

POLO RALPH LAUREN CORP

Form 10-Q

February 04, 2010

**Table of Contents**

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

**Form 10-Q**

**(Mark One)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended December 26, 2009**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission File Number: 001-13057**

**Polo Ralph Lauren Corporation**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**13-2622036**

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

**650 Madison Avenue,  
New York, New York**

*(Address of principal executive offices)*

**10022**

*(Zip Code)*

**(212) 318-7000**

*(Registrant's telephone number, including area code)*

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

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

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

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

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

At January 29, 2010, 56,359,875 shares of the registrant's Class A common stock, \$.01 par value, and 42,280,021 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

---

**POLO RALPH LAUREN CORPORATION  
INDEX**

	<b>Page</b>
<b>PART I. FINANCIAL INFORMATION (Unaudited)</b>	
Item 1.	Financial Statements:
	<u>Consolidated Balance Sheets</u> 3
	<u>Consolidated Statements of Operations</u> 4
	<u>Consolidated Statements of Cash Flows</u> 5
	<u>Notes to Consolidated Financial Statements</u> 6
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 29
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 52
Item 4.	<u>Controls and Procedures</u> 52
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1.	<u>Legal Proceedings</u> 53
Item 1A.	<u>Risk Factors</u> 54
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 54
Item 6.	<u>Exhibits</u> 55
<u>Signatures</u>	56
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****POLO RALPH LAUREN CORPORATION****CONSOLIDATED BALANCE SHEETS**

	<b>December 26, 2009</b>	<b>March 28, 2009</b>
	<b>(millions) (unaudited)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 973.8	\$ 481.2
Short-term investments	316.9	338.7
Accounts receivable, net of allowances of \$195.9 million and \$190.9 million	262.9	474.9
Inventories	545.1	525.1
Deferred tax assets	112.6	101.8
Prepaid expenses and other	139.1	135.0
<b>Total current assets</b>	<b>2,350.4</b>	<b>2,056.7</b>
Non-current investments	43.3	29.7
Property and equipment, net	644.0	651.6
Deferred tax assets	103.6	102.8
Goodwill	1,000.5	966.4
Intangible assets, net	342.9	348.9
Other assets	166.7	200.4
<b>Total assets</b>	<b>\$ 4,651.4</b>	<b>\$ 4,356.5</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 154.7	\$ 165.9
Income tax payable	72.9	35.9
Accrued expenses and other	527.4	472.3
<b>Total current liabilities</b>	<b>755.0</b>	<b>674.1</b>
Long-term debt	298.3	406.4
Non-current liability for unrecognized tax benefits	129.7	154.8
Other non-current liabilities	392.3	386.1
Commitments and contingencies (Note 14)		
<b>Total liabilities</b>	<b>1,575.3</b>	<b>1,621.4</b>
<b>Equity:</b>		
Class A common stock, par value \$.01 per share; 74.8 million and 72.3 million shares issued; 56.2 million and 55.9 million shares outstanding	0.7	0.7
Class B common stock, par value \$.01 per share; 42.4 million and 43.3 million shares issued; 42.4 million and 43.3 million shares outstanding	0.4	0.4

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Additional paid-in-capital	1,196.6	1,108.4
Retained earnings	2,811.1	2,465.5
Treasury stock, Class A, at cost (18.6 million and 16.4 million shares)	(1,120.1)	(966.7)
Accumulated other comprehensive income	187.4	126.8
<b>Total equity</b>	<b>3,076.1</b>	<b>2,735.1</b>
<b>Total liabilities and equity</b>	<b>\$ 4,651.4</b>	<b>\$ 4,356.5</b>

See accompanying notes.

Table of Contents**POLO RALPH LAUREN CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions, except per share data)</b>			
	<b>(unaudited)</b>			
Net sales	\$ 1,195.6	\$ 1,202.1	\$ 3,505.2	\$ 3,645.8
Licensing revenue	48.3	49.9	136.6	148.7
<b>Net revenues</b>	<b>1,243.9</b>	<b>1,252.0</b>	<b>3,641.8</b>	<b>3,794.5</b>
Cost of goods sold <sup>(a)</sup>	(520.2)	(582.3)	(1,532.1)	(1,698.2)
<b>Gross profit</b>	<b>723.7</b>	<b>669.7</b>	<b>2,109.7</b>	<b>2,096.3</b>
<b>Other costs and expenses:</b>				
Selling, general and administrative expenses <sup>(a)</sup>	(540.4)	(496.5)	(1,545.0)	(1,515.3)
Amortization of intangible assets	(5.3)	(5.1)	(15.7)	(15.0)
Impairments of assets	(4.9)		(6.6)	(7.1)
Restructuring charges	(0.6)	(1.5)	(7.3)	(2.8)
<b>Total other costs and expenses</b>	<b>(551.2)</b>	<b>(503.1)</b>	<b>(1,574.6)</b>	<b>(1,540.2)</b>
<b>Operating income</b>	<b>172.5</b>	<b>166.6</b>	<b>535.1</b>	<b>556.1</b>
Foreign currency gains (losses)	(1.2)	(5.4)	(2.9)	(2.5)
Interest expense	(4.6)	(7.4)	(16.8)	(20.5)
Interest and other income, net	1.2	5.4	10.4	18.5
Equity in income (loss) of equity-method investees	(2.4)	(1.1)	(3.9)	(2.7)
<b>Income before provision for income taxes</b>	<b>165.5</b>	<b>158.1</b>	<b>521.9</b>	<b>548.9</b>
Provision for income taxes	(54.4)	(52.8)	(156.5)	(187.4)
<b>Net income</b>	<b>\$ 111.1</b>	<b>\$ 105.3</b>	<b>\$ 365.4</b>	<b>\$ 361.5</b>
<b>Net income per common share:</b>				
Basic	\$ 1.12	\$ 1.07	\$ 3.69	\$ 3.64
Diluted	\$ 1.10	\$ 1.05	\$ 3.60	\$ 3.56
<b>Weighted average common shares outstanding:</b>				
Basic	98.8	98.8	99.1	99.2
Diluted	101.4	100.7	101.5	101.6

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Dividends declared per share	\$	0.10	\$	0.05	\$	0.20	\$	0.15
<sup>(a)</sup> Includes total depreciation expense of:	\$	(38.8)	\$	(39.8)	\$	(117.8)	\$	(123.0)

See accompanying notes.



Table of Contents

**POLO RALPH LAUREN CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended</b> <b>December 26, 2009    December 27,</b> <b>2009                      2008</b> (millions) (unaudited)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 365.4	\$ 361.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	133.5	138.0
Deferred income tax expense (benefit)	(17.7)	(12.6)
Equity in loss (income) of equity-method investees, net of dividends received	3.9	2.7
Non-cash stock-based compensation expense	39.7	37.3
Non-cash impairments of assets	6.6	7.1
Non-cash provision for bad debt expense	2.1	5.0
Non-cash foreign currency (gains) losses	3.8	0.4
Non-cash restructuring charges	2.6	
Non-cash litigation-related charges, net		5.6
Gain on extinguishment of debt	4.1	
Changes in operating assets and liabilities:		
Accounts receivable	218.9	174.9
Inventories	(5.1)	(61.5)
Accounts payable and accrued liabilities	40.7	90.6
Deferred income liabilities	(18.2)	(15.9)
Other balance sheet changes	24.0	17.7
<b>Net cash provided by operating activities</b>	<b>804.3</b>	<b>750.8</b>
<b>Cash flows from investing activities:</b>		
Acquisitions and ventures, net of cash acquired and purchase price settlements	(3.7)	(46.3)
Purchases of investments	(846.5)	(456.4)
Proceeds from sales and maturities of investments	889.3	230.3
Capital expenditures	(104.3)	(129.9)
Change in restricted cash deposits	0.5	51.7
<b>Net cash used in investing activities</b>	<b>(64.7)</b>	<b>(350.6)</b>
<b>Cash flows from financing activities:</b>		
Repayment of debt	(121.0)	(196.8)
Payments of capital lease obligations	(4.7)	(4.9)
Payments of dividends	(14.9)	(14.9)
Repurchases of common stock, including shares surrendered for tax withholdings	(153.4)	(169.8)

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Proceeds from exercise of stock options	33.3	27.6
Excess tax benefits from stock-based compensation arrangements	15.3	11.0
Other financing activities	1.3	
<b>Net cash used in financing activities</b>	<b>(244.1)</b>	<b>(347.8)</b>
Effect of exchange rate changes on cash and cash equivalents	(2.9)	(29.6)
Net increase in cash and cash equivalents	492.6	22.8
Cash and cash equivalents at beginning of period	481.2	551.5
Cash and cash equivalents at end of period	\$ 973.8	\$ 574.3

See accompanying notes.

**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In millions, except per share data and where otherwise indicated)**  
**(Unaudited)**

**1. Description of Business**

Polo Ralph Lauren Corporation ( PRLC ) is a global leader in the design, marketing and distribution of premium lifestyle products, including men s, women s and children s apparel, accessories, fragrances and home furnishings. PRLC s long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. PRLC s brand names include *Polo by Ralph Lauren*, *Ralph Lauren Purple Label*, *Ralph Lauren Collection*, *Black Label*, *Blue Label*, *Lauren by Ralph Lauren*, *RRL*, *RLX*, *Rugby*, *Ralph Lauren Childrenswear*, *American Living*, *Chaps* and *Club Monaco*, among others. PRLC and its subsidiaries are collectively referred to herein as the Company, we, us, our and ourselves, unless the context indicates otherwise.

The Company classifies its businesses into three segments: Wholesale, Retail and Licensing. The Company s wholesale sales are made principally to major department and specialty stores located throughout the U.S., Europe and Asia. The Company also sells directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, South America and Asia, and through its retail internet sites located at [www.RalphLauren.com](http://www.RalphLauren.com) and [www.Rugby.com](http://www.Rugby.com). In addition, the Company often licenses the right to unrelated third parties to use its various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods.

**2. Basis of Presentation**

***Interim Financial Statements***

The interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). The interim consolidated financial statements are unaudited. In the opinion of management, however, such consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial condition, results of operations and changes in cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ( US GAAP ) have been condensed or omitted from this report as is permitted by the SEC s rules and regulations. However, the Company believes that the disclosures herein are adequate to make the information presented not misleading.

The consolidated balance sheet data as of March 28, 2009 is derived from the audited financial statements included in the Company s Annual Report on Form 10-K filed with the SEC for the fiscal year ended March 28, 2009 (the Fiscal 2009 10-K ), which should be read in conjunction with these interim financial statements. Reference is made to the Fiscal 2009 10-K for a complete set of financial statements.

***Basis of Consolidation***

The unaudited interim consolidated financial statements present the financial position, results of operations and cash flows of the Company and all entities in which the Company has a controlling voting interest. The unaudited interim consolidated financial statements also include the accounts of any variable interest entities in which the Company is considered to be the primary beneficiary and such entities are required to be consolidated in accordance with US

GAAP.

All significant intercompany balances and transactions have been eliminated in consolidation.

**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates***

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the consolidated financial statements include reserves for customer returns, discounts, end-of-season markdowns and operational chargebacks; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; accounting for income taxes and related uncertain tax positions; the valuation of stock-based compensation and related expected forfeiture rates; reserves for restructuring; and accounting for business combinations.

