obligor upon the debt securities or any affiliate of NBT Bancorp or of any other obligor are to be disregarded.

Discharge, Defeasance and Covenant Defeasance

Discharge

We may be permitted under the applicable indenture to discharge specific obligations to holders of any series of debt securities (1) that have not already been delivered to the applicable trustee for cancellation and (2) that either have become due and payable or will, within one year, become due and payable or scheduled for redemption, by irrevocably depositing with the applicable trustee, in trust, money or funds certified to be sufficient to pay when due, whether at maturity, upon redemption or otherwise, the principal of, and premium, if any, on and interest on the debt securities.

Defeasance and Covenant Defeasance

If the provisions in that indenture relating to defeasance and covenant defeasance are made applicable to the debt securities of or within any series, we may elect either:

defeasance, which means we elect to defease and be discharged from any and all obligations with respect to the debt securities, except for the obligations to register the transfer or exchange of the debt securities, to replace temporary or mutilated, destroyed, lost or stolen debt securities, to maintain an office or agency in respect of the debt securities and to hold moneys for payment in trust; or

covenant defeasance, which means we elect to be released from our obligations with respect to the debt securities under specified sections of the applicable indenture relating to covenants, as described in the applicable prospectus supplement and any omission to comply with its obligations will not constitute an event of default with respect to the

debt securities; in either case upon the irrevocable deposit by us with

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the applicable trustee, in trust, of an amount, in currency or currencies or government obligations, or both, sufficient without reinvestment to make scheduled payments of the principal of, and premium, if any, and interest on the debt securities, when due, whether at maturity, upon redemption or otherwise, and any mandatory sinking fund or analogous payments.

A trust will only be permitted to be established if, among other things:

we have delivered to the applicable trustee an opinion of counsel, as specified in the applicable indenture, to the effect that the holders of the debt securities will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance or covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the defeasance or covenant defeasance had not occurred, and the opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable U.S. federal income tax law occurring after the date of the indenture;

no event of default or any event which after notice or lapse of time or both would be an event of default has occurred; the defeasance or covenant defeasance will not result in a breach or violation of, or constitute a default under, the indenture or any other material agreement or instrument to which NBT Bancorp is a party or by which it is bound; certain other provisions set forth in the indenture are met;

we will have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent to the defeasance or covenant defeasance have been complied with; and

in the case of the subordinated debt indenture, no event or condition will exist that, pursuant to certain provisions described under —Subordination of Subordinated Debt Securities— would prevent NBT Bancorp from making payments of principal of and premium, if any, and interest on the subordinated debt securities at the date of the irrevocable deposit referred to above.

In general, if we elect covenant defeasance with respect to any debt securities and payments on those debt securities are declared due and payable because of the occurrence of an event of default, the amount of money and/or government obligations on deposit with the applicable trustee would be sufficient to pay amounts due on those debt securities at the time of their stated maturity, but may not be sufficient to pay amounts due on those debt securities at the time of the acceleration resulting from the event of default. In that case, we would remain liable to make payment of the amounts due on the debt securities at the time of acceleration.

The applicable prospectus supplement may further describe the provisions, if any, permitting defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the debt securities of or within a particular series.

Option to Extend Interest Payment Period

If indicated in the applicable prospectus supplement, we will have the right, as long as no event of default under the applicable series of debt securities has occurred and is continuing, at any time and from time to time during the term of the series of debt securities to defer the payment of interest on one or more series of debt securities for the number of consecutive interest payment periods specified in the applicable prospectus supplement, subject to the terms, conditions and covenants, if any, specified in the prospectus supplement, provided that no extension period may extend beyond the stated maturity of the debt securities. Material United States federal income tax consequences and special considerations applicable to these debt securities will be described in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, at the end of the extension period, we will pay all interest then accrued and unpaid together with interest on accrued and unpaid interest compounded semiannually at the rate specified for the debt securities to the extent permitted by applicable law. However, unless otherwise indicated in the applicable prospectus supplement, during the extension period neither we nor any of our subsidiaries may:

declare or pay dividends on, make distributions regarding, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock, other than:

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purchases of our capital stock in connection with any employee or agent benefit plans or the satisfaction of our obligations under any contract or security outstanding on the date of the event requiring us to purchase capital stock, in connection with the reclassifications of any class or series of our capital stock, or the exchange or conversion of one class or series of our capital stock for or into another class or series of our capital stock, the purchase of fractional interests in shares of our capital stock in connection with the conversion or exchange provisions of that capital stock or the security being converted or exchanged, dividends or distributions in our capital stock, or rights to acquire capital stock, or repurchases or redemptions of capital stock solely from the issuance or exchange of capital stock, or any non-cash dividends declared in connection with the implementation of a shareholder rights plan by us; make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem, any debt securities issued by us that rank equally with or junior to the debt securities; or make any guarantee payments regarding the foregoing.

Prior to the termination of any extension period, as long as no event of default under the applicable indenture has occurred and is continuing, we may further defer payments of interest, subject to the above limitations set forth in this section, by extending the interest payment period; provided, however, that, the extension period, including all previous and further extensions, may not extend beyond the maturity of the debt securities. Upon the termination of any extension period and the payment of all amounts then due, we may commence a new extension period, subject to the terms set forth in this section. No interest during an extension period, except at the end of the extension period, will be due and payable, but we may prepay at any time all or any portion of the interest accrued during an extension period.

We do not currently intend to exercise our right to defer payments of interest by extending the interest payment period on the senior debt securities or the subordinated debt securities. We will give the holders of these debt securities notice of our selection of an extension period at least two business days before the earlier of (a) the next succeeding interest payment date or (b) the date upon which we are required to give notice to the NASDAQ, or other applicable self-regulatory organization, or to holders of such debt securities of the record or payment date of the related interest payment.

Regarding the Trustees

We will designate the trustee under the senior and subordinated indentures in a prospectus supplement. From time to time, we may enter into banking or other relationships with any of such trustees or their affiliates.

There may be more than one trustee under each indenture, each with respect to one or more series of debt securities. Any trustee may resign or be removed with respect to one or more series of debt securities, and a successor trustee may be appointed to act with respect to such series.

If two or more persons are acting as trustee with respect to different series of debt securities, each trustee will be a trustee of a trust under the indenture separate from the trust administered by any other such trustee. Except as otherwise indicated in this prospectus, any action to be taken by the trustee may be taken by each such trustee with respect to, and only with respect to, the one or more series of debt securities for which it is trustee under the indenture.

Governing Law

The senior debt securities, the subordinated debt securities and the related indentures will be governed by, and construed in accordance with, the internal laws of the State of New York.

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DESCRIPTION OF WARRANTS

General

We may issue warrants to purchase our debt securities, common stock or preferred stock or units of two or more of these types of securities, which are collectively referred to in this prospectus as underlying warrant securities. We may issue warrants independently or together with any underlying warrant securities and such warrants may be attached to or separate from those underlying warrant securities. We will issue the warrants under warrant agreements to be entered into between us and a bank or trust company, as warrant agent, as more fully described in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the warrants of the series being offered and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants. As of March 31, 2018, there were no warrants to purchase shares of our common stock issued and outstanding.

The applicable prospectus supplement will contain a description of the following terms:

- the title of the warrants;
- the designation, amount and terms of the underlying warrant securities for which the warrants are exercisable;
- the designation and terms of the underlying warrant securities, if any, with which the warrants are to be issued and the number of warrants issued with each underlying warrant security;
- the price or prices at which the warrants will be issued;
- the aggregate number of warrants;
- any provisions for adjustment of the number or amount of securities receivable upon exercise of the warrants or the exercise price of the warrants;
- the price or prices at which the underlying warrant securities purchasable upon exercise of the warrants may be purchased;
- if applicable, the date on and after which the warrants and the underlying warrant securities purchasable upon exercise of the warrants will be separately transferable;
- if applicable, a discussion of the material United States federal income tax considerations applicable to the exercise of the warrants;
- the date on which the right to exercise the warrants will commence, and the date on which the right will expire;
- the currency or currencies (including composite currencies), and/or the securities (if any), in which the exercise price of the warrants may be payable; and, if the exercise price is payable in whole or in part with securities, the basis for determining the amount or number of such securities to be provided as such payment;
- the maximum or minimum number of warrants which may be exercised at any time;
- information with respect to book-entry procedures, if any; and
- any other terms, including terms, procedures and limitations relating to the exercise and exchange of the warrants.

Exercise of Warrants

Each warrant will entitle its holder to purchase, for cash and/or securities (as will be specified in the applicable prospectus supplement), the amount or number of debt securities, shares of preferred stock, or shares of common stock, at the exercise price, as will in each case be set forth in, or be determinable as set forth in, the applicable prospectus supplement. Holders may exercise warrants at any time up to the close of business on the expiration date set forth in the prospectus supplement relating to the warrants offered thereby. After the close of business on the expiration date, unexercised warrants will become void.