***Fiscal Year***

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2010 will end on April 3, 2010 and will be a 53-week period ( Fiscal 2010 ). Fiscal year 2009 ended on March 28, 2009 and reflected a 52-week period ( Fiscal 2009 ). In turn, the third quarter for Fiscal 2010 ended on December 26, 2009 and was a 13-week period. The third quarter for Fiscal 2009 ended on December 27, 2008 and also was a 13-week period.

In April 2009, the Company performed an internal legal entity reorganization of certain of its wholly owned Japan subsidiaries. As a result of the reorganization, the Company's former Polo Ralph Lauren Japan Corporation and Impact 21 Co., Ltd. subsidiaries were merged into a new wholly owned subsidiary named Polo Ralph Lauren Kabushiki Kaisha ( PRL KK ). The financial position and operating results of the Company's consolidated PRL KK entity are reported on a one-month lag. Accordingly, the Company's operating results for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008 include the operating results of PRL KK for the three-month and nine-month periods ended November 30, 2009 and November 30, 2008, respectively. The net effect of this reporting lag is not material to the Company's unaudited interim consolidated financial statements.

***Seasonality of Business***

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth quarters and higher retail sales in its second and third quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school and holiday shopping periods in the Retail segment. Accordingly, the Company's operating results and cash flows for the three-month and nine-month periods ended December 26, 2009 are not necessarily indicative of the results and cash flows that may be expected for the full Fiscal 2010.

***Reclassifications***

Certain reclassifications have been made to the prior periods' financial information in order to conform to the current period's presentation.

**3. Summary of Significant Accounting Policies**

***Revenue Recognition***

Revenue is recognized across all segments of the business when there is persuasive evidence of an arrangement, delivery has occurred, price has been fixed or is determinable, and collectibility is reasonably assured.

Revenue within the Company's Wholesale segment is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of estimates of returns, discounts, end-of-season markdowns, operational chargebacks and certain cooperative advertising allowances. Returns and allowances require pre-approval from management and discounts are based on trade terms. Estimates for end-of-season

Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

markdown reserves are based on historical trends, seasonal results, an evaluation of current economic and market conditions and retailer performance. Estimates for operational chargebacks are based on actual notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce revenue from sales of products ordered through the Company's retail internet sites at RalphLauren.com and Rugby.com is recognized upon delivery and receipt of the shipment by its customers. Such revenue also is reduced by an estimate of returns.

Gift cards issued by the Company are recorded as a liability until they are redeemed, at which point revenue is recognized. The Company recognizes income for unredeemed gift cards when the likelihood of a gift card being redeemed by a customer is remote and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property.

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (a) contractually guaranteed minimum royalty levels or (b) actual sales and royalty data, or estimates thereof, received from the Company's licensees.

The Company accounts for sales and other related taxes on a net basis, excluding such taxes from revenue.

***Net Income Per Common Share***

Basic net income per common share is computed by dividing the net income applicable to common shares after preferred dividend requirements, if any, by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the effects of outstanding stock options, restricted stock, restricted stock units and any other potentially dilutive financial instruments, only in the periods in which such effect is dilutive under the treasury stock method.

The weighted-average number of common shares outstanding used to calculate basic net income per common share is reconciled to those shares used in calculating diluted net income per common share as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Basic	98.8	98.8	99.1	99.2
Dilutive effect of stock options, restricted stock and restricted stock units	2.6	1.9	2.4	2.4
Diluted shares	101.4	100.7	101.5	101.6

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding restricted stock units that are issuable only upon the achievement of certain service and/or performance goals. Such performance-based restricted stock units are included in the computation of diluted shares only to the extent the underlying performance conditions (a) are satisfied prior to the end of the reporting period or (b) would be satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of December 26, 2009 and December 27, 2008, there was an aggregate of approximately 1.2 million and 2.7 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and/or the contingent vesting of performance-based restricted stock units that were excluded from the diluted share calculations.



**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Accounts Receivable***

In the normal course of business, the Company extends credit to customers that satisfy defined credit criteria. Accounts receivable, net, as shown in the Company's consolidated balance sheets, is net of certain reserves and allowances. These reserves and allowances consist of (a) reserves for returns, discounts, end-of-season markdowns and operational chargebacks and (b) allowances for doubtful accounts. These reserves and allowances are discussed in further detail below.

A reserve for sales returns is determined based on an evaluation of current market conditions and historical returns experience. Charges to increase the reserve are treated as reductions of revenue.

A reserve for trade discounts is determined based on open invoices where trade discounts have been extended to customers, and charges to increase the reserve are treated as reductions of revenue.

Estimated end-of-season markdown charges are included as reductions of revenue. The related markdown provisions are based on retail sales performance, seasonal negotiations with customers, historical deduction trends and an evaluation of current market conditions.

A reserve for operational chargebacks represents various deductions by customers relating to individual shipments. Charges to increase this reserve, net of expected recoveries, are included as reductions of revenue. The reserve is based on actual notifications of order fulfillment discrepancies and past experience.

A rollforward of the activity in the Company's reserves for returns, discounts, end-of-season markdowns and operational chargebacks is presented below:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Beginning reserve balance	\$ 174.9	\$ 167.4	\$ 170.4	\$ 161.1
Amount charged against revenue to increase reserve	118.8	115.7	330.3	346.4
Amount credited against customer accounts to decrease reserve	(115.7)	(111.9)	(328.3)	(331.2)
Foreign currency translation	(2.1)	(3.0)	3.5	(8.1)
Ending reserve balance	\$ 175.9	\$ 168.2	\$ 175.9	\$ 168.2

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions.



**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A rollforward of the activity in the Company's allowance for doubtful accounts is presented below:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Beginning reserve balance	\$ 20.3	\$ 13.7	\$ 20.5	\$ 10.9
Amount charged to expense to increase reserve	0.6	1.2	2.1	5.0
Amount written off against customer accounts to decrease reserve	(0.6)	(0.4)	(3.2)	(0.8)
Foreign currency translation	(0.3)	(0.4)	0.6	(1.0)
Ending reserve balance	\$ 20.0	\$ 14.1	\$ 20.0	\$ 14.1

***Concentration of Credit Risk***

The Company sells its wholesale merchandise primarily to major department and specialty stores across the U.S., Europe and Asia and extends credit based on an evaluation of each customer's financial condition, usually without requiring collateral. In its wholesale business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas. However, the Company has seven key department-store customers that generate significant sales volume. For Fiscal 2009, these customers in the aggregate contributed approximately 50% of all wholesale revenues. Further, as of December 26, 2009, the Company's seven key department-store customers represented approximately 35% of gross accounts receivable.

***Subsequent Events***

The Company evaluates events and/or transactions that occur after the balance sheet date, but before the issuance of financial statements, for potential recognition or disclosure in its consolidated financial statements. The Company has evaluated all subsequent events through February 4, 2010, the date that the Company's interim consolidated financial statements were issued.

**4. Recently Issued Accounting Standards*****Consolidation of Variable Interest Entities***

In June 2009, the Financial Accounting Standards Board (FASB) issued revised guidance for accounting for a variable interest entity (VIE) (formerly referred to as Statement of Financial Accounting Standards (FAS) No. 167,

Amendments to FASB Interpretation No. 46(R) which has been codified within Accounting Standards Codification (ASC) topic 810, Consolidation (ASC 810). The revised guidance within ASC 810 changes the approach to determining the primary beneficiary of a VIE, replacing the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has (i) the power to direct the activities of a VIE that

most significantly impact the entity's economic performance and (ii) the obligation to absorb losses or the right to receive benefits of the entity that could potentially be significant to the VIE. ASC 810 also now requires ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE, as well as additional disclosures about an enterprise's involvement in VIEs. The revised accounting guidance within ASC 810 is effective for the Company as of the beginning of fiscal year 2011 and its adoption is not expected to have a material effect on the Company's consolidated financial statements.

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Fair Value Measurements***

In September 2006, the FASB issued ASC topic 820, *Fair Value Measurements and Disclosures* (ASC 820) (formerly referred to as FAS No. 157, *Fair Value Measurements*). ASC 820 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 within an identified principal or most advantageous market, establishes a framework for measuring fair value in accordance with US GAAP and expands disclosures regarding fair value measurements. The Company adopted the provisions of ASC 820 for all of its financial assets and liabilities within scope as of the beginning of Fiscal 2009 (March 30, 2008). In addition, the Company adopted the provisions of ASC 820 for all of its nonfinancial assets and liabilities within scope as of the beginning of Fiscal 2010 (March 29, 2009). The adoption of the provisions of ASC 820 did not have a significant impact on the Company's consolidated financial statements. See Note 11 for further discussion on the impact of adoption on the Company's consolidated financial statements.

***Business Combinations and Noncontrolling Interests***

In December 2007, the FASB issued ASC topic 805, *Business Combinations* (ASC 805) (formerly referred to as FAS No. 141(R), *Business Combinations*, as amended, which replaces FAS No. 141). ASC 805 was issued to create greater consistency in the accounting and financial reporting of business combinations, resulting in more complete, comparable and relevant information for investors and other users of financial statements. ASC 805 establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes resulting from ASC 805 include the need for the acquirer to record 100% of all assets and liabilities of the acquired business, including goodwill, generally at fair value for all business combinations (whether partial, full or step acquisitions); the need to recognize contingent consideration at fair value on the acquisition date and, for certain arrangements, to recognize changes in fair value in earnings until settlement; and the need for acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. ASC 805 also establishes disclosure requirements to enable users to evaluate the nature and financial effects of the business combination. The Company adopted the provisions of ASC 805 as of the beginning of Fiscal 2010 (March 29, 2009). The adoption of ASC 805 did not have a significant impact on the Company's consolidated financial statements, but could impact the accounting for future business combinations.

In December 2007, the FASB issued revised guidance for accounting for noncontrolling interests (formerly referred to as FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51*) which has been codified within ASC 810. The revised guidance within ASC 810 establishes accounting and reporting standards for noncontrolling interests in a subsidiary (previously referred to as *minority interests*) and for the deconsolidation of a subsidiary, to ensure consistency with the requirements of ASC 805. ASC 810 states that noncontrolling interests should be classified as a separate component of equity, and establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. The Company adopted the revised accounting guidance for noncontrolling interests within ASC 810 as of the beginning of Fiscal 2010 (March 29, 2009). The adoption did not have a significant impact on the Company's consolidated financial statements, but could impact the accounting for future acquisitions in which the Company does not acquire 100% of an entity, the future deconsolidation of a subsidiary and a future change in the Company's ownership percentage of a subsidiary.



**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Acquisitions and Joint Ventures**

***Fiscal 2010 Transactions***

***Southeast Asia Licensed Operations Acquisition***

On December 31, 2009, during the fourth quarter of Fiscal 2010, the Company closed its previously announced acquisition of certain net assets (including inventory) from Dickson Concepts International Limited and affiliates ( Dickson ) in exchange for an initial payment of approximately \$20 million and certain other consideration (the Southeast Asia Licensed Operations Acquisition ). Dickson was the Company s licensee for Polo-branded apparel in the Southeast Asia region, which is comprised of China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan and Thailand. The Company funded the Southeast Asia Licensed Operations Acquisition with available cash on-hand.

The Company will account for the Southeast Asia Licensed Operations Acquisition during the fourth quarter of Fiscal 2010 and is in the process of preparing its assessment of the fair value of the assets acquired and liabilities assumed. Based on preliminary valuation analyses, the Company expects to allocate all of the consideration exchanged in the Southeast Asia Licensed Operations Acquisition to the net assets acquired in connection with the transaction.

***Fiscal 2009 Transactions***

***Japanese Childrenswear and Golf Acquisition***

On August 1, 2008, in connection with the transition of the Polo-branded childrenswear and golf apparel businesses in Japan from a licensed to a wholly owned operation, the Company acquired certain net assets (including inventory) from Naigai Co. Ltd. ( Naigai ) in exchange for a payment of approximately ¥2.8 billion (approximately \$26 million as of the acquisition date) and certain other consideration (the Japanese Childrenswear and Golf Acquisition ). The Company funded the Japanese Childrenswear and Golf Acquisition with available cash on-hand. Naigai was the Company s licensee for childrenswear, golf apparel and hosiery under the *Polo by Ralph Lauren* and *Ralph Lauren* brands in Japan. In conjunction with the Japanese Childrenswear and Golf Acquisition, the Company also entered into an additional 5-year licensing and design-related agreement with Naigai for Polo and Chaps-branded hosiery in Japan and a transition services agreement for the provision of a variety of operational, human resources and information systems-related services over a period of up to eighteen months from the date of the closing of the transaction.

The Company accounted for the Japanese Childrenswear and Golf Acquisition as an asset purchase during the second quarter of Fiscal 2009. Based on the results of valuation analyses performed, the Company allocated all of the consideration exchanged in the Japanese Childrenswear and Golf Acquisition to the net assets acquired in connection with the transaction. No settlement loss associated with any pre-existing relationships was recognized. The acquisition cost of \$28 million (including transaction costs of approximately \$2 million) has been allocated to the net assets acquired based on their respective fair values as follows: inventory of \$16 million; customer relationship intangible asset of \$13 million; and other net liabilities of \$1 million.

The results of operations for the Polo-branded childrenswear and golf apparel businesses in Japan have been consolidated in the Company's results of operations commencing August 2, 2008.



Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Inventories**

Inventories consist of the following:

	<b>December 26, 2009</b>	<b>March 28, 2009 (millions)</b>	<b>December 27, 2008</b>
Raw materials	\$ 4.6	\$ 5.4	\$ 4.6
Work-in-process	1.4	1.7	1.4
Finished goods	539.1	518.0	579.1
Total inventories	\$ 545.1	\$ 525.1	\$ 585.1

**7. Impairments of Assets**

Property and equipment, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized equal to the difference between the carrying value of such asset and its fair value.

During the nine months ended December 26, 2009, the Company recorded a non-cash impairment charge of \$6.6 million to reduce the net carrying value of certain long-lived assets primarily in its Retail segment to their estimated fair value, which was determined based on discounted expected cash flows. This impairment charge was primarily related to the lower-than-expected operating performance of certain retail stores, largely related to the Company's *Club Monaco* retail business.

During the nine months ended December 27, 2008, the Company recorded an aggregate \$7.1 million impairment charge to reduce the net carrying value of certain long-lived assets to their estimated fair value, which was determined based on discounted expected cash flows. The charge included a \$3.7 million write-down of capitalized software costs associated with the Company's Wholesale segment that will not be utilized over the intended service period, as well as a \$3.4 million write-down associated with lower-than-expected store performance largely related to the Company's *Club Monaco* retail business.

**8. Restructuring**

The Company has recorded restructuring liabilities in recent years relating to various cost-savings initiatives, as well as certain of its acquisitions. Through Fiscal 2009, in accordance with then applicable US GAAP, restructuring costs incurred in connection with acquisitions were capitalized as part of the purchase accounting for the transaction. As of

the beginning of Fiscal 2010, restructuring costs incurred in connection with acquisitions that are not obligations of the acquiree as of the acquisition date are expensed. Such acquisition-related restructuring costs were not material in any period. Liabilities for costs associated with non-acquisition-related restructuring initiatives are expensed and initially measured at fair value when incurred in accordance with US GAAP. A description of the nature of significant non-acquisition-related restructuring activities and related costs is presented below.

Apart from the restructuring activity related to the Fiscal 2009 Restructuring Plan as defined and discussed below, the Company recognized \$7.3 million of restructuring charges during the nine months ended December 26, 2009 related to employee termination costs, as well as the write-down of an asset associated with exiting a retail store in Japan.

During the nine months ended December 27, 2008, the Company recognized \$2.8 million of restructuring charges primarily related to employee termination costs associated with its sourcing and retail operations.

Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Fiscal 2009 Restructuring Plan***

During the fourth quarter of Fiscal 2009, the Company initiated a restructuring plan designed to better align its cost base with the slowdown in consumer spending that has been negatively affecting sales and operating margins and to improve overall operating effectiveness (the Fiscal 2009 Restructuring Plan). The Fiscal 2009 Restructuring Plan included the termination of approximately 500 employees and the closure of certain underperforming retail stores.

In connection with the Fiscal 2009 Restructuring Plan, the Company recorded \$20.8 million in restructuring charges during the fourth quarter of Fiscal 2009. A summary of the activity in the related liability for the nine months ended December 26, 2009 is as follows:

	<b>Severance and Benefits Costs</b>	<b>Lease Termination Costs (millions)</b>	<b>Total</b>
<b>Balance at March 28, 2009</b>	\$ 12.6	\$ 4.9	\$ 17.5
Additions charged to expense			
Cash payments charged against reserve	(8.3)	(4.3)	(12.6)
<b>Balance at December 26, 2009</b>	\$ 4.3	\$ 0.6	\$ 4.9

Payments related to severance and benefits and lease termination costs are expected to be paid in full primarily by the end of Fiscal 2010.

**9. Income Taxes*****Uncertain Income Tax Benefits***

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding interest and penalties, for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008 is presented below:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26, 2009</b>	<b>December 27, 2008</b>	<b>December 26, 2009</b>	<b>December 27, 2008</b>
	<b>(millions)</b>			
Unrecognized tax benefits beginning balance	\$ 101.2	\$ 121.8	\$ 113.7	\$ 117.5
Additions related to current period tax positions	2.8	1.0	6.3	4.3
Additions related to prior period tax positions	1.9	1.5	5.1	11.4

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Reductions related to prior period tax positions	(2.2)	(6.2)	(11.3)	(12.6)
Reductions related to settlements with taxing authorities	(2.3)	(5.8)	(15.5)	(5.8)
Additions (reductions) charged to foreign currency translation	(1.1)	(1.4)	2.0	(3.9)
Unrecognized tax benefits ending balance	\$ 100.3	\$ 110.9	\$ 100.3	\$ 110.9

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. A reconciliation of the beginning and ending amounts of accrued interest and penalties related to unrecognized tax benefits for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008 is presented below:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Accrued interest and penalties beginning balance	\$ 31.4	\$ 47.1	\$ 41.1	\$ 48.0
Additions charged to expense	3.8	2.2	5.7	9.3
Reductions related to prior period tax positions	(4.6)	(4.2)	(9.9)	(11.7)
Reductions related to settlements with taxing authorities	(1.0)	(5.1)	(7.9)	(5.1)
Additions (reductions) charged to foreign currency translation	(0.2)	(0.3)	0.4	(0.8)
Accrued interest and penalties ending balance	\$ 29.4	\$ 39.7	\$ 29.4	\$ 39.7

The total amount of unrecognized tax benefits, including interest and penalties, was \$129.7 million as of December 26, 2009 and was included within non-current liability for unrecognized tax benefits in the consolidated balance sheet. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$101.3 million as of December 26, 2009.

***Future Changes in Unrecognized Tax Benefits***

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, the Company does not anticipate that the balance of gross unrecognized tax benefits, excluding interest and penalties, will change significantly during the next 12 months. However, changes in the occurrence, expected outcomes and timing of those events could cause the Company's current estimate to change materially in the future.

The Company files tax returns in the U.S. federal and various state, local and foreign jurisdictions. With few exceptions for those tax returns, the Company is no longer subject to examinations by the relevant tax authorities for years prior to Fiscal 2004.

**10. Debt*****Euro Debt***

As of December 26, 2009, the Company had outstanding 209.2 million principal amount of 4.5% notes due October 4, 2013 (the Euro Debt ). The Company has the option to redeem all of the outstanding Euro Debt at any time at a redemption price equal to the principal amount plus a premium. The Company also has the option to redeem all of the outstanding Euro Debt at any time at par plus accrued interest in the event of certain developments involving U.S. tax law. Partial redemption of the Euro Debt is not permitted in either instance. In the event of a change of control of the Company, each holder of the Euro Debt has the option to require the Company to redeem the Euro Debt at its principal amount plus accrued interest. The indenture governing the Euro Debt (the Indenture ) contains certain limited covenants that restrict the Company's ability, subject to specified exceptions, to incur liens or enter into a sale and leaseback transaction for any principal property. The Indenture does not contain any financial covenants.

**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 26, 2009, the carrying value of the Euro Debt was \$298.3 million, compared to \$406.4 million as of March 28, 2009.

In July 2009, the Company completed a cash tender offer and used \$121.0 million to repurchase 90.8 million of principal amount of its then outstanding 300 million principal amount of 4.5% notes due October 4, 2013 at a discounted purchase price of approximately 95%. A net pretax gain of \$4.1 million related to this extinguishment of debt was recorded during the second quarter of Fiscal 2010 and has been classified as a component of interest and other income, net, in the Company's consolidated statement of operations. The Company used its cash on hand to fund the debt extinguishment.

***Revolving Credit Facility and Term Loan***

The Company has a credit facility that provides for a \$450 million unsecured revolving line of credit through November 2011 (the Credit Facility). The Credit Facility also is used to support the issuance of letters of credit. As of December 26, 2009, there were no borrowings outstanding under the Credit Facility and the Company was contingently liable for \$13.8 million of outstanding letters of credit (primarily relating to inventory purchase commitments). The Company has the ability to expand its borrowing availability to \$600 million subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Credit Facility.

The Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens and contingent liabilities; sell or dispose of assets, including equity interests; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. The Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the leverage ratio) of no greater than 3.75 as of the date of measurement for four consecutive quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus 8 times consolidated rent expense for the last twelve months. EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense and (iv) consolidated rent expense. As of December 26, 2009, no Event of Default (as such term is defined pursuant to the Credit Facility) has occurred under the Company's Credit Facility.

The Credit Facility was amended and restated as of May 22, 2007 to provide for the addition of a ¥20.5 billion loan (the Term Loan), made to Polo JP Acqui B.V., a wholly owned subsidiary of the Company. The proceeds of the Term Loan were used to finance the Company's acquisition of certain of its formerly-licensed Japanese businesses. The Company repaid the Term Loan by its maturity date on May 22, 2008 using \$196.8 million of the cash on-hand acquired as part of the acquisition.

Refer to Note 14 of the Fiscal 2009 10-K for detailed disclosure of the terms and conditions of the Company's debt.

**11. Financial Instruments**

***Fair Value Measurements***

US GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). The three levels are defined as follows:

Level 1 inputs to the valuation methodology based on quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology based on quoted prices for similar assets and liabilities in active markets for substantially the full term of the financial instrument; quoted prices for identical or similar



**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

instruments in markets that are not active for substantially the full term of the financial instrument; and model-derived valuations whose inputs or significant value drivers are observable.

**Level 3** inputs to the valuation methodology based on unobservable prices or valuation techniques that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 26, 2009	March 28, 2009
	(millions)	
<i>Financial assets carried at fair value:</i>		
Variable rate municipal securities <sup>(a)</sup>	\$ 25.2	\$
Auction rate securities <sup>(b)</sup>	2.3	2.3
Derivative financial instruments <sup>(b)</sup>	4.7	27.7
Total	\$ 32.2	\$ 30.0
<i>Financial liabilities carried at fair value:</i>		
Derivative financial instruments <sup>(b)</sup>	\$ 6.1	\$ 3.4
Total	\$ 6.1	\$ 3.4

(a) Based on Level 1 measurements.