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Holders of warrants may exercise their respective warrants as set forth in the prospectus supplement relating to such warrants. Upon receipt of payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the underlying warrant securities purchasable upon exercise of the warrants. If a holder exercises less than all of the warrants represented by the warrant certificate, the warrant agent will issue a new warrant certificate for the remaining warrants.

Prior to the exercise of any warrants to purchase debt securities or other securities, including shares of preferred stock or common stock, holders of the warrants will not have any of the rights of holders of the debt securities or other securities, including shares of preferred stock or common stock purchasable upon exercise, including:

in the case of warrants for the purchase of debt securities, the right to receive payments of principal of, or any premium or interest on, the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture; or

• in the case of warrants for the purchase of shares of preferred stock or shares of common stock, the right to vote or to receive any payments of dividends on the shares of preferred stock or common stock purchasable upon exercise. The descriptions of the warrant agreements in this prospectus and in any prospectus supplement are summaries of certain material provisions of the applicable warrant agreements. These descriptions do not restate those agreements in their entirety and do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the applicable warrant agreement and warrant certificate relating to the warrants because they, and not the summaries, define your rights as holders of the warrants or any warrant units. For more information, please review the forms of these documents, which will be filed with the SEC promptly after the offering of warrants or warrant units and will be available as described under the heading **Where You Can Find More Information** above.

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DESCRIPTION OF PURCHASE CONTRACTS

As may be specified in a prospectus supplement, we may issue purchase contracts obligating holders to purchase from NBT Bancorp, and obligating NBT Bancorp to sell to the holders, a number of debt securities, shares of our common stock, or preferred stock or depository shares or warrants, at a future date or dates. The price per purchase contract security may be fixed at the time the purchase contracts are issued or may be determined by reference to a specific formula set forth in the purchase contracts. Under the purchase contracts, we may be required to make periodic payments to the holders of the units or vice versa. These payments may be unsecured or prefunded on some basis to be specified in the applicable prospectus supplement.

The purchase contracts may require holders to secure their obligations under the contracts in a specified manner and, in specified circumstances, we may deliver newly issued prepaid purchase contracts, or prepaid securities, when we transfer to a holder any collateral securing the holder's obligations under the original purchase contract.

The purchase contracts may be issued separately or as part of units consisting of a purchase contract and one or more other securities, which may include debt securities, depository shares, preferred securities, common stock, warrants or debt obligations of NBT Bancorp, or government securities, and which may secure the holder's obligations to purchase the purchase contract security under the purchase contract.

The prospectus supplement relating to any purchase contracts we are offering will specify the material terms of the purchase contracts, whether they will be issued separately or as part of units, and any applicable pledge or depository arrangements.

The descriptions of the purchase contracts and any applicable underlying security or pledge or depository arrangements in this prospectus and in any prospectus supplement are summaries of certain material provisions of the applicable agreements. These descriptions do not restate those agreements in their entirety and do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the applicable agreements because they, and not the summaries, define your rights as holders of the purchase contracts. We will make copies of the relevant agreements available as described under the heading **Where You Can Find More Information** above.

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DESCRIPTION OF UNITS

As specified in the applicable prospectus supplement, we may issue units comprised of one or more of the other securities described in this prospectus in any combination. Each unit may also include debt obligations of third parties, such as U.S. Treasury securities. Each unit will be issued so that the holder of the unit is also the holder of each security included in the unit. Thus, the holder of a unit will have the rights and obligations of a holder of each included security. The prospectus supplement will describe:

• the designation and terms of the units and of the securities comprising the units, including whether and under what circumstances the securities comprising the units may be held or transferred separately;

• a description of the terms of any unit agreement governing the units;

• a description of the provisions for the payment, settlement, transfer or exchange of the units; and

• whether the units will be issued in fully registered or global form.

The descriptions of the units and any applicable underlying security or pledge or depository arrangements in this prospectus and in any prospectus supplement are summaries of the material provisions of the applicable agreements. These descriptions do not restate those agreements in their entirety and do not contain all of the information that you may find useful or that may be important to you. You should refer to the provisions of the applicable agreements because they, and not the summaries, define your rights as holders of the units. We will make copies of the relevant agreements available as described under the heading **Where You Can Find More Information** above.

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PLAN OF DISTRIBUTION

NBT Bancorp or the selling securityholders may sell the offered securities:

- directly to purchasers;
- through agents;
- through dealers;
- through underwriters;
- directly to its stockholders; or
- through a combination of any of these methods of sale.

The prospectus supplement relating to a series of the offered securities will set forth its offering terms, including the name or names of any underwriters, dealers or agents, the purchase price of the offered securities and the proceeds to NBT Bancorp and/or selling securityholder from the sale, any underwriting discounts, commissions and other items constituting underwriters' compensation, any initial public offering price and any underwriting discounts, commissions and other items allowed or reallocated or paid to dealers or agents and any securities exchanges on which the offered securities may be listed.

NBT Bancorp or the selling securityholders may use one or more underwriters in the sale of the offered securities, in which case the offered securities will be acquired by the underwriter or underwriters for their own account and may be resold from time to time in one or more transactions either:

- at a fixed price or prices, which may be changed;
- at market prices prevailing at the time of sale;
 - at prices related to the prevailing market prices; or
- at negotiated prices.

NBT Bancorp or a selling securityholder may directly solicit offers to purchase offered securities. Agents designated by NBT Bancorp or a selling securityholder from time to time may also solicit offers to purchase offered securities. Any agent designated by NBT Bancorp or a selling securityholder, who may be deemed to be an underwriter as that term is defined in the Securities Act, involved in the offer or sale of the offered securities in respect of which this prospectus is delivered will be named, and any commissions payable by NBT Bancorp or a selling securityholder to such agent will be set forth in the prospectus supplement.

If a dalign:right;">

\$

9.0

\$

3.5

\$

3.4

Interest cost

18.7

15.9

9.6

7.3

5.0

3.8

Expected return on plan assets

(21.5

)

(18.7

)

(10.3

)

(8.6

)

Amortization of:

Prior service cost

0.5

0.6

0.2

0.2

Actuarial loss

1.3

4.6

5.8

6.2

0.6

0.9

Settlements and curtailments

0.2

Net periodic benefit cost

\$

12.8

\$

18.5

\$

17.2

\$

14.3

\$

9.1

\$

8.1

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 law changed the calculation related to the maximum contribution amount deductible for income tax purposes. As a result of these provisions, the Company made discretionary contributions totaling \$15.0 million to its trust-based, noncontributory qualified defined benefit pension plan during the current year and expects to contribute an additional \$5.0 million during the remainder of fiscal 2007. The Company expects to make benefit payments under its non-qualified domestic noncontributory pension plan totaling \$10.3 million during the fiscal year ending June 30, 2007. In addition, the Company expects to contribute \$20.8 million to its international pension plans during the fiscal year ending June 30, 2007.

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

Common Stock

During the nine months ended March 31, 2007, 3,501,154 shares of the Company's Class B Common Stock were converted into Class A Common Stock. There is no cash or other consideration paid by the holders converting the shares and, accordingly, there is no cash or other consideration received by the Company.

Management Estimates

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

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), which sets forth the SEC Staff's views on the proper methods for quantifying errors when there were uncorrected errors in a prior year. Under SAB No. 108, companies should evaluate a misstatement that existed in prior years based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements in the current year's ending balance sheet. SAB No. 108 will become effective for the Company at June 30, 2007. The Company is currently evaluating the impact of the provisions of SAB No. 108 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, (SFAS No. 159) to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. The Company is currently evaluating the impact of the provisions of SFAS No. 159 on its consolidated financial statements, if any, when it becomes effective for the fiscal year ending June 30, 2009.