(b) Based on Level 2 measurements.

Derivative financial instruments are recorded at fair value in the Company's consolidated balance sheets. To the extent these instruments are designated as cash flow hedges and highly effective at reducing the risk associated with the exposure being hedged, the related unrealized gains or losses are deferred in equity as a component of accumulated other comprehensive income. The Company's derivative financial instruments are valued using a pricing model, primarily based on market observable external inputs including forward and spot rates for foreign currencies, which considers the impact of the Company's own credit risk, if any. The Company mitigates the impact of counterparty credit risk by entering into contracts with select financial institutions based on credit ratings and other factors, adhering to established limits for credit exposure and continually assessing the creditworthiness of its counterparties. Changes in counterparty credit risk are considered in the valuation of derivative financial instruments.

The Company's variable rate municipal securities are classified as available-for-sale securities and are recorded at fair value in the Company's consolidated balance sheet based upon quoted market prices, with unrealized gains or losses deferred in equity as a component of accumulated other comprehensive income.

The Company's auction rate securities are classified as available-for-sale securities and are recorded at fair value in the Company's consolidated balance sheets, with unrealized gains or losses deferred in equity as a component of accumulated other comprehensive income. Third-party pricing institutions may value auction rate securities at par, which may not necessarily reflect prices that would be obtained in the current market. When quoted market prices are unobservable, fair value is estimated based on a number of known factors and external pricing data, including known maturity dates, the coupon rate based upon the most recent reset market clearing rate, the price/yield representing the average rate of recently successful traded securities, and the total principal balance of each security.

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Cash and cash equivalents, restricted cash, short-term and non-current investments, and accounts receivable are recorded at carrying value, which approximates fair value. The Company's Euro Debt, which is adjusted for foreign currency fluctuations, is also reported at carrying value.

The Company's non-financial instruments, which primarily consist of goodwill, intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis whenever events or changes in circumstances indicate that their carrying value may not be recoverable (and at least annually for goodwill), non-financial instruments are assessed for impairment and, if applicable, written-down to (and recorded at) fair value.

***Derivative Financial Instruments***

The Company primarily has exposure to changes in foreign currency exchange rates relating to certain anticipated cash flows from its international operations and possible declines in the fair value of reported net assets of certain of its foreign operations, as well as changes in the fair value of its fixed-rate debt relating to changes in interest rates. Consequently, the Company periodically uses derivative financial instruments to manage such risks. The Company does not enter into derivative transactions for speculative or trading purposes. All undesignated hedges of the Company are entered into to hedge specific economic risks.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in the consolidated balance sheets as of December 26, 2009 and March 28, 2009:

Derivative Instrument <sup>(a)</sup>	Notional Amounts		Derivative Assets				Derivative Liabilities			
	December 26, 2009	March 28, 2009	Balance Sheet Line <sup>(b)</sup> December 26, 2009	Fair Value	Balance Sheet Line <sup>(b)</sup> March 28, 2009	Fair Value	Balance Sheet Line <sup>(b)</sup> December 26, 2009	Fair Value	Balance Sheet Line <sup>(b)</sup> March 28, 2009	Fair Value
<b>Designated Hedges:</b>										
Inventory purchases	\$ 344.6	\$ 239.4	(c)	\$ 3.1	PP	\$ 22.5	(f)	\$ (3.0)	AE	\$ (0.7)
I/C royalty payments	103.3	89.9	(d)	0.5	(e)	3.9	(g)	(2.6)	AE	(1.2)
Interest payments	13.9	17.9			PP	0.1	AE	(0.4)		
I/C marketing										
Contributions	5.7	3.0	PP	0.2					AE	(0.4)
Operational										
Investments	5.1	0.7	PP	0.1	PP	0.1				
Euro Debt	298.3	406.4					LTD	(306.7) <sup>(h)</sup>	LTD	(320.0)
Total Designated Hedges	\$ 770.9	\$ 757.3		\$ 3.9		\$ 26.6		\$ (312.7)		\$ (322.3)
<b>Undesignated Hedges:</b>										

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Inventory purchases	\$	\$ 16.9		\$	PP	\$ 0.5		\$	AE	\$ (0.3)	
Forecasted sales		13.4		PP	0.7						
Other		12.8	15.5	PP	0.1	PP	0.6	AE	(0.1)	AE	(0.8)
al Undesignated											
ges	\$	26.2	\$ 32.4		\$ 0.8		\$ 1.1		\$ (0.1)		\$ (1.1)
al Hedges	\$	797.1	\$ 789.7		\$ 4.7		\$ 27.7		\$ (312.8)		\$ (323.4)

- (a) FC = Forward exchange contracts for the sale or purchase of foreign currencies; NI = Net Investment; Euro Debt = Euro-denominated 4.5% notes due October 2013.
- (b) PP = Prepaid expenses and other; OA = Other assets; AE = Accrued expenses and other; ONCL = Other non-current liabilities; LTD = Long-term debt.
- (c) \$2.4 million included within PP and \$0.7 million included within OA.
- (d) \$0.1 million included within PP and \$0.4 million included within OA.
- (e) \$2.6 million included within PP and \$1.3 million included within OA.

Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (f) \$2.5 million included within AE and \$0.5 million included within ONCL.
- (g) \$1.5 million included within AE and \$1.1 million included within ONCL.
- (h) The Company's Euro Debt is reported at carrying value in the Company's consolidated balance sheets. The carrying value of the Euro Debt was \$298.3 million as of December 26, 2009 and \$406.4 million as of March 28, 2009.

The following tables summarize the impact of the Company's derivative instruments on its consolidated financial statements for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008:

Derivative Instrument <sup>(a)</sup>	Gains (Losses) Recognized in OCI <sup>(b)</sup>			
	Three Months Ended		Nine Months Ended	
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008
	(millions)			
<u>Designated Cash Flow</u>				
<u>Hedges:</u>				
FC Inventory purchases	\$ 1.4	\$ 11.2	\$ (20.5)	\$ 33.6
FC I/C royalty payments	3.2	(5.2)	(4.9)	(2.3)
FC Interest payments	(0.3)	0.3	(0.3)	(0.3)
FC I/C marketing contributions	(0.3)	(0.2)	0.4	(0.7)
FC Operational obligations		0.3		(0.2)
	\$ 4.0	\$ 6.4	\$ (25.3)	\$ 30.1
<u>Designated Hedge of Net</u>				
<u>Investment:</u>				
Euro Debt	\$ 9.2	\$ 19.7	\$ (18.0)	\$ 53.4
Total Designated Hedges	\$ 13.2	\$ 26.1	\$ (43.3)	\$ 83.5

Derivative Instrument <sup>(a)</sup>	Gains (Losses) Reclassified from AOCI <sup>(b)</sup> to Earnings				Location of Gains (Losses) Reclassified from AOCI to Earnings
	Three Months Ended		Nine Months Ended		
	December 26, 2009	December 27, 2008	December 26, 2009	December 27, 2008	

(millions)

Designated Cash FlowHedges:

FC	Inventory purchases	\$ 5.4	\$ (5.2)	\$ 13.0	\$ (8.6)	Cost of goods sold
FC	I/C royalty payments	0.7	(0.7)		(1.0)	Foreign currency gains (losses)
FC	Interest payments	(1.5)		0.8	(0.7)	Foreign currency gains (losses)
FC	I/C marketing contributions			0.2		Foreign currency gains (losses) Selling, general and administrative expenses
FC	Operational obligations		0.3		0.2	
FC	Euro Debt repurchase			1.2		Foreign currency gains (losses)
Total Designated Hedges		\$ 4.6	\$ (5.6)	\$ 15.2	\$ (10.1)	

**Gains (Losses) Recognized in Earnings**

**Three Months Ended**                      **Nine Months Ended**

<b>Derivative Instrument<sup>(a)</sup></b>	<b>December 2009</b>		<b>December 2008</b>		<b>Location of Gains (Losses) Recognized in Earnings</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	
	(millions)				

Undesignated Hedges:

FC	Inventory purchases	\$	\$ (1.9)	\$ 0.7	\$ (1.0)	Foreign currency gains (losses)
FC	Forecasted sales	(0.5)	1.8	1.3	1.5	Foreign currency gains (losses)
FC	Other		(2.7)	(0.3)	(2.4)	Foreign currency gains (losses)
Total Undesignated Hedges		\$ (0.5)	\$ (2.8)	\$ 1.7	\$ (1.9)	

(a) FC = Forward exchange contracts for the sale or purchase of foreign currencies; Euro Debt = Euro-denominated 4.5% notes due October 2013.

**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (b) Accumulated other comprehensive income ( AOCI ), including the respective fiscal year s other comprehensive income ( OCI ), is classified as a component of total equity.

Over the next twelve months, it is expected that approximately \$2 million of net losses deferred in accumulated other comprehensive income related to derivative financial instruments outstanding as of December 26, 2009 will be recognized in earnings. No material gains or losses relating to ineffective hedges were recognized during any of the periods presented.

The following is a summary of the Company s risk management strategies and the effect of those strategies on the consolidated financial statements.

***Foreign Currency Risk Management***

***Forward Foreign Currency Exchange Contracts***

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, interest payments made in connection with outstanding debt, other foreign currency-denominated operational obligations including payroll, rent, insurance and benefit payments, and foreign currency-denominated revenues. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the Swiss Franc, and the British Pound Sterling, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month to two-year periods. In doing so, the Company uses foreign currency exchange forward contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period.

The Company records its foreign currency exchange contracts at fair value in its consolidated balance sheets. To the extent foreign currency exchange contracts designated as cash flow hedges at hedge inception are highly effective in offsetting the change in the value of the hedged item, the related gains (losses) are deferred in equity as a component of accumulated other comprehensive income. These deferred gains (losses) are then recognized in our consolidated statements of operations as follows:

*Forecasted Inventory Purchases* Recognized as part of the cost of the inventory being hedged within cost of goods sold when the related inventory is sold.

*Intercompany Royalty Payments and Marketing Contributions* Recognized within foreign currency gains (losses) in the period in which the related royalties or marketing contributions being hedged are received or paid.

*Operational Obligations* Recognized primarily within selling, general and administrative expenses in the period in which the hedged forecasted transaction affects earnings.

*Interest Payments on Euro Debt* Recognized within foreign currency gains (losses) in the period in which the recorded liability impacts earnings due to foreign currency exchange remeasurement.

To the extent that any of these foreign currency exchange contracts are not considered to be effective, any changes in fair value relating to the ineffective portion are immediately recognized in earnings. If a hedge relationship is terminated, the change in fair value of the derivative previously recorded in accumulated other comprehensive income is realized when the hedged item affects earnings consistent with the original hedging strategy, unless the forecasted transaction is no longer probable of occurring in which case the accumulated amount is immediately recognized in earnings. In addition, changes in fair value relating to undesignated foreign currency exchange contracts are immediately recognized in earnings.



Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the first quarter of Fiscal 2010, the Company entered into two foreign currency exchange contracts to mitigate the foreign exchange cash flow variability associated with the then forecasted repurchase of a portion of the Company's outstanding Euro-denominated 4.5% notes in July 2009. The exchange contracts had an aggregate notional value of \$123.0 million and were designated as cash flow hedges. Refer to Note 10 for further discussion of the Company's partial repurchase of its Euro-denominated 4.5% notes.