THE ESTÉE LAUDER COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 COMPREHENSIVE INCOME

The components of accumulated other comprehensive income (OCI) included in the accompanying consolidated balance sheets consist of net unrealized investment gain (loss), net gain (loss) on derivative instruments designated and qualifying as cash-flow hedging instruments, net 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 Months Ended March 31 2007 (Unaudited) (In millions)		Nine Months Ended March 31 2007 2006	
	2007	2006	2007	2006
Net earnings	\$ 93.9	\$ 59.5	\$ 360.6	\$ 199.7
Other comprehensive income (loss):				
Net unrealized investment gain	0.1	0.2	0.2	0.2
Net derivative instruments gain (loss)	(0.2)	0.7	(3.4)	0.8
Translation adjustments	1.0	12.0	20.0	(1.1)
Other comprehensive income (loss)	0.9	12.9	16.8	(0.1)
Comprehensive income	\$ 94.8	\$ 72.4	\$ 377.4	\$ 199.6

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

	Three Months Ended March 31 2007 (Unaudited) (In millions)		Nine Months Ended March 31 2007 2006	
	2007	2006	2007	2006
OCI-derivative instruments, beginning of period	\$ 7.1	\$ 12.0	\$ 10.3	\$ 11.9
Gain (loss) on derivative instruments	(0.9)	2.3	(7.1)	7.3
Reclassification to earnings of net (gain) loss during the period	0.6	(1.2)	2.0	(6.7)
Benefit (provision) for deferred income taxes	0.1	(0.4)	1.7	0.2
Net derivative instruments gain (loss)	(0.2)	0.7	(3.4)	0.8
OCI-derivative instruments, end of period	\$ 6.9	\$ 12.7	\$ 6.9	\$ 12.7

The \$6.9 million, net of tax, derivative instrument gain recorded in OCI at the end of the current period included \$9.1 million, net of tax, related to the gain on the settlement of treasury lock agreements upon issuance of the Company's 5.75% Senior Notes due October 2033, which will be reclassified to earnings as an offset to interest expense over the life of the debt. Offsetting this gain was \$2.2 million, net of tax, related to the loss on forward and option contracts, which the Company will reclassify to earnings during the next fifteen months.

At the end of the prior period, the \$12.7 million, net of tax, derivative instrument gain recorded in OCI included \$9.2 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 \$3.5 million, net of tax, related to forward and option contracts which the Company is reclassifying to earnings through the fiscal year ending June 30, 2007.

THE ESTÉE LAUDER COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 STOCK PROGRAMS

As of March 31, 2007, 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 March 31, 2007, approximately 6,480,000 shares of Class A Common Stock were reserved and available to be granted pursuant to these Plans. The Company may satisfy the obligation of its stock-based compensation awards with either new or treasury shares. The Company's stock compensation awards outstanding at March 31, 2007 include stock options, performance share units (PSU), restricted stock units (RSU) and share units.

Stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of, stock options, PSUs, RSUs and share units, net of estimated forfeitures. Compensation expense attributable to net stock-based compensation during the three months ended March 31, 2007 and 2006 was \$9.0 million and \$5.8 million, respectively. Compensation expense attributable to net stock-based compensation during the nine months ended March 31, 2007 and 2006 was \$35.5 million and \$29.4 million, respectively. As of March 31, 2007 and 2006, the total unrecognized compensation cost related to nonvested stock-based awards was \$39.5 million and \$33.0 million, respectively and the related weighted-average period over which it is expected to be recognized is approximately 1.9 and 2.4 years, respectively.

Stock Options

A summary of the Company's stock option programs as of March 31, 2007 and changes during the nine-month period then ended, is presented below:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value(1) (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2006	26,215.7	\$ 39.53		
Granted at fair value	1,684.3	39.68		
Exercised	(3,884.1)) 31.35		
Expired	(164.0)) 42.46		
Forfeited	(104.2)) 39.20		
Outstanding at March 31, 2007	23,747.7	40.86	\$ 206.8	4.5
Exercisable at March 31, 2007	19,899.7	41.19	\$ 169.4	3.7

(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 March 31, 2007 and 2006 was \$15.30 and \$13.15, respectively. The weighted-average grant date fair value of stock options granted for the nine months ended March 31, 2007 and 2006 was \$13.69 and \$11.87, respectively. The total intrinsic value of stock options exercised during the three months ended March 31, 2007 and 2006 was \$35.9 million and \$8.5 million, respectively. The total intrinsic value of stock options exercised during the nine months ended March 31, 2007 and 2006 was \$51.8 million and \$30.9 million, respectively.

THE ESTÉE LAUDER COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)	Three Months Ended March 31			
	2007		2006	
Weighted-average expected stock-price volatility	24	%	25	%
Weighted-average expected option life	7 years		8 years	
Average risk-free interest rate	4.7	%	4.5	%
Average dividend yield	1.2	%	1.2	%

(Unaudited)	Nine Months Ended March 31			
	2007		2006	
Weighted-average expected stock-price volatility	24	%	23	%
Weighted-average expected option life	8 years		8 years	
Average risk-free interest rate	4.7	%	4.3	%
Average dividend yield	1.2	%	.9	%

Performance Share Units

During the nine months ended March 31, 2007, the Company issued approximately 119,000 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 and, as such, the compensation cost of the PSUs is subject to adjustment based upon the attainability of these target goals. 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 the closing market value of the Company's Class A Common Stock on the date of grant and generally vest at the end of the performance period.

The following is a summary of the status of the Company's PSUs as of March 31, 2007 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value
Nonvested at June 30, 2006	111.1	\$ 35.00
Granted	119.0	39.56
Vested		
Forfeited		
Nonvested at March 31, 2007	230.1	37.36

Restricted Stock Units

The Company granted approximately 603,100 RSUs during the nine months ended March 31, 2007, of which 332,800 are scheduled to vest on October 31, 2007, 173,500 on October 31, 2008 and 96,800 on November 2, 2009, all subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2007 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 2007 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the status of the Company's RSUs as of March 31, 2007 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value
Nonvested at June 30, 2006	111.1	\$ 35.00
Granted	603.1	39.21
Vested	(37.0)	35.00
Forfeited	(11.3)	39.09
Nonvested at March 31, 2007	665.9	38.75

Share Units

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The share units are convertible into shares of Class A Common Stock as provided for in that plan. Share units are accompanied by dividend equivalent rights that are converted to additional share units when such dividends are declared. The following is a summary of the status of the Company's share units as of March 31, 2007 and activity during the nine months then ended:

(Unaudited) (Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value
Outstanding at June 30, 2006	13.1	\$ 36.79
Granted	4.3	40.35
Dividend equivalents	0.2	41.25
Converted	(3.8)	37.98
Outstanding at March 31, 2007	13.8	37.65

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 cash 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 \$0.5 million and \$0.3 million as compensation expense to reflect the change in the market value for the three months ended March 31, 2007 and 2006, respectively. The Company recorded \$0.9 million and \$0.3 million as compensation expense to reflect the change in the market value for the nine months ended March 31, 2007 and 2006, respectively.

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. For the three and nine months ended March 31, 2007, \$0.1 million and \$0.3 million of operating income, both net of tax, are reflected as discontinued operations in the accompanying consolidated statements of earnings. These results reflected the conclusion of transitional distribution services provided to the purchaser. During the prior year, the Company recorded a charge of \$3.7 million (net of \$24.5 million tax benefit) and \$75.7 million (net of \$40.7 million tax benefit) as discontinued operations for the three and nine months ended March 31, 2006, respectively. The charge reflected the then-anticipated loss on the sale of the business of \$0.8 million, net of tax, and \$66.3 million, net of tax, and the operating loss of \$2.9 million, net of tax, and \$9.4 million, net of tax, for the three and nine months ended March 31, 2006, respectively. Net sales associated with the discontinued operations were \$12.6 million and \$38.3 million for the three and nine months ended March 31, 2006, respectively.

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 identified savings opportunities that included streamlined processes and organizational changes. Substantially all employees designated for separation under the cost savings initiative have been separated as of March 31, 2007.

During the nine months ended March 31, 2007, the Company incurred a net additional \$0.4 million under this program primarily related to facility closings. At March 31, 2007, the accrued liability related to the cost savings initiative was \$30.2 million of which \$17.6 million and \$12.6 million was reflected as other accrued liabilities and other noncurrent liabilities, respectively, in the accompanying consolidated balance sheet.

NOTE 6 ACCELERATED SHARE REPURCHASE PROGRAM

In March 2007, the Company repurchased approximately 15,960,800 shares of its outstanding Class A Common Stock for \$750.0 million through an accelerated share repurchase program with a financial counterparty. These shares were accounted for as treasury stock, carried at cost, and reflected as a reduction to stockholders' equity. The financial counterparty is expected to purchase shares for its own account in the open market over a period ending no later than October 2007. At the end of that period, the Company will receive or pay a price adjustment based on the volume weighted average price of the Company's shares traded during the period (VWAP). For the purpose of limiting the price adjustment, approximately 10,640,500 shares purchased are subject to a cap, which sets a maximum price for these shares. For the shares subject to the cap, the maximum price adjustment the Company could pay is equal to \$80.6 million. The cap is not carried on the accompanying consolidated balance sheet as an asset or liability because it is a component of a transaction involving the Company's equity securities and can potentially be settled by the issuance of the Company's common stock or a cash payment at the Company's discretion. If share settlement is elected by the Company, the number of shares it could potentially issue at the end of the repurchase period cannot currently be determined since the number will be dependent upon the amount, if any, that the Company might owe as a price adjustment, divided by the market price of its common stock on the settlement date. The maximum number of shares potentially issuable is 25,000,000.