*Hedge of a Net Investment in Certain European Subsidiaries*

The Company designated the entire principal amount of its outstanding Euro Debt as a hedge of its net investment in certain of its European subsidiaries. The changes in fair value of a derivative instrument or a non-derivative financial instrument (such as debt) that is designated as a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment, to the extent it is effective as a hedge. As such, changes in the fair value of the Euro Debt resulting from changes in the Euro exchange rate have been, and continue to be, reported in equity as a component of accumulated other comprehensive income.

*Investments*

The Company classifies its investments in securities at the time of purchase as either held-to-maturity, available-for-sale or trading, and re-evaluates such classifications on a quarterly basis.

Held-to-maturity investments consist of debt securities that the Company has the intent and ability to retain until maturity. These securities are recorded at cost, adjusted for the amortization of premiums and discounts, which approximates fair value. Available-for-sale investments primarily consist of variable rate municipal securities and auction rate securities, which are recorded at fair value with unrealized gains and losses deferred in equity as a component of accumulated other comprehensive income. No material unrealized gains or losses on available-for-sale investments were recognized during any of the periods presented.

The following table summarizes the Company's short-term and non-current investments recorded in the consolidated balance sheets as of December 26, 2009 and March 28, 2009:

Type of Investment	December 26, 2009			March 28, 2009		
	Short-term < 1 year	Non-current 1 - 3 years	Total	Short-term < 1 year	Non-current 1 - 3 years	Total
	(millions)					
<b>Held-to-Maturity:</b>						
Treasury bills	\$ 172.4	\$	\$ 172.4	\$ 101.2	\$	\$ 101.2
Municipal bonds	71.8	40.5	112.3	14.8	11.6	26.4
Commercial paper	10.0		10.0			
Total held-to-maturity investments	\$ 254.2	\$ 40.5	\$ 294.7	\$ 116.0	\$ 11.6	\$ 127.6

**Available-for-Sale:**

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Variable rate municipal securities	\$ 25.2	\$		\$ 25.2	\$	\$		\$
Auction rate securities			2.3	2.3			2.3	2.3
Other securities			0.5	0.5			0.4	0.4
Total available-for-sale investments	\$ 25.2	\$	2.8	\$ 28.0	\$	\$	2.7	\$ 2.7
<b>Other:</b>								
Time deposits and other	\$ 37.5	\$		\$ 37.5	\$ 222.7	\$	15.4	\$ 238.1
<b>Total Investments</b>	\$ 316.9	\$	43.3	\$ 360.2	\$ 338.7	\$	29.7	\$ 368.4

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Equity***Summary of Changes in Equity*

	<b>Nine Months Ended</b>	
	<b>December 26, 2009</b>	<b>December 27, 2008</b>
	(millions)	
Balance at beginning of period	\$ 2,735.1	\$ 2,389.7
Comprehensive income:		
Net income	365.4	361.5
Foreign currency translation adjustments	94.1	(36.6)
Net realized and unrealized gains (losses) on derivative financial instruments	(34.2)	64.3
Net unrealized gains on available-for-sale investments		0.3
Net unrealized gains on defined benefit plans	0.7	
Total comprehensive income	426.0	389.5
Cash dividends declared	(19.8)	(14.9)
Repurchases of common stock	(153.4)	(145.8)
Shares issued and equity grants made pursuant to stock-based compensation plans	88.2	75.9
Balance at end of period	\$ 3,076.1	\$ 2,694.4

*Class B Common Stock Conversion*

During the nine months ended December 26, 2009, Mr. Ralph Lauren, Chairman of the Board and Chief Executive Officer, converted 0.9 million shares of Class B common stock into an equal number of shares of Class A common stock pursuant to the terms of the security. This transaction resulted in a reclassification within equity, and had no net effect on the Company's unaudited interim consolidated balance sheet for the nine months ended December 26, 2009.

*Common Stock Repurchase Program*

On November 4, 2009, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows the Company to repurchase up to an additional \$225 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions. During the nine months ended December 26, 2009, 1.9 million shares of Class A common stock were repurchased by the Company at a cost of \$138.3 million under its repurchase program. The remaining availability under the Company's common stock repurchase program was approximately \$352 million as of December 26, 2009.

In addition, during the nine months ended December 26, 2009, 0.3 million shares of Class A common stock at a cost of \$15.1 million were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the 1997 Plan).

Repurchased and surrendered shares are accounted for as treasury stock at cost and will be held in treasury for future use.

Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Dividends*

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On November 4, 2009, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.05 per share to \$0.10 per share. The third quarter Fiscal 2010 dividend of \$0.10 per share was declared on November 4, 2009, payable to shareholders of record at the close of business on December 24, 2009, and paid on January 8, 2010. Dividends paid amounted to \$14.9 million during both the nine months ended December 26, 2009 and the nine months ended December 27, 2008.

**13. Stock-based Compensation***Long-term Stock Incentive Plan*

The Company's 1997 Plan authorizes the grant of awards to participants with respect to a maximum of 26.0 million shares of the Company's Class A common stock; however, there are limits as to the number of shares available for certain awards and to any one participant. Equity awards that may be made under the 1997 Plan include (a) stock options, (b) restricted stock and (c) restricted stock units (RSUs).

*Impact on Results*

A summary of the total compensation expense and associated income tax benefit recognized related to stock-based compensation arrangements is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Compensation expense	\$ (15.3)	\$ (14.6)	\$ (39.7)	\$ (37.3)
Income tax benefit	\$ 5.6	\$ 5.4	\$ 14.6	\$ 13.7

The Company granted its Fiscal 2010 annual stock-based compensation awards in the second quarter of Fiscal 2010. Due to the timing of the annual grant, stock-based compensation cost recognized during the three-month and nine-month periods ended December 26, 2009 is not indicative of the level of compensation cost expected to be incurred for the full Fiscal 2010.

*Stock Options*

Stock options are granted to employees and non-employee directors with exercise prices equal to fair market value at the date of grant. Generally, the options become exercisable ratably (a graded-vesting schedule), over a three-year vesting period. The Company recognizes compensation expense for share-based awards that have graded vesting and

no performance conditions on an accelerated basis.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions. The Company develops its assumptions by analyzing the historical exercise behavior of employees and non-employee directors. The Company's weighted-

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

average assumptions used to estimate the fair value of stock options granted during the nine months ended December 26, 2009 and December 27, 2008 were as follows:

	<b>Nine Months Ended</b>	
	<b>December 26, 2009</b>	<b>December 27, 2008</b>
Expected term (years)	4.6	4.3
Expected volatility	43.3%	32.1%
Expected dividend yield	0.46%	0.29%
Risk-free interest rate	2.2%	3.0%
Weighted-average option grant date fair value	\$ 21.50	\$ 17.27

A summary of the stock option activity under all plans during the nine months ended December 26, 2009 is as follows:

	<b>Number of Shares (thousands)</b>
Options outstanding at March 28, 2009	5,698
Granted	1,030
Exercised	(1,047)
Cancelled/Forfeited	(118)
Options outstanding at December 26, 2009	5,563

***Restricted Stock and RSUs***

The Company grants restricted shares of Class A common stock and service-based RSUs to certain of its senior executives and non-employee directors. In addition, the Company grants performance-based RSUs to such senior executives and other key executives, and certain other employees of the Company. The fair values of restricted stock shares and RSUs are based on the fair value of unrestricted Class A common stock, as adjusted to reflect the absence of dividends for those restricted securities that are not entitled to dividend equivalents. The Company's weighted-average grant date fair values of restricted stock shares and RSUs granted during the nine months ended December 26, 2009 and December 27, 2008 were as follows:

<b>Nine Months Ended</b>	
<b>December 26, 2009</b>	<b>December 27, 2008</b>

Weighted-average grant date fair value of restricted stock	\$ 41.58	\$ 59.22
Weighted-average grant date fair value of service-based RSUs		64.73
Weighted-average grant date fair value of performance-based RSUs	57.92	57.53

Generally, restricted stock grants vest over a five-year period of time, subject to the executive's continuing employment. Restricted stock shares granted to non-employee directors vest over a three-year period of time. Service-based RSUs generally vest over a five-year period of time, subject to the executive's continuing employment. Performance-based RSUs generally vest (a) upon the completion of a three-year period of time (cliff vesting), subject to the employee's continuing employment and the Company's achievement of certain performance goals over the three-year period or (b) ratably, over a three-year period of time (graded vesting), subject to the employee's continuing employment during the applicable vesting period and the achievement by the Company of certain performance goals either (i) in each year of the three-year vesting period for grants made prior to fiscal year 2008 or (ii) solely in the initial year of the three-year vesting period for grants made during and after fiscal year 2008.



Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the restricted stock and RSU activity during the nine months ended December 26, 2009 is as follows:

	<b>Restricted Stock Number of Shares</b>	<b>Service- based RSUs Number of Shares (thousands)</b>	<b>Performance- based RSUs Number of Shares</b>
Nonvested at March 28, 2009	23	659	1,168
Granted	9		797
Vested	(18)	(120)	(578)
Cancelled	(2)		(33)
Nonvested at December 26, 2009	12	539	1,354

**14. Commitments and Contingencies*****California Class Action Litigation***

On October 11, 2007 and November 2, 2007, two class action lawsuits were filed by two customers in state court in California asserting that while they were shopping at certain of the Company's factory stores in California, the Company allegedly required them to provide certain personal information at the point-of-sale in order to complete a credit card purchase. The plaintiffs purported to represent a class of customers in California who allegedly were injured by being forced to provide their address and telephone numbers in order to use their credit cards to purchase items from the Company's stores, which allegedly violated Section 1747.08 of California's Song-Beverly Act. The complaints sought an unspecified amount of statutory penalties, attorneys' fees and injunctive relief. The Company subsequently had the actions moved to the United States District Court for the Eastern and Central Districts of California. The Company commenced mediation proceedings with respect to these lawsuits and on October 17, 2008, the Company agreed in principle to settle these claims by agreeing to issue \$20 merchandise discount coupons with six month expiration dates to eligible parties and paying the plaintiffs' attorneys' fees. The court granted preliminary approval of the settlement terms on July 17, 2009. In connection with this settlement, the Company recorded a \$5 million reserve against its expected loss exposure during the second quarter of Fiscal 2009. As part of the required settlement process, the Company notified the relevant attorneys general regarding the potential settlement, and no objections were registered. At a hearing on December 7, 2009, the Court held that the terms of the settlement were fair, just and reasonable and provided fair compensation for class members. In addition, the Court overruled an objection that had been filed by a single customer. The Court then denied the objector's subsequent motion for the Court to reconsider its order on the fairness of the settlement. The period within which the objector has to appeal or otherwise seek relief from the Court's orders will expire in February 2010. Once such time period has expired without an appeal or further legal action by the objector, the settlement would become effective.