The following table provides information as of March 31, 2007 regarding the accelerated share repurchase program:

(Unaudited) (Dollars in millions, except share and per share data)	Maturity-October 2007
Shares subject to cap	10,640,500
Cap price per share	\$ 54.57
Maximum potential price adjustment subject to cap	\$ 80.6
Shares not subject to cap	5,320,300
Estimated interim price adjustment at March 31, 2007	\$ 21.7
Estimated impact of a \$1 change in the VWAP	\$ 16.0

THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 SUBSEQUENT EVENTS

In May 2007, the Company issued and sold \$300.0 million of 5.55% Senior Notes due May 15, 2017 (5.55% Senior Notes due 2017) and \$300.0 million of 6.00% Senior Notes due May 15, 2037 (6.00% Senior Notes due 2037) in a public offering. The 5.55% Senior Notes due 2017 were priced at 99.845% with a yield of 5.570% and the 6.00% Senior Notes due 2037 were priced at 98.722% with a yield of 6.093%. Interest payments on both notes are required to be made semi-annually on May 15 and November 15, commencing November 15, 2007. The Company is using the net proceeds of this offering to repay long-term commercial paper and to pay transaction fees and expenses related to this offering.

In April 2007, in connection with the anticipated issuance of debt, the Company entered into a series of forward-starting interest rate swap agreements with a notional amount totaling \$210.0 million at a weighted average all-in rate of 5.45%. These forward-starting swap agreements, designated as cash-flow hedges, were used to hedge the exposure to a possible rise in the benchmark interest rate prior to the May 2007 issuance of debt. The agreements were settled upon the issuance of the 6.00% Senior Notes due 2037 and the Company recognized a loss in other comprehensive income of \$0.9 million that will be amortized to interest expense over the 30-year life of the 6.00% Senior Notes due 2037.

In April 2007, the Company entered into an interest rate swap agreement with a notional amount of \$250.0 million to effectively convert the fixed rate interest on its 5.55% Senior Notes due 2017 to variable interest rates based on six-month LIBOR. The interest rate swap was designated as a fair-value hedge.

In April 2007, the Company terminated the outstanding interest-rate swap on the \$250 million Senior Notes due 2012. This instrument was classified as a liability and had a fair value of \$11.1 million at cash settlement. Hedge accounting treatment was discontinued prospectively and the offsetting adjustment to the carrying amount of the related debt will be amortized to interest expense over the remaining life of the debt.

Effective April 26, 2007, the Company entered into a five-year \$750.0 million senior unsecured revolving credit facility, expiring on April 26, 2012, primarily to provide credit support for our commercial paper program. This revolving credit facility may also be used for general corporate purposes and to repurchase shares of the Company's stock. The new facility replaced the Company's prior, undrawn \$600.0 million senior unsecured revolving credit facility, which was effective since May 27, 2005. The Company was in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens, associated with the Company's prior facility as of March 31, 2007. 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 ½% plus the Federal funds rate. The Company incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on the Company's current credit ratings.

THE ESTÉE LAUDER COMPANIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 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 Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
	(Unaudited)			
	(In millions)			
PRODUCT CATEGORY DATA				
Net Sales:				
Skin Care	\$ 668.9	\$ 611.1	\$ 1,937.0	\$ 1,778.6
Makeup	678.4	634.9	2,042.0	1,882.1
Fragrance	240.1	246.3	994.5	947.4
Hair Care	97.1	80.3	273.4	229.9
Other	6.0	5.6	28.2	21.2
	\$ 1,690.5	\$ 1,578.2	\$ 5,275.1	\$ 4,859.2
Operating Income (Loss):				
Skin Care	\$ 80.9	\$ 80.3	\$ 272.6	\$ 252.4
Makeup	87.4	92.5	265.8	245.5
Fragrance	(21.4)	(11.7)	21.2	5.2
Hair Care	11.4	6.8	30.9	19.7
Other	(1.7)		(1.1)	2.5
Special charges related to cost savings initiative	0.1	(51.6)	(0.4)	(53.2)
	156.7	116.3	589.0	472.1
Reconciliation:				
Interest expense, net	(8.8)	(6.6)	(23.2)	(19.1)
Earnings before income taxes, minority interest and discontinued operations	\$ 147.9	\$ 109.7	\$ 565.8	\$ 453.0
GEOGRAPHIC DATA				
Net Sales:				
The Americas	\$ 856.9	\$ 870.1	\$ 2,701.4	\$ 2,629.9
Europe, the Middle East & Africa	598.4	501.5	1,832.0	1,577.9
Asia/Pacific	235.2	206.6	741.7	651.4
	\$ 1,690.5	\$ 1,578.2	\$ 5,275.1	\$ 4,859.2
Operating Income (Loss):				
The Americas	\$ 72.0	\$ 99.2	\$ 255.0	\$ 259.2
Europe, the Middle East & Africa	66.0	54.9	255.1	209.3
Asia/Pacific	18.6	13.8	79.3	56.8
Special charges related to cost savings initiative	0.1	(51.6)	(0.4)	(53.2)
	\$ 156.7	\$ 116.3	\$ 589.0	\$ 472.1

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 130 countries and territories. The following is a comparative summary of operating results from continuing operations for the three and nine months ended March 31, 2007 and 2006, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Sales of products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

	Three Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
	(In millions)			
NET SALES				
By Region:				
The Americas	\$ 856.9	\$ 870.1	\$ 2,701.4	\$ 2,629.9
Europe, the Middle East & Africa	598.4	501.5	1,832.0	1,577.9
Asia/Pacific	235.2	206.6	741.7	651.4
	\$ 1,690.5	\$ 1,578.2	\$ 5,275.1	\$ 4,859.2
By Product Category:				
Skin Care	\$ 668.9	\$ 611.1	\$ 1,937.0	\$ 1,778.6
Makeup	678.4	634.9	2,042.0	1,882.1
Fragrance	240.1	246.3	994.5	947.4
Hair Care	97.1	80.3	273.4	229.9
Other	6.0	5.6	28.2	21.2
	\$ 1,690.5	\$ 1,578.2	\$ 5,275.1	\$ 4,859.2
OPERATING INCOME (LOSS)				
By Region:				
The Americas	\$ 72.0	\$ 99.2	\$ 255.0	\$ 259.2
Europe, the Middle East & Africa	66.0	54.9	255.1	209.3
Asia/Pacific	18.6	13.8	79.3	56.8
Special charges related to cost savings initiative	0.1	(51.6)	(0.4)	(53.2)
	\$ 156.7	\$ 116.3	\$ 589.0	\$ 472.1
By Product Category:				
Skin Care	\$ 80.9	\$ 80.3	\$ 272.6	\$ 252.4
Makeup	87.4	92.5	265.8	245.5
Fragrance	(21.4)	(11.7)	21.2	5.2
Hair Care	11.4	6.8	30.9	19.7
Other	(1.7)		(1.1)	2.5
Special charges related to cost savings initiative	0.1	(51.6)	(0.4)	(53.2)
	\$ 156.7	\$ 116.3	\$ 589.0	\$ 472.1

THE ESTÉE LAUDER COMPANIES INC.

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	25.2	26.1	25.6	26.5
Gross profit	74.8	73.9	74.4	73.5
Operating expenses:				
Selling, general and administrative	65.5	63.2	63.2	62.7
Special charges related to cost savings initiative		3.3		1.1
	65.5	66.5	63.2	63.8
Operating income	9.3	7.4	11.2	9.7
Interest expense, net	0.5	0.4	0.5	0.4
Earnings before income taxes, minority interest and discontinued operations	8.8	7.0	10.7	9.3
Provision for income taxes	3.1	2.8	3.8	3.5
Minority interest, net of tax	(0.1)	(0.2)	(0.1)	(0.2)
Net earnings from continuing operations	5.6	4.0	6.8	5.6
Discontinued operations, net of tax		(0.2)		(1.5)
Net earnings	5.6 %	3.8 %	6.8 %	4.1 %

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.

Third Quarter Fiscal 2007 as Compared with Third Quarter Fiscal 2006**NET SALES**

Net sales increased 7% or \$112.3 million to \$1,690.5 million. Europe, the Middle East & Africa and Asia/Pacific posted double-digit net sales growth, with improvements in all major product categories, while net sales in the Americas declined. Skin care, makeup and fragrance net sales in the Americas were adversely impacted by fewer department store doors resulting from the merger of Federated Department Stores, Inc. (Federated) and The May Department Stores Company (the Federated/May Merger). We also experienced weakness in our business at those Federated doors that converted to Macy's in the United States. Excluding the impact of foreign currency translation, net sales increased 5%.