***Wathne Imports Litigation***

On August 19, 2005, Wathne Imports, Ltd. ( Wathne ), our then domestic licensee for luggage and handbags, filed a complaint in the U.S. District Court in the Southern District of New York against the Company and Ralph Lauren, our Chairman and Chief Executive Officer, asserting, among other things, federal trademark law violations, breach of contract, breach of obligations of good faith and fair dealing, fraud and negligent misrepresentation. The complaint sought, among other relief, injunctive relief, compensatory damages in excess of \$250 million and punitive damages of not less than \$750 million. On September 13, 2005, Wathne withdrew this complaint from the U.S. District Court and filed a complaint in the Supreme Court of the State of New York, New York County, making substantially the same allegations and claims (excluding the federal trademark claims), and seeking similar relief. On February 1, 2006, the court granted our motion to dismiss all of the causes of action, including the cause of

**Table of Contents**

**POLO RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

action against Mr. Lauren, except for breach of contract related claims, and denied Wathne's motion for a preliminary injunction. Following some discovery, we moved for summary judgment on the remaining claims. Wathne cross-moved for partial summary judgment. In an April 11, 2008 Decision and Order, the court granted Polo's summary judgment motion to dismiss most of the claims against the Company, and denied Wathne's cross-motion for summary judgment. Wathne appealed the dismissal of its claims to the Appellate Division of the Supreme Court. Following a hearing on May 19, 2009, the Appellate Division issued a Decision and Order on June 9, 2009 which, in large part, affirmed the lower court's ruling. Discovery on those claims that were not dismissed is ongoing and a trial date has not yet been set. We intend to continue to contest the remaining claims in this lawsuit vigorously. Management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

***California Labor Law Litigation***

On May 30, 2006, four former employees of our Ralph Lauren stores in Palo Alto and San Francisco, California filed a lawsuit in the San Francisco Superior Court alleging violations of California wage and hour laws. The plaintiffs purport to represent a class of employees who allegedly have been injured by not properly being paid commission earnings, not being paid overtime, not receiving rest breaks, being forced to work off of the clock while waiting to enter or leave stores and being falsely imprisoned while waiting to leave stores. The complaint seeks an unspecified amount of compensatory damages, damages for emotional distress, disgorgement of profits, punitive damages, attorneys' fees and injunctive and declaratory relief. We have filed a cross-claim against one of the plaintiffs for his role in allegedly assisting a former employee to misappropriate Company property. Subsequent to answering the complaint, we had the action moved to the United States District Court for the Northern District of California. On July 8, 2008, the United States District Court for the Northern District of California granted plaintiffs' motion for class certification and subsequently denied our motion to decertify the class. Trial is scheduled to begin in March 2010. We believe this suit is without merit and intend to contest it vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

***Club Monaco International Licensing Litigation***

On May 15, 2009, the Company's subsidiary, Club Monaco Corp., commenced an action in the Supreme Court of the State of New York, New York County, against LCJG Distribution Co., Ltd. (LCJG) and Lane Crawford Joyce Group Limited (Lane Crawford). LCJG is a Club Monaco Corp. licensee in Asia pursuant to a Club Monaco Store License Agreement, dated as of February 28, 2005 (as amended, the License Agreement). Lane Crawford is the guarantor of LCJG's obligations under the License Agreement, pursuant to a Guaranty, dated as of February 28, 2005, which was executed by Lane Crawford (the Guaranty). The License Agreement requires that LCJG pay royalties and other payments to Club Monaco Corp. for the use by LCJG of the Club Monaco brand in connection with the operation of various Club Monaco stores in Asia. Club Monaco Corp.'s Complaint alleged that LCJG and Lane Crawford had breached the License Agreement and Guaranty by, among other things, failing to pay Club Monaco certain royalties and other payments which both LCJG and Lane Crawford are responsible for under the License Agreement and Guaranty. Club Monaco Corp., LCJG and Lane Crawford resolved their differences by signing an amendment to the License Agreement, dated as of June 4, 2009, pursuant to which, among other things, LCJG agreed to make certain royalty and other payments to Club Monaco Corp. As a result of the execution of this amendment, Club Monaco Corp. withdrew the Complaint that it had filed against LCJG and Lane Crawford and the action against such parties

was dismissed.

***Other Matters***

We are otherwise involved, from time to time, in litigation, other legal claims and proceedings involving matters associated with or incidental to our business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, and employee relations. We believe that the resolution of

**Table of Contents****POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. However, our assessment of the current litigation or other legal claims could change in light of the discovery of facts 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 claims.

**15. Segment Reporting**

The Company has three reportable segments based on its business activities and organization: Wholesale, Retail and Licensing. Such segments offer a variety of products through different channels of distribution. The Wholesale segment consists of women's, men's and children's apparel, accessories and related products which are sold to major department stores, specialty stores, golf and pro shops and the Company's owned and licensed retail stores in the U.S. and overseas. The Retail segment consists of the Company's worldwide retail operations, which sell products through its full-price and factory stores, as well as RalphLauren.com and Rugby.com, its e-commerce websites. The stores and websites sell products purchased from the Company's licensees, suppliers and Wholesale segment. The Licensing segment generates revenues from royalties earned on the sale of the Company's apparel, home and other products internationally and domestically through licensing alliances. The licensing agreements grant the licensees rights to use the Company's various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 to the Company's consolidated financial statements included in the Fiscal 2009 10-K. Sales and transfers between segments generally are recorded at cost and treated as transfers of inventory. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon operating income before restructuring charges and certain other one-time items, such as legal charges, if any. Corporate overhead expenses (exclusive of certain expenses for senior management, overall branding-related expenses and certain other corporate-related expenses) are allocated to the segments based upon specific usage or other allocation methods.

Net revenues and operating income for each segment are as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
<b>Net revenues:</b>				
Wholesale	\$ 603.5	\$ 655.0	\$ 1,937.6	\$ 2,075.7
Retail	592.1	547.1	1,567.6	1,570.1
Licensing	48.3	49.9	136.6	148.7
Total net revenues	\$ 1,243.9	\$ 1,252.0	\$ 3,641.8	\$ 3,794.5

**Operating income:**

Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Wholesale	\$	107.1	\$	129.8	\$	403.7	\$	448.9
Retail		100.8		57.5		234.0		182.1
Licensing		24.1		27.5		73.3		78.4
		232.0		214.8		711.0		709.4
Less:								
Unallocated corporate expenses		(58.9)		(46.7)		(168.6)		(150.5)
Unallocated restructuring charges <sup>(a)</sup>		(0.6)		(1.5)		(7.3)		(2.8)
Total operating income	\$	172.5	\$	166.6	\$	535.1	\$	556.1

Table of Contents**POLO RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (a) Restructuring charges for the three months ended December 26, 2009 related to the Wholesale segment. Restructuring charges for the nine months ended December 26, 2009 included \$3.7 million related to the Wholesale segment, \$2.6 million related to the Retail segment and \$1.0 million related to Corporate operations. Restructuring charges for the three months ended December 27, 2008 included \$0.8 million related to the Retail segment and \$0.7 million related to the Wholesale segment. Restructuring charges for the nine months ended December 27, 2008 included \$2.0 million related to the Wholesale segment and \$0.8 million related to the Retail segment.

Depreciation and amortization expense for each segment is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
<b>Depreciation and amortization:</b>				
Wholesale	\$ 13.8	\$ 13.0	\$ 41.4	\$ 40.9
Retail	18.9	20.5	57.0	61.4
Licensing	0.4	0.3	1.4	1.8
Unallocated corporate expenses	11.0	11.1	33.7	33.9
Total depreciation and amortization	\$ 44.1	\$ 44.9	\$ 133.5	\$ 138.0

**16. Additional Financial Information***Cash Interest and Taxes*

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Cash paid for interest	\$ 14.6	\$ 21.6	\$ 22.2	\$ 23.8
Cash paid for income taxes	\$ 50.0	\$ 48.8	\$ 130.5	\$ 128.3

*Non-cash Transactions*

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of \$14.5 million for the nine months ended December 26, 2009 and \$12.5 million for the nine months ended December 27, 2008. Significant non-cash investing activities during the nine months ended December 27, 2008 also included the non-cash allocation of the fair value of the net assets acquired in connection with the Japanese Childrenswear and Golf Acquisition (see Note 5 for further discussion).

Significant non-cash financing activities during the nine months ended December 26, 2009 included the conversion of 0.9 million shares of Class B common stock into an equal number of shares of Class A common stock, as described further in Note 12.

There were no other significant non-cash investing or financing activities for the nine months ended December 26, 2009 or December 27, 2008.



**Table of Contents**

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

**Special Note Regarding Forward-Looking Statements**

Various statements in this Form 10-Q or incorporated by reference into this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases and in oral statements made from time to time by us or on our behalf constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as anticipate, estimate, expect, project, we believe, is or remains optimistic, currently envision, similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements include statements regarding, among other items:

our anticipated growth strategies;

our plans to continue to expand internationally;

the impact of the global economic crisis on the ability of our customers, suppliers and vendors to access sources of liquidity;

the impact of the significant downturn in the global economy on consumer purchases of premium lifestyle products that we offer for sale;

our plans to open new retail stores;

our ability to make certain strategic acquisitions of certain selected licenses held by our licensees;

our intention to introduce new products or enter into new alliances;

anticipated effective tax rates in future years;

future expenditures for capital projects;

our ability to continue to pay dividends and repurchase Class A common stock;

our ability to continue to maintain our brand image and reputation;

our ability to continue to initiate cost cutting efforts and improve profitability; and

our efforts to improve the efficiency of our distribution system.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended March 28, 2009 (the "Fiscal 2009 10-K"). There are no material changes to such risk factors, nor are there any identifiable previously undisclosed risks as set forth in Part II, Item 1A *Risk Factors* of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## INTRODUCTION

Management's discussion and analysis of financial condition and results of operations ( MD&A ) is provided as a supplement to the accompanying unaudited interim consolidated financial statements and footnotes to help provide an understanding of our financial condition and liquidity, changes in financial condition, and results of our operations. MD&A is organized as follows:

*Overview.* This section provides a general description of our business and a summary of financial performance for the three-month and nine-month periods ended December 26, 2009. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we

## **Table of Contents**

believe are important in understanding our results of operations and financial condition, and in anticipating future trends.

*Results of operations.* This section provides an analysis of our results of operations for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008.

*Financial condition and liquidity.* This section provides an analysis of our cash flows for the nine-month periods ended December 26, 2009 and December 27, 2008, as well as a discussion of our financial condition and liquidity as of December 26, 2009 as compared to the end of fiscal year 2009. The discussion of our financial condition and liquidity includes (i) our available financial capacity under our credit facility, (ii) a summary of our key debt compliance measures and (iii) any material changes in our financial condition and contractual obligations since the end of fiscal year 2009.

*Market risk management.* This section discusses any significant changes in our interest rate, foreign currency and investment risk exposures, the types of derivative instruments used to hedge those exposures, and/or underlying market conditions since the end of fiscal year 2009.

*Critical accounting policies.* This section discusses any significant changes in our accounting policies since the end of fiscal 2009. Significant changes include those considered to be important to our financial condition and results of operations, and which require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Notes 3 and 4 to our audited consolidated financial statements included in our Fiscal 2009 10-K.

*Recently issued accounting standards.* This section discusses the potential impact to our reported financial condition and results of operations of accounting standards that have been recently issued.

In this Form 10-Q, references to Polo, ourselves, we, our, us and the Company refer to Polo Ralph Lauren Co. and its subsidiaries, unless the context indicates otherwise. Due to the collaborative and ongoing nature of our relationships with our licensees, such licensees are sometimes referred to in this Form 10-Q as licensing alliances. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2010 will end on April 3, 2010 and will be a 53-week period ( Fiscal 2010 ). Fiscal year 2009 ended on March 28, 2009 and reflected a 52-week period ( Fiscal 2009 ). In turn, the third quarter for Fiscal 2010 ended on December 26, 2009 and was a 13-week period. The third quarter for Fiscal 2009 ended on December 27, 2008 and also was a 13-week period.