Product Categories***Skin Care***

Net sales of skin care products increased 9% or \$57.8 million to \$668.9 million. Most of this growth occurred outside of the United States. The recent launches of Continuous Rescue Antioxidant Moisturizer, All About Eyes Rich and Repairwear Lift from Clinique and Advanced Night Repair Concentrate Recovery Boosting Treatment and new Perfectionist products from Estée Lauder contributed incremental sales of approximately \$36 million, combined. Net sales increases of approximately \$15 million from products in the Clinique 3-Step Skin Care System and Advanced Night Repair Eye Recovery Complex by Estée Lauder also contributed to growth in this product category. These improvements were partially offset by approximately \$14 million of lower sales of Turnaround Concentrate Visible Skin Renewer and Turnaround 15-Minute Facial by Clinique and Resilience Lift Extreme Ultra firming products by Estée Lauder. Excluding the impact of foreign currency translation, skin care net sales increased 7%.

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Makeup

Makeup net sales increased 7% or \$43.5 million to \$678.4 million, primarily reflecting growth from our makeup artist brands of approximately \$35 million. The recent launches of Resilience Lift Extreme Ultra Firming Makeup SPF 15 and Projectionist High Definition Volume Mascara by Estée Lauder, and Full Potential Lips by Clinique, collectively contributed approximately \$24 million to the growth in this product category. Partially offsetting these increases were lower sales of approximately \$11 million of Pure Color Gloss by Estée Lauder, and Blushing Blush and Colour Surge Lipstick by Clinique. Excluding the impact of foreign currency translation, makeup net sales increased 5%.

Fragrance

Net sales of fragrance products decreased 3% or \$6.2 million to \$240.1 million. Lower sales of Estée Lauder *pleasures* and Beautiful, and True Star by Tommy Hilfiger contributed approximately \$17 million to the decrease. Sales of Sean John Unforgivable and Youth Dew Amber Nude from Tom Ford for Estée Lauder were lower by approximately \$7 million, combined, due to a difficult comparison to the prior-year quarter when they were recently launched. These declines were partially offset by approximately \$20 million of incremental sales from the recent international launches of DKNY Red Delicious, Pure White Linen from Estée Lauder and DKNY Red Delicious Men, as well as higher sales of DKNY Be Delicious. We anticipate continued challenges in this product category, particularly in the United States. Excluding the impact of foreign currency translation, fragrance net sales decreased 6%.

Hair Care

Hair care net sales increased 21% or \$16.8 million to \$97.1 million, primarily due to growth from Aveda and Bumble and bumble products. Aveda net sales increases were primarily due to the acquisition of an independent distributor, sales of professional color products and the recent launch of Be Curly shampoo and conditioner. Bumble and bumble net sales benefited from new salon openings and from a new hotel amenities program. Excluding the impact of foreign currency translation, hair care net sales increased 20%.

Geographic Regions

Net sales in the Americas decreased 2% or \$13.2 million to \$856.9 million. Net sales from our core brands in the United States declined approximately \$48 million, primarily as a result of competitive pressures and retailer consolidation. During the current quarter, we began to anniversary the closing of doors related to retailer consolidation at Federated. We expect these factors, including weakness in our business at those Federated doors that converted to Macy's in the United States, to continue to affect sales, with the impact of retailer consolidations continuing to ease over the remainder of the fiscal year. Also contributing to the weakness in our core brands was the timing and level of fragrance shipments, in particular certain Tommy Hilfiger products, and somewhat lower replenishment shipments to retailers following an increase of such shipments during the latter portion of our fiscal 2007 second quarter. Partially offsetting these decreases was an increase in net sales of approximately \$22 million from our hair care business, our internet distribution and our makeup artist brands. Approximately \$9 million of net sales growth in Canada, Latin America and Mexico also contributed positively to the region.

In Europe, the Middle East & Africa, net sales increased 19% or \$96.9 million to \$598.4 million, including an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$34 million. Net sales growth in the region was led by the United Kingdom, our travel retail business, Russia, the Balkans and Italy of approximately \$77 million, collectively. Partially offsetting these increases were lower sales in Spain and South Africa of approximately \$2 million, combined. On a local currency basis, net sales in Europe, the Middle East & Africa increased 13%.

Net sales in Asia/Pacific increased 14% or \$28.6 million to \$235.2 million. Higher net sales of approximately \$23 million in Korea, China, Hong Kong and Australia generally reflected a strong economic environment during this period as well as new points of distribution. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 12%.

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

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COST OF SALES

Cost of sales as a percentage of total net sales decreased to 25.2% as compared with 26.1% in the prior period. Contributing to the favorability was a decrease in obsolescence charges, a change in the mix of our business and the effect of exchange rate translation of approximately 20 basis points each. The current period improvement also reflected a decrease in the level and timing of promotional activities of approximately 10 basis points. Cost of sales in the prior period reflected an unutilized tooling charge, resulting in additional favorability of approximately 20 basis points. Certain of these items reflect savings achieved during the current period from our cost savings initiative, which commenced during fiscal 2006.

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 improved to 65.5% of net sales as compared with 66.5% of net sales in the prior-year period. During the prior-year quarter, we recorded a \$51.6 million charge to operating expenses related to the implementation of our cost savings initiative that negatively impacted our operating expense margin by approximately 330 basis points. The current quarter operating expense margin included an impact of approximately 170 basis points due to an increase in selling, general and administrative expenses, which reflected higher demonstration, field selling and training costs in support of our business, as well as organizational costs to establish the platform upon which we intend to build our pharmacy channel business in Europe. Operating expense margin was also negatively impacted by approximately 70 basis points primarily related to lower net sales in the United States, which reflected retailer consolidation and weakness at certain Federated doors that converted to Macy's, as well as incremental spending related to our strategic modernization initiative. Overall operating expenses reflected savings achieved during the current period from our cost savings initiative, which commenced during fiscal 2006.

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

OPERATING RESULTS

Based on the growth in net sales and the decreases in our cost of sales and operating expense margins as previously discussed, operating income increased 35%, or \$40.4 million, to \$156.7 million as compared with the prior-year period. Operating margins were 9.3% of net sales as compared with 7.4% in the prior-year period, which was negatively impacted by 3.3% of net sales as a result of the special charge related to our cost savings initiative.

The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of the special charge of \$51.6 million in the prior-year period related to our cost savings initiative. The impact of the net special charge in the current-year quarter was de minimis. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business. See Note 8 of Notes to Consolidated Financial Statements *Segment Data and Related Information*.

Product Categories

Hair care operating results increased 68% or \$4.6 million to \$11.4 million as the increase in sales outpaced increased spending in support of new distribution points and product launches. Skin care operating results were relatively flat as improvements in international results, tempered by organizational costs to establish the platform upon which we intend to build our pharmacy channel business in Europe, were offset by declines domestically. Operating results decreased 6% or \$5.1 million to \$87.4 million in makeup, primarily as a result of challenges among certain core brands and the impact of retailer consolidation in the United States, partially offset by profits from higher net sales from our makeup artist brands. Fragrance operating results declined 83% or \$9.7 million, primarily reflecting the timing and level of fragrance shipments, in particular certain Tommy Hilfiger products, and spending behind new and developing brands.

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Geographic Regions

Operating income in the Americas decreased 27% or \$27.2 million to \$72.0 million, reflecting lower net sales, coupled with spending behind strategic initiatives at our core brands, and to develop new brands, in the United States. Improved operating income from our hair care business and our internet distribution partially offset these results.

In Europe, the Middle East & Africa, operating income increased 20% or \$11.1 million to \$66.0 million primarily due to improved results from our travel retail business, the United Kingdom, and Russia of approximately \$20 million, collectively. Partially offsetting these increases were lower results in France and Spain of approximately \$10 million, collectively.

In Asia/Pacific, operating income increased 35% or \$4.8 million to \$18.6 million. Improved results in Hong Kong, China, Japan and Korea contributed approximately \$6 million, collectively. Partially offsetting the increase were lower contributions of approximately \$2 million, combined, from Taiwan and Thailand.

Interest Expense, Net

Net interest expense was \$8.8 million as compared with \$6.6 million in the prior period. This change primarily resulted from higher average debt balances, primarily associated with the funding of our accelerated share repurchase program, and by higher interest rates, 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 March 31, 2007 was 35.4% as compared with 39.6% in the prior period. The decrease in the effective income tax rate of 420 basis points primarily reflected the positive impact attributable to the tax effect of our foreign operations (380 basis points) and an increase in tax credits (40 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. For the three months ended March 31, 2007, \$0.1 million, net of tax, of operating income was reflected as discontinued operations, reflecting the conclusion of transitional distribution services provided to the purchaser. The prior period charge of \$3.7 million, net of tax, reflected the then-anticipated loss on the sale of the business of \$0.8 million, net of tax, and the operating loss of \$2.9 million, net of tax.

THE ESTÉE LAUDER COMPANIES INC.

Nine Months Fiscal 2007 as Compared with Nine Months Fiscal 2006

NET SALES

Net sales increased 9% or \$415.9 million to \$5,275.1 million, reflecting net sales growth in all major product categories. The increases in our skin care, makeup and fragrance product categories were led by Europe, the Middle East & Africa while the increase in hair care net sales was predominantly in the Americas. The skin care, makeup and fragrance categories within the Americas region were adversely impacted by fewer department store doors resulting from the Federated/May Merger. We also experienced weakness in our business at those Federated doors that converted to Macy's in the United States. Prior-year period net sales in the Americas reflected an incremental provision of approximately \$16 million for returns that were anticipated at that time as a result of then-announced store closings related to these retailer consolidations. Excluding the impact of foreign currency translation, net sales increased 6%.

Product Categories

Skin Care

Net sales of skin care products increased 9% or \$158.4 million to \$1,937.0 million. Most of this growth occurred outside of the United States. The recent launches of Advanced Night Repair Concentrate Recovery Boosting Treatment and new Perfectionist products from Estée Lauder, and Repairwear Lift, Continuous Rescue Antioxidant Moisturizer and All About Eyes Rich from Clinique contributed incremental sales of approximately \$85 million, combined. Net sales increases from Resilience Lift Extreme Ultra Firming products and Advanced Night Repair Eye Recovery Complex from Estée Lauder, along with products in the Clinique 3-Step Skin Care System, totaled approximately \$57 million. These improvements were partially offset by approximately \$31 million of lower sales from certain other Resilience Lift products and Perfectionist [CP+] from Estée Lauder. Excluding the impact of foreign currency translation, skin care net sales increased 6%.

Makeup

Makeup net sales increased 8% or \$159.9 million to \$2,042.0 million, reflecting growth from our makeup artist brands of approximately \$138 million. This increase was supported by new points of distribution and new product launches as well as M-A-C Viva Glam lip products, the proceeds of which are donated to AIDS-related charities. Higher sales of Double Wear Foundation and the recent launch of Resilience Lift Extreme Ultra Firming Makeup SPF 15 by Estée Lauder contributed approximately \$46 million to the growth in this product category. Lower sales of approximately \$31 million of Pure Color Gloss and Individualist Natural Finish Makeup by Estée Lauder, and Repairwear Anti-Aging Makeup SPF 15 by Clinique partially offset this growth. Excluding the impact of foreign currency translation, makeup net sales increased 7%.

Fragrance

Net sales of fragrance products increased 5% or \$47.1 million to \$994.5 million, primarily driven by incremental international sales from newer fragrance offerings. DKNY Red Delicious, Pure White Linen from Estée Lauder, Sean John Unforgivable, DKNY Red Delicious Men and Donna Karan Gold collectively contributed approximately \$106 million to the category. Lower sales of approximately \$61 million of True Star and True Star Men by Tommy Hilfiger, Estée Lauder Beyond Paradise and Estée Lauder *pleasures* partially offset the growth in this product category. While current period sales levels compared favorably to the prior-year period's overall lower launch activity, we anticipate continued challenges in this product category, particularly in the United States. Excluding the impact of foreign currency translation, fragrance net sales increased 2%.

Hair Care

Hair care net sales increased 19% or \$43.5 million to \$273.4 million, primarily due to sales growth from Aveda and Bumble and bumble products. Aveda net sales increases were primarily due to the acquisition of an independent distributor, sales of professional color products and the recent launch of Be Curly shampoo and conditioner. Bumble and bumble sales benefited from new salon openings and from a new hotel amenities program. Excluding the impact of foreign currency translation, hair care net sales increased 18%.

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Geographic Regions

Net sales in the Americas increased 3% or \$71.5 million to \$2,701.4 million. The increase was led by growth in the United States of approximately \$107 million from our makeup artist brands, our hair care business, our internet distribution, and the recent launch of the Unforgivable fragrance by Sean John. Partially offsetting this growth was approximately \$93 million related to weaknesses in our core brands as a result of competitive pressures and retailer consolidation. We expect these factors, including weakness in our business at those Federated doors that converted to Macy's in the United States, to continue to affect sales, with the impact of retailer consolidations easing over the remainder of the fiscal year. Net sales growth in Canada, Latin America and Mexico contributed an additional \$26 million to the increase. The prior-year period results reflected an incremental provision of approximately \$16 million for returns that were anticipated at that time as a result of then-announced store closings from retailer consolidations.

In Europe, the Middle East & Africa, net sales increased 16% or \$254.1 million to \$1,832.0 million, including an exchange rate benefit due to the weakening of the U.S. dollar of approximately \$89 million. The growth in the region reflected higher net sales of approximately \$188 million in the United Kingdom, our travel retail business, Russia, Germany and Turkey. 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 14% or \$90.3 million to \$741.7 million. Higher net sales of approximately \$64 million in Korea, China, Hong Kong and Australia generally reflected an improved economy across the region. We also experienced modest sales growth in Japan, our largest market in this region. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 12%.

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

Cost of Sales

Cost of sales as a percentage of total net sales decreased to 25.6% as compared with 26.5% in the prior period. Cost of sales as a percentage of net sales reflected a decrease in the level and timing of promotional activities of approximately 30 basis points, a favorable change in the mix of our business of approximately 20 basis points, a decrease in obsolescence charges of approximately 20 basis points and the effect of exchange rate translation of approximately 10 basis points. Certain of these items reflect savings achieved during the current period from our cost savings initiative, which commenced during fiscal 2006.

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 improved to 63.2% of net sales as compared with 63.8% of net sales in the prior-year period. During the prior-year period, we recorded a \$53.2 million charge to operating expenses related to the implementation of our cost savings initiative that negatively impacted our operating expense margin by approximately 110 basis points. Although we have increased the total dollars spent on advertising, merchandising and sampling, we have generated an improvement of approximately 30 basis points related to growth in brands and channels with a lower mix of advertising, merchandising and sampling and disciplined spending at our core brands. An improvement of approximately 20 basis points was attributable to the prior-year period's incremental provision for sales returns that were anticipated at that time as a result of then-announced store closings related to retailer consolidations. Partially offsetting these improvements was an increase of approximately 70 basis points in selling, general and administrative expenses reflecting higher demonstration, field selling and training costs in support of our business, as well as organizational costs to establish the platform upon which we intend to build our pharmacy channel business in Europe. Also offsetting operating expense margin improvements was approximately 20 basis points primarily attributable to weaker sales in the United States as a result of retailer consolidation and weakness in certain Federated doors that converted to Macy's. Overall operating expenses reflected savings achieved during the current period from our cost savings initiative, which

commenced during fiscal 2006.

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.

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OPERATING RESULTS

Due to the growth in net sales and the decreases in our cost of sales and operating expense margins as previously discussed, operating income increased 25%, or \$116.9 million, to \$589.0 million as compared with the prior-year period. Operating margins were 11.2% of net sales as compared with 9.7% in the prior-year period, which was negatively impacted by 1.1% of net sales as a result of the special charge related to our cost savings initiative.

The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of the special charge related to our cost savings initiative of \$0.4 million and \$53.2 million for the nine months ended March 31, 2007 and 2006, respectively. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business. See Note 8 of Notes to Consolidated Financial Statements *Segment Data and Related Information*.

Product Categories

Fragrance operating results increased over 100% or \$16.0 million to \$21.2 million, as profits from higher international net sales more than offset net sales declines and spending behind new brands in the United States. Hair care operating results grew 57% or \$11.2 million to \$30.9 million as the increase in sales outpaced increased spending in support of new distribution points and product launches. Operating results increased 8% or \$20.3 million to \$265.8 million in makeup, primarily as a result of higher net sales from our makeup artist brands, which more than offset challenges among certain core brands and the impact of retailer consolidation in the United States. Skin care operating results increased 8% or \$20.2 million to \$272.6 million, reflecting improvements in international results, partially offset by organizational costs to establish the platform upon which we intend to build our pharmacy channel business in Europe.

Geographic Regions

Operating income in the Americas decreased 2% or \$4.2 million to \$255.0 million, reflecting spending behind strategic initiatives at our core brands, and to develop new brands, in the United States. Operating income growth from our hair care business and our internet distribution partially offset these results. Operating results in this region were negatively impacted in the prior-year period by approximately \$12 million as a result of an incremental provision for then-anticipated returns as a result of retailer consolidations.

In Europe, the Middle East & Africa, operating income increased 22% or \$45.8 million to \$255.1 million primarily due to higher results of approximately \$53 million from our travel retail business, the United Kingdom, Russia and Germany. Lower results from France and Spain partially offset these improvements by approximately \$13 million, combined.

In Asia/Pacific, operating income increased 40% or \$22.5 million to \$79.3 million. This increase reflected improved results of approximately \$20 million in China, Hong Kong, Australia and Korea, partially offset by lower results in Taiwan and New Zealand of approximately \$1 million, combined.