## **OVERVIEW**

### ***Our Business***

Our Company is a global leader in the design, marketing and distribution of premium lifestyle products including men's, women's and children's apparel, accessories, fragrances and home furnishings. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. Our brand names include *Polo by Ralph Lauren*, *Ralph Lauren Purple Label*, *Ralph Lauren Collection*, *Black Label*, *Blue Label*, *Lauren by Ralph Lauren*, *RRL*, *RLX*, *Rugby*, *Ralph Lauren Childrenswear*, *American Living*, *Chaps* and *Club Monaco*, among others.

We classify our businesses into three segments: Wholesale, Retail and Licensing. Our wholesale business (representing approximately 57% of Fiscal 2009 net revenues) consists of wholesale-channel sales made principally to major department stores, specialty stores and golf and pro shops located throughout the U.S., Europe and Asia. Our

retail business (representing approximately 39% of Fiscal 2009 net revenues) consists of retail-channel sales directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, South America and Asia, and through our retail internet sites located at [www.RalphLauren.com](http://www.RalphLauren.com) and [www.Rugby.com](http://www.Rugby.com). In addition, our licensing business (representing approximately 4% of Fiscal 2009 net revenues) consists of royalty-based arrangements under which we license to third parties the right to use our various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in

## **Table of Contents**

specified geographical areas for specified periods. Approximately 28% of our Fiscal 2009 net revenues was earned in regions outside of the U.S. and Canada.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth quarters and higher retail sales in our second and third quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school and holiday shopping periods in the Retail segment. Accordingly, our operating results for the three-month and nine-month periods ended December 26, 2009, and our cash flows for the nine-month period ended December 26, 2009 are not necessarily indicative of the results and cash flows that may be expected for the full Fiscal 2010.

### ***Summary of Financial Performance***

#### *Global Economic Developments*

As discussed in our Fiscal 2009 10-K, the state of the global economy has continued to negatively impact to a significant degree the level of consumer spending for discretionary items over the course of the past year. This has affected our business as it is highly dependent on consumer demand for our products. Particularly, beginning in October 2008, our Retail segment began to experience sharp declines in comparable store sales, as did many of our traditional wholesale customers. These retail store declines continued until the third quarter of Fiscal 2010 when our Retail segment experienced positive comparable store sales growth due largely to the anniversary of the lower benchmarks created in the prior year, as well as the realization of higher margins relating to improved inventory management and less promotional activity.

The global macroeconomic environment and the related contraction in the level of worldwide consumer spending will likely continue to have a negative effect on our sales and operating margins across all segments for the foreseeable future.

To realign our cost base with lower sales trends, the Company initiated a restructuring plan during the fourth quarter of Fiscal 2009. Cost reduction actions related to the restructuring plan are anticipated to result in annualized pretax cash savings of approximately \$25 million beginning in Fiscal 2010. We continue to evaluate strategies to control costs by focusing on operational efficiencies on a Company-wide basis, by conservatively managing our inventory levels, and by controlling capital spending. The implementation of these strategies may necessitate additional cost-savings actions going forward.

For a detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, see Part I, Item 1A *Risk Factors* in our Fiscal 2009 10-K.

#### *Operating Results*

##### *Three Months Ended December 26, 2009 Compared to Three Months Ended December 27, 2008*

During the third quarter of Fiscal 2010, we reported revenues of \$1.244 billion, net income of \$111.1 million and net income per diluted share of \$1.10. This compares to revenues of \$1.252 billion, net income of \$105.3 million and net income per diluted share of \$1.05 during the third quarter of Fiscal 2009.

Our operating performance for the three months ended December 26, 2009 was principally affected by a 0.6% decline in revenues, primarily due to lower revenues from our global Wholesale businesses, largely offset by a net increase in our comparable global Retail store sales and favorable foreign currency effects. Despite the modest decline in revenues, we experienced an increase in gross profit percentage of 470 basis points to 58.2% primarily due to

decreased promotional activity and improved inventory management, particularly across our global Retail businesses and our European Wholesale operations. Selling, general and administrative ( SG&A ) expenses increased during the third quarter of Fiscal 2010 primarily driven by higher incentive-based compensation expenses and our new business initiatives, which more than offset the benefits from various cost-savings initiatives implemented in response to the current economic downturn.

Net income and net income per diluted share increased during the third quarter of Fiscal 2010 as compared to the third quarter of Fiscal 2009. This was principally due to a \$5.9 million increase in operating income, offset in part by a \$1.6 million increase in the provision for income taxes.

**Table of Contents**

*Nine Months Ended December 26, 2009 Compared to Nine Months Ended December 27, 2008*

During the nine months ended December 26, 2009, we reported revenues of \$3.642 billion, net income of \$365.4 million and net income per diluted share of \$3.60. This compares to revenues of \$3.794 billion, net income of \$361.5 million and net income per diluted share of \$3.56 during the nine months ended December 27, 2008.

Our operating performance for the nine months ended December 26, 2009 was primarily affected by a 4.0% decline in revenues, mainly due to lower revenues from our domestic and European Wholesale businesses and a net decline in our comparable global Retail store sales largely associated with the current global economic environment. The decrease also was due to net unfavorable foreign currency effects. Despite the decline in revenues, we experienced an increase in gross profit percentage of 270 basis points to 57.9% primarily due to supply chain cost savings initiatives, improved inventory management and decreased promotional activity particularly across our global Retail businesses and our European Wholesale operations, as well as growth in our Japanese Wholesale operations driven by the Japanese Childrenswear and Golf Acquisition (see *Recent Developments* for further discussion). SG&A expenses increased during the nine months ended December 26, 2009 primarily driven by higher incentive-based compensation expenses and an increase in operating expenses attributable to our new business initiatives, which more than offset the benefits from various cost-savings initiatives implemented in response to the current economic downturn.

Net income and net income per diluted share increased during the nine months ended December 26, 2009 as compared to the nine months ended December 27, 2008. This was principally due to a \$30.9 million decrease in the provision for income taxes, which more than offset a \$21.0 million decrease in operating income.

*Financial Condition and Liquidity*

Our financial position reflects the overall relative strength of our business results. We ended the third quarter of Fiscal 2010 in a net cash and investments position (total cash and cash equivalents, plus short-term and non-current investments less total debt) of \$1.036 billion, compared to \$443.2 million as of the end of Fiscal 2009.

The improvement in our financial position was primarily due to our operating cash flows, partially offset by our investing activities and treasury stock repurchases. Our equity increased to \$3.076 billion as of December 26, 2009, compared to \$2.735 billion as of March 28, 2009, primarily due to our net income during the nine months ended December 26, 2009, offset in part by our share repurchase activity.

We generated \$804.3 million of cash from operations during the nine months ended December 26, 2009, compared to \$750.8 million during the nine months ended December 27, 2008. We used some of our cash availability to redeem approximately 90.8 million principal amount of debt for \$121.0 million, to reinvest in our business and to support our common stock repurchase program. In particular, we spent \$104.3 million for capital expenditures primarily associated with our global retail store expansion, construction and renovation of department store shop-in-shops and investments in our facilities and technological infrastructure. We also used \$153.4 million to repurchase 2.2 million shares of Class A common stock, including shares surrendered for tax withholdings.

***Transactions Affecting Comparability of Results of Operations and Financial Condition***

The comparability of the Company's operating results for the three-month and nine-month periods ended December 26, 2009 and December 27, 2008 has been affected by certain pretax charges related to asset impairments and restructurings. A summary of the effect of these items on pretax income for each applicable period presented is noted below (references to Notes are to the notes to the accompanying unaudited interim consolidated financial statements):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>December 26,</b>	<b>December 27,</b>	<b>December 26,</b>	<b>December 27,</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>(millions)</b>			
Impairments of assets (see Note 7)	\$ (4.9)	\$	\$ (6.6)	\$ (7.1)
Restructuring charges (see Note 8)	(0.6)	(1.5)	(7.3)	(2.8)
	\$ (5.5)	\$ (1.5)	\$ (13.9)	\$ (9.9)



**Table of Contents**

In addition, the comparability of the Company's operating results for the nine-month periods ended December 26, 2009 and December 27, 2008 has been affected by the Japanese Childrenswear and Golf Acquisition (as defined and discussed under *Recent Developments* below) that occurred on August 1, 2008.

The following discussion of results of operations highlights, as necessary, the significant changes in operating results arising from these items and transactions. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users individually should consider the types of events and transactions that have affected operating trends.

***Recent Developments***

***Southeast Asia Licensed Operations Acquisition***

On December 31, 2009, during the fourth quarter of Fiscal 2010, the Company closed its previously announced acquisition of certain net assets (including inventory) from Dickson Concepts International Limited and affiliates ( Dickson ) in exchange for an initial payment of approximately \$20 million and certain other consideration (the Southeast Asia Licensed Operations Acquisition ). Dickson was the Company's licensee for Polo-branded apparel in the Southeast Asia region, which is comprised of China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan and Thailand. The Company funded the Southeast Asia Licensed Operations Acquisition with available cash on-hand. The transaction will be accounted for in the fourth quarter of Fiscal 2010.

***Japanese Childrenswear and Golf Acquisition***

On August 1, 2008, in connection with the transition of the Polo-branded childrenswear and golf apparel businesses in Japan from a licensed to a wholly owned operation, the Company acquired certain net assets (including inventory) from Naigai Co. Ltd. ( Naigai ) in exchange for a payment of approximately ¥2.8 billion (approximately \$26 million as of the acquisition date) and certain other consideration (the Japanese Childrenswear and Golf Acquisition ). The Company funded the Japanese Childrenswear and Golf Acquisition with available cash on-hand. Naigai was the Company's licensee for childrenswear, golf apparel and hosiery under the *Polo by Ralph Lauren* and *Ralph Lauren* brands in Japan. In conjunction with the Japanese Childrenswear and Golf Acquisition, the Company also entered into an additional 5-year licensing and design-related agreement with Naigai for Polo and Chaps-branded hosiery in Japan and a transition services agreement for the provision of a variety of operational, human resources and information systems-related services over a period of up to eighteen months from the date of the closing of the transaction.

The results of operations for the Polo-branded childrenswear and golf apparel businesses in Japan have been consolidated in the Company's results of operations commencing August 2, 2008.