Interest Expense, Net

Net interest expense was \$23.2 million as compared with \$19.1 million in the prior period. This change primarily resulted from reduced interest income generated from lower average investment balances, as well as an increase in interest expense due to higher average debt balances, primarily associated with the funding of our accelerated share repurchase program, and higher interest rates. These increases were 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 nine months ended March 31, 2007 was 35.2% as compared with 37.4% in the prior period. The decrease in the effective income tax rate of 220 basis points primarily reflected the positive impact attributable to the tax effect of our foreign operations (180 basis points) and an increase in tax credits (40 basis points).

THE ESTÉE LAUDER COMPANIES INC.**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. For the nine months ended March 31, 2007, \$0.3 million, net of tax, of operating income was reflected as discontinued operations, reflecting the conclusion of transitional distribution services provided to the purchaser. The prior period charge of \$75.7 million, net of tax, reflected the then-anticipated loss on the sale of the business of \$66.3 million, net of tax, and the operating loss of \$9.4 million, net of tax.

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 March 31, 2007, we had cash and cash equivalents of \$202.0 million compared with \$368.6 million at June 30, 2006.

At March 31, 2007, our outstanding borrowings of \$1,174.2 million included: (i) \$239.1 million of 6.00% Senior Notes due January 2012 consisting of \$250.0 million principal, unamortized debt discount of \$0.6 million and a \$10.3 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) \$694.2 million of outstanding commercial paper payable through May 2007 at an average interest rate of 5.30%, of which \$591.1 million was classified as long-term; (iv) a 0.5 billion yen short-term borrowing under a revolving credit facility (approximately \$4.3 million at the exchange rate at March 31, 2007); (v) a 14.1 million Turkish lira borrowing under an overdraft borrowing facility (approximately \$10.0 million at the exchange rate at March 31, 2007); (vi) \$8.7 million of capital lease obligations and (vii) \$20.5 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 A2 with a stable outlook by Moody's. At March 31, 2007, we had \$694.2 million of commercial paper outstanding, which we may refinance on a periodic basis as it matures at then prevailing market interest rates. Of this amount, \$591.1 million was classified as long-term based on our intent and ability to refinance the debt on a long-term basis. At March 31, 2007, we had an effective shelf registration statement covering the potential issuance of up to an additional \$300.0 million in debt securities and \$176.3 million in additional uncommitted credit facilities, of which \$28.5 million was used. In April 2007, we filed a \$750.0 million shelf registration statement, which superseded our existing shelf registration statement. After completion of the issuance of \$300.0 million of 5.55% Senior Notes due May 15, 2017 (5.55% Senior Notes due 2017) and \$300.0 million of 6.00% Senior Notes due May 15, 2037 (6.00% Senior Notes due 2037), we now have \$150.0 million remaining available for the potential issuance of debt securities.

In March 2007, we entered into a \$400 million senior unsecured 364-day revolving credit facility, primarily to provide credit support for our commercial paper program. This facility may also be used for general corporate purposes and to repurchase shares of our common stock. The interest rate on borrowings under the credit facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. The credit facility has an annual fee of \$0.2 million, payable quarterly, based on our current credit ratings. As of March 31, 2007, this facility was undrawn and we were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens.

Effective April 2007, we entered into a five-year \$750.0 million senior unsecured revolving credit facility, expiring on April 26, 2012, primarily to provide credit support for our commercial paper program. This revolving credit facility may also be used for general corporate purposes and to repurchase shares of our common stock. The new facility replaced our prior, undrawn \$600.0 million senior unsecured revolving credit facility, which was effective since May 27, 2005. We were in compliance with all related financial and other restrictive covenants, including limitations on indebtedness and liens, associated with our prior facility as of March 31, 2007. 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 ½% plus the Federal funds rate. We incurred costs of approximately \$0.3 million to establish the facility which will be amortized over the term of the facility. The credit facility has an annual fee of \$0.4 million, payable quarterly, based on our current credit ratings.

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In May 2007, we issued and sold 5.55% Senior Notes due 2017 and 6.00% Senior Notes due 2037 in a public offering. The 5.55% Senior Notes due 2017 were priced at 99.845% with a yield of 5.570% and the 6.00% Senior Notes due 2037 were priced at 98.722% with a yield of 6.093%. Interest payments on both notes are required to be made semi-annually on May 15 and November 15, commencing November 15, 2007. We are using the net proceeds of this offering to repay long-term commercial paper and to pay transaction fees and expenses related to this offering.

We have a fixed rate promissory note agreement with a financial institution pursuant to which we may borrow up to \$150.0 million in the form of loan participation notes through one of our subsidiaries in Europe. The interest rate on borrowings under this agreement is at an all-in fixed rate determined by the lender and agreed to by us at the date of each borrowing. At March 31, 2007, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

We have an overdraft borrowing agreement with a financial institution pursuant to which our subsidiary in Turkey may be credited to satisfy outstanding negative daily balances arising from its business operations. The total balance outstanding at any time shall not exceed 20.0 million Turkish lira. The interest rate applicable to each such credit shall be 40 basis points per annum above the spot rate charged by the lender or the lender's floating call rate agreed to by us at each borrowing. There were no debt issuance costs incurred related to this agreement. The outstanding balance at March 31, 2007 (\$10.0 million at the exchange rate at March 31, 2007) is classified as short-term debt on our consolidated balance sheet.

We have a 3.0 billion yen revolving credit facility that expires on March 24, 2009. The interest rate on borrowings under the credit facility is based on TIBOR (Tokyo Interbank Offered Rate) and a 10 basis point facility fee is incurred on the undrawn balance. The outstanding balance at March 31, 2007 (\$4.3 million at the exchange rate at March 31, 2007) 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 our revolving credit facilities.

Total debt as a percent of total capitalization was 52% at March 31, 2007 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 provided by operating activities from continuing operations was \$456.3 million during the nine months ended March 31, 2007 compared with \$476.3 million in the prior period. The net decrease in operating cash flows reflected higher domestic and international inventory levels primarily driven by activities in new and emerging international markets, planned promotional activities and the building of safety stock for our upcoming implementation of SAP as part of our strategic modernization initiative at our Aveda manufacturing facility. In addition, the decrease in operating cash flows reflected higher accounts receivable balances, primarily related to significant sales growth from our international operations. Cash flows were also impacted by cash payments made during the current year related to our fiscal 2006 cost savings initiative. Partially offsetting the decrease was an improvement in net earnings from continuing operations.

Net cash used for investing activities was \$269.2 million during the nine months ended March 31, 2007 compared with \$219.1 million in the prior period. The change primarily reflected increases in capital expenditures related to our continuing company-wide initiative to upgrade our information systems. Current period investing activities also reflected the cash payment related to the acquisition of the remaining minority equity interest in the Bumble & bumble business, and to a lesser extent, distributor acquisitions. Prior period investing activities reflected the earn-out payment related to the fiscal 2000 acquisition of Jo Malone Limited.

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Net cash used for financing activities was \$351.8 million during the nine months ended March 31, 2007 compared with \$535.1 million in the prior period. Net cash flows from short-term and long-term borrowings increased approximately \$784 million from the prior year. An increase in proceeds from employee stock transactions of approximately \$78 million also contributed to the improvement. Partially offsetting these improvements were increases in treasury stock repurchases of approximately \$652 million and an increase of approximately \$18 million in dividends paid to common stockholders.

Dividends

During the current period, we paid dividends on the Class A and Class B Common Stock of \$.50 per share (or an aggregate of \$103.6 million) as compared with \$.40 per share (or an aggregate of \$85.4 million) in the prior-year period. For the nine months ended March 31, 2006, dividends on the 2015 Preferred Stock were \$0.5 million and were characterized as interest expense in the accompanying consolidated statements of earnings. The 2015 Preferred Stock was redeemed in October 2005.

Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 68.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of March 31, 2007, the cumulative total of acquired shares pursuant to the authorization was 61.1 million, reducing the remaining authorized share repurchase balance to 6.9 million. During the first nine months of fiscal 2007, we purchased approximately 22.5 million shares for \$1,004.3 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2006				9,391,600
August 2006	1,655,000	35.83	1,655,000	7,736,600
September 2006	1,344,800	38.11	1,344,800	6,391,800
October 2006	266,974	(2) 39.93	251,000	6,140,800
November 2006	1,752,000	40.73	1,752,000	4,388,800
December 2006	1,498,000	41.22	1,498,000	2,890,800
January 2007				2,890,800
February 2007				22,890,800
March 2007	15,960,842	(3) 46.99	15,960,842	6,929,958
Year-to-date	22,477,616	44.68	22,461,642	6,929,958

(1) The publicly announced repurchase program was last increased by 20.0 million shares on February 15, 2007. The initial program covering the repurchase of 8.0 million shares was announced in September 1998 and increased by 20.0 million shares on May 18, 2005 and 10.0 million shares on both May 11, 2004 and October 30, 2002.

(2) Includes 15,974 shares that were repurchased in connection with shares withheld to satisfy tax obligations upon the vesting of restricted stock units.

(3) In March 2007, our Board of Directors authorized the accelerated repurchase of \$750.0 million of our outstanding common stock, to be implemented through an accelerated stock repurchase program with a financial counterparty. In March 2007, we repurchased 15,960,842 shares under this program for \$750.0 million, or \$46.99 per share.

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.

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In conjunction with our accelerated share repurchase program, we may receive or pay a price adjustment based on the volume weighted average price of our common stock traded during the term of this program (VWAP). As of March 31, 2007, the estimated interim price adjustment was an incremental cost of approximately \$22 million, which would be recognized upon settlement in the consolidated financial statements as an adjustment to paid-in capital because we have the option to settle the liability in either cash or our common stock. The estimated impact of a \$1 change in the VWAP is approximately \$16 million. In connection with the estimated price adjustment, we increased the diluted weighted average common shares outstanding by approximately 0.1 million shares for the purposes of calculating diluted net earnings per common share for the three and nine month periods ended March 31, 2007.

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Contractual Obligations

Since June 30, 2006, we made additional commitments pursuant to employment agreements of approximately \$29 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 law changed the calculation related to the maximum contribution amount deductible for income tax purposes. As a result of these provisions, we made discretionary contributions totaling \$15.0 million to our trust-based, noncontributory qualified defined benefit pension plan during the current year and expect to contribute an additional \$5.0 million during the remainder of fiscal 2007. We expect to make benefit payments under our non-qualified domestic noncontributory pension plan totaling \$10.3 million during the fiscal year ending June 30, 2007, as previously disclosed. In addition, we expect to contribute \$20.8 million to our international pension plans during the fiscal year ending June 30, 2007.

Derivative Financial Instruments and Hedging Activities

See *Interest Rate Risk Management* for changes to our derivative financial instruments and hedging activities subsequent to those 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 March 31, 2007, 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 2008. Costs associated with entering into such contracts have not been material to our consolidated financial results. We do not utilize derivative financial instruments for trading or speculative purposes. At March 31, 2007, we had foreign currency contracts in the form of forward exchange contracts and option contracts in the amount of \$1,096.3 million and \$23.7 million, respectively. The foreign currencies included in forward exchange contracts (notional value stated in U.S. dollars) are principally the Euro (\$190.9 million), Swiss franc (\$167.1 million), British pound (\$164.2 million), Canadian dollar (\$113.3 million), Japanese yen (\$103.5 million) and Australian dollar (\$82.2 million). The foreign currencies included in the option contracts (notional value stated in U.S. dollars) are the Euro (\$10.8 million), Canadian dollar (\$6.4 million), Japanese yen (\$3.4 million) and British pound (\$3.1 million).

Interest Rate Risk Management

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

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On March 31, 2007, we had 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 and as of March 31, 2007, the fair-value hedge was highly effective, in all material respects. In April 2007, we terminated this interest rate swap. The instrument, which was classified as a liability, had a fair value of \$11.1 million at cash settlement. Hedge accounting treatment was discontinued prospectively and the offsetting adjustment to the carrying amount of the related debt will be amortized to interest expense over the remaining life of the debt.

In April 2007, in connection with the anticipated issuance of debt, we entered into a series of forward-starting interest rate swap agreements on a notional amount totaling \$210.0 million at a weighted average all-in rate of 5.45%. These forward-starting swap agreements, designated as cash-flow hedges, were used to hedge the exposure to a possible rise in interest rates prior to the May 2007 issuance of debt. The agreements were settled upon the issuance of the 6.00% Senior Notes due 2037 and we recognized a loss in other comprehensive income of \$0.9 million that will be amortized to interest expense over the 30-year life of the 6.00% Senior Notes due 2037.

In April 2007, we entered into an interest rate swap agreement with a notional amount of \$250.0 million to effectively convert the fixed rate interest on our 5.55% Senior Notes due 2017 to variable interest rates based on six-month LIBOR. The interest rate swap was designated as a fair-value hedge.

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 \$11.9 million related to our foreign exchange contracts. As of March 31, 2007, our average value-at-risk related to our interest rate contracts for the twelve month period for which these contracts were outstanding was \$6.4 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.

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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.

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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 our 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), which sets forth the SEC Staff's views on the proper methods for quantifying errors when there were uncorrected errors in a prior year. Under SAB No. 108, companies should evaluate a misstatement that existed in prior years based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements in the current year's ending balance sheet. SAB No. 108 will become effective for us at June 30, 2007. We are currently evaluating the impact of the provisions of SAB No. 108 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS No. 159) to permit all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. SFAS No. 159 applies to fiscal years beginning after November 15, 2007, with early adoption permitted for an entity that has also elected to apply the provisions of SFAS No. 157. An entity is prohibited from retrospectively applying SFAS No. 159, unless it chooses early adoption. We are currently evaluating the impact of the provisions of SFAS No. 159 on our consolidated financial statements, if any, when it becomes effective for the fiscal year ending June 30, 2009.

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* or similar expressions are intended to 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;

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THE ESTÉE LAUDER COMPANIES INC.

(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, including disruptions that may be caused by the upcoming implementation of SAP as part of our strategic modernization initiative at our Aveda manufacturing facility;

(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 March 31, 2007 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

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There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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.

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 March 31, 2007, 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.

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THE ESTÉE LAUDER COMPANIES INC.**PART II. OTHER INFORMATION**

On March 30, 2006, a purported securities class action complaint captioned Thomas S. Shin, et al. v. The Estée 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: Estée 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 filed a motion to dismiss the amended complaint on November 7, 2006 and the plaintiff responded to the motion on January 5, 2007. Defendants replied to plaintiff's response on February 5, 2007. 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 2, 2007, the judge granted the Derivative Action Defendants' motion to dismiss because the plaintiff failed to satisfy the requirement under Delaware law that she make a demand on the Board of Directors to pursue litigation on behalf of the Company prior to initiating the litigation herself.

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

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

During the three months ended March 31, 2007, 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
Estee Lauder LAL Trust #1	February 1, 2007	28,250
Estee Lauder LAL Trust #2	February 1, 2007	346,750
Ronald S. Lauder	March 6, 2007	230,000

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.

THE ESTÉE LAUDER COMPANIES INC.

PART II. OTHER INFORMATION

Item 6. Exhibits.

Exhibit Number	Description
4.1	Officers Certificate, dated May 1, 2007, defining certain terms of the 5.550% Senior Notes due 2017 (filed as Exhibit 4.1 to our current report on Form 8-K dated May 1, 2007).*
4.2	Global Note for 5.550% Senior Notes due 2017 (filed as Exhibit 4.3 to our current report on Form 8-K dated May 1, 2007).*
4.3	Officers Certificate, dated May 1, 2007, defining certain terms of the 6.000% Senior Notes due 2037 (filed as Exhibit 4.2 to our current report on Form 8-K dated May 1, 2007).*
4.4	Global Note for 6.000% Senior Notes due 2037 (filed as Exhibit 4.4 to our current report on Form 8-K dated May 1, 2007).*
10.1	Overnight Share Repurchase Agreement, dated March 6, 2007, between The Estée Lauder Companies Inc. and Bank of America, N.A. (filed as Exhibit 10.2 to our Registration Statement on Form S-3 (No. 333-142342) on April 25, 2007).*
10.2	\$400 Million Credit Agreement, dated March 6, 2007, by and among The Estée Lauder Companies Inc., Estee Lauder Inc., the Eligible Subsidiaries, as defined therein, the lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent, Bank of America, N.A., as syndication agent, Citibank, N.A., as documentation agent and Citigroup Global Markets Inc. and JPMCB, as joint bookrunners (filed as Exhibit 10.1 to our Registration Statement on Form S-3 (No. 333-142342) on April 25, 2007).*
10.3	\$750 Million Credit Agreement, dated April 26, 2007, by and among The Estée Lauder Companies Inc., Estee Lauder Inc., the Eligible Subsidiaries, as defined therein, the lenders listed therein, JPMorgan Chase Bank, N.A., as administrative agent (JPMCB), Bank of America N.A. and Citibank, N.A., as syndication agents, Bank of Tokyo-Mitsubishi Trust Company and BNP Paribas, as documentation agents and Citigroup Global Markets Inc. and JPMCB, as joint bookrunners and joint lead arrangers (filed as Exhibit 10.1 to our current report on Form 8-K dated April 26, 2007).*
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.

SIGNATURES

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

THE ESTÉE LAUDER COMPANIES INC.

Date: May 3, 2007

By:

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

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THE ESTÉE LAUDER COMPANIES INC.

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