**Table of Contents****RESULTS OF OPERATIONS****Three Months Ended December 26, 2009 Compared to Three Months Ended December 27, 2008**

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions:

	<b>Three Months Ended</b>			
	<b>December 26, 2009</b>	<b>December 27, 2008</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(millions, except per share data)</b>			
<b>Net revenues</b>	\$ 1,243.9	\$ 1,252.0	\$ (8.1)	(0.6)%
Cost of goods sold <sup>(a)</sup>	(520.2)	(582.3)	62.1	(10.7)%
<b>Gross profit</b>	723.7	669.7	54.0	8.1 %
<i>Gross profit as % of net revenues</i>	<i>58.2%</i>	<i>53.5%</i>		
Selling, general and administrative expenses <sup>(a)</sup>	(540.4)	(496.5)	(43.9)	8.8 %
<i>SG&amp;A as % of net revenues</i>	<i>43.4%</i>	<i>39.7%</i>		
Amortization of intangible assets	(5.3)	(5.1)	(0.2)	3.9 %
Impairments of assets	(4.9)		(4.9)	NM
Restructuring charges	(0.6)	(1.5)	0.9	(60.0)%
<b>Operating income</b>	172.5	166.6	5.9	3.5 %
<i>Operating income as % of net revenues</i>	<i>13.9%</i>	<i>13.3 %</i>		
Foreign currency gains (losses)	(1.2)	(5.4)	4.2	(77.8)%
Interest expense	(4.6)	(7.4)	2.8	(37.8)%
Interest and other income, net	1.2	5.4	(4.2)	(77.8)%
Equity in income (loss) of equity-method investees	(2.4)	(1.1)	(1.3)	118.2 %
<b>Income before provision for income taxes</b>	165.5	158.1	7.4	4.7 %
Provision for income taxes	(54.4)	(52.8)	(1.6)	3.0 %
<i>Effective tax rate<sup>(b)</sup></i>	<i>32.9%</i>	<i>33.4 %</i>		
<b>Net income</b>	\$ 111.1	\$ 105.3	\$ 5.8	5.5 %
<b>Net income per share Basic</b>	\$ 1.12	\$ 1.07	\$ 0.05	4.7 %
<b>Net income per share Diluted</b>	\$ 1.10	\$ 1.05	\$ 0.05	4.8 %

(a)

Includes total depreciation expense of \$38.8 million and \$39.8 million for the three-month periods ended December 26, 2009 and December 27, 2008, respectively.

- (b) Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

NM Not meaningful.

*Net Revenues.* Net revenues decreased by \$8.1 million, or 0.6%, to \$1.244 billion in the third quarter of Fiscal 2010 from \$1.252 billion in the third quarter of Fiscal 2009. The decrease was primarily due to lower revenues from our global Wholesale businesses, largely offset by a net increase in our comparable global Retail store sales and favorable foreign currency effects. Excluding the effect of foreign currency, net revenues decreased by 3.0%. On a reported basis, Wholesale revenues decreased by \$51.5 million, principally due to a net sales decline in most of our domestic product lines and decreased sales from our Japanese Wholesale businesses, both largely as a result of the ongoing challenging global retail environment. Retail revenues increased by \$45.0 million primarily as a result of a net increase in comparable global store sales, continued store expansion and growth in

**Table of Contents**

RalphLauren.com sales. Licensing revenue decreased by \$1.6 million, principally due to a decrease in domestic product licensing revenues due to lower fragrance-related royalties.

Net revenues for our three business segments are provided below:

	<b>Three Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>December 26, 2009</b>	<b>December 27, 2008 (millions)</b>		
<b>Net Revenues:</b>				
Wholesale	\$ 603.5	\$ 655.0	\$ (51.5)	(7.9) %
Retail	592.1	547.1	45.0	8.2 %
Licensing	48.3	49.9	(1.6)	(3.2) %
Total net revenues	\$ 1,243.9	\$ 1,252.0	\$ (8.1)	(0.6) %

*Wholesale net revenues* The net decrease primarily reflects:

a \$34 million aggregate net decrease in our domestic businesses primarily due to a decrease in menswear, womenswear and childrenswear sales (including a decline in revenues from related *American Living* product categories) largely as a result of the ongoing challenging U.S. retail environment (as discussed further in the *Overview* section). This decrease was offset in part by higher footwear sales;

a \$26 million net decrease in our Japanese businesses primarily due to a decrease in menswear, womenswear and childrenswear sales on a constant currency basis largely as a result of the ongoing challenging global retail environment; and

a \$9 million net decrease in our European businesses on a constant currency basis primarily driven by decreased sales in our womenswear and childrenswear product lines, partially offset by an increase in menswear sales.

The above net decrease was partially offset by:

an \$18 million increase in revenues due to favorable foreign currency effects related to the strengthening of the Euro and Yen, both in comparison to the U.S. dollar in the third quarter of Fiscal 2010.

*Retail net revenues* For purposes of the discussion of Retail operating performance below, we refer to the measure comparable store sales. Comparable store sales refer to the growth of sales in stores that are open for at least one full fiscal year. Sales for stores that are closing during a fiscal year are excluded from the calculation of comparable store sales. Sales for stores that are either relocated, enlarged (as defined by gross square footage expansion of 25% or greater) or generally closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until such stores have been in their new location or in a newly renovated state for at least one full fiscal year. Comparable store sales information includes both Ralph Lauren (including Rugby) and Club Monaco stores, as well as RalphLauren.com.

The net increase in retail net revenues primarily reflects:

a \$23 million aggregate net increase in comparable physical store sales driven by our global factory stores, including a net aggregate favorable foreign currency effect of \$9 million related to the strengthening of the Euro and Yen, both in comparison to the U.S. dollar in the third quarter of Fiscal 2010. The increase in retail

**Table of Contents**

net revenues also was due to a \$7 million increase in RalphLauren.com sales. Comparable store sales are provided below:

	<b>Three Months Ended December 26, 2009</b>
Increases in comparable store sales as reported:	
Full-price Ralph Lauren store sales	4%
Full-price Club Monaco store sales	7%
Factory store sales	6%
RalphLauren.com sales	13%
<b>Total increase in comparable store sales as reported</b>	<b>6%</b>
Increases in comparable store sales excluding the effect of foreign currency:	
Full-price Ralph Lauren store sales	2%
Full-price Club Monaco store sales	7%
Factory store sales	3%
RalphLauren.com sales	13%
<b>Total increase in comparable store sales excluding the effect of foreign currency</b>	<b>4%</b>

The net increase in retail net revenues also reflects:

a \$15 million aggregate net increase in sales from non-comparable stores, primarily relating to new store openings within the past twelve months. There was a net increase in average global store count of one store, to a total of 333 stores, as compared to the third quarter of Fiscal 2009. The net increase in store count was primarily due to a number of new international factory store openings, offset in part by the closure of certain Club Monaco stores.

*Licensing revenue* The net decrease primarily reflects:

a \$2 million decrease in domestic product licensing royalties, primarily driven by a decrease in fragrance-related royalties; and

a \$1 million decrease in home licensing royalties.

The above net decrease was partially offset by:

a \$1 million increase in international licensing royalties.

*Gross Profit.* Cost of goods sold includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, and import costs, as well as changes in reserves for shrinkage and inventory realizability. The costs of selling merchandise, including those associated with preparing the merchandise for sale, such as picking, packing, warehousing and order charges, are included in SG&A expenses.

Gross profit increased by \$54.0 million, or 8.1%, to \$723.7 million in the third quarter of Fiscal 2010 from \$669.7 million in the third quarter of Fiscal 2009. Gross profit as a percentage of net revenues increased by 470 basis

points to 58.2% for the three months ended December 26, 2009 from 53.5% for the three months ended December 27, 2008, primarily due to decreased promotional activity and improved inventory management particularly across our global Retail businesses and our European Wholesale operations.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.

**Table of Contents**

*Selling, General and Administrative Expenses.* SG&A expenses primarily include compensation and benefits, marketing, distribution, bad debts, information technology, facilities, legal and other costs associated with finance and administration. SG&A expenses increased by \$43.9 million, or 8.8%, to \$540.4 million in the third quarter of Fiscal 2010 from \$496.5 million in the third quarter of Fiscal 2009. The increase included an unfavorable foreign currency effect of approximately \$17 million, primarily related to the strengthening of the Euro and Yen, both in comparison to the U.S. dollar in the third quarter of Fiscal 2010. SG&A expenses as a percent of net revenues increased to 43.4% for the three months ended December 26, 2009 from 39.7% for the three months ended December 27, 2008. The 370 basis point increase was primarily driven by the decrease in net revenues as well as higher compensation-related expenses and an increase in operating expenses attributable to our new business initiatives. Including the \$17 million unfavorable foreign currency effect, the \$43.9 million increase in SG&A expenses was primarily driven by:

higher compensation-related expenses of approximately \$34 million primarily relating to an increase in incentive-based compensation;

an approximate \$14 million increase in rent and utility costs primarily to support the ongoing global growth of our businesses; and

an increase in SG&A costs attributable to our new business initiatives, including the expansion of our operations in Southeast Asia.

The above increases were partially offset by lower SG&A expenses associated with the Company's cost-savings initiatives implemented in late Fiscal 2009, as well as:

lower selling expenses of approximately \$10 million primarily relating to lower wholesale sales.

*Amortization of Intangible Assets.* Amortization of intangible assets increased by \$0.2 million, or 3.9%, to \$5.3 million in the third quarter of Fiscal 2010 from \$5.1 million in the third quarter of Fiscal 2009. This slight increase was due to unfavorable foreign currency effects in the third quarter of Fiscal 2010.

*Impairments of Assets.* A non-cash impairment charge of \$4.9 million was recognized in the third quarter of Fiscal 2010 to reduce the net carrying value of certain long-lived assets to their estimated fair value primarily within the Company's Retail segment. This impairment charge was related to the lower-than-expected operating performance of certain retail stores. See Note 7 to the accompanying unaudited interim consolidated financial statements for further discussion. No impairment charges were recognized in the third quarter of Fiscal 2009.

*Restructuring Charges.* Restructuring charges of \$0.6 million recognized in the third quarter of Fiscal 2010 related to employee termination costs associated with the Company's wholesale operations. Restructuring charges of \$1.5 million recognized in the third quarter of Fiscal 2009 primarily related to employee termination costs associated with the Company's sourcing and retail operations. See Note 8 to the accompanying unaudited interim consolidated financial statements for further discussion.

*Operating Income.* Operating income increased by \$5.9 million, or 3.5%, to \$172.5 million in the third quarter of Fiscal 2010 from \$166.6 million in the third quarter of Fiscal 2009. Operating income as a percentage of net revenues increased 60 basis points, to 13.9% for the three months ended December 26, 2009 from 13.3% for the three months ended December 27, 2008. The increase in operating income as a percentage of net revenues primarily reflected the increase in gross profit margin, partially offset by the increase in SG&A expenses as a percent of net revenues, as previously discussed.





**Table of Contents**

Operating income as reported for our three business segments is provided below:

	<b>Three Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>December 26,</b>	<b>December 27,</b>		
	<b>2009</b>	<b>2008 (millions)</b>		
<b>Operating Income:</b>				
Wholesale	\$ 107.1	\$ 129.8	\$ (22.7)	(17.5) %
Retail	100.8	57.5	43.3	75.3 %
Licensing	24.1	27.5	(3.4)	(12.4) %
	232.0	214.8	17.2	8.0 %
Less:				
Unallocated corporate expenses	(58.9)	(46.7)	(12.2)	26.1 %
Unallocated restructuring charges	(0.6)	(1.5)	0.9	(60.0) %
Total operating income	\$ 172.5	\$ 166.6	\$ 5.9	3.5 %

*Wholesale operating income* decreased by \$22.7 million primarily as a result of lower revenues and increased SG&A expenses. These decreases were partially offset by higher gross margins primarily driven by improved inventory management, particularly in our European businesses.

*Retail operating income* increased by \$43.3 million primarily as a result of increased revenues and higher gross margins driven by decreased promotional activity across our global Retail businesses and lower reductions in the carrying cost of our retail inventory. These increases were partially offset by increased SG&A expenses driven by higher incentive-based compensation expenses.

*Licensing operating income* decreased by \$3.4 million primarily as a result of lower revenues largely driven by a decline in domestic product and home licensing royalties, as well as higher net costs associated with the transition of our licensed businesses to wholly owned operations, including the expansion of our operations in Southeast Asia.

*Unallocated corporate expenses* increased by \$12.2 million, primarily as a result of higher incentive-based compensation expenses, partially offset by the benefits from various cost-savings initiatives implemented in response to the current economic downturn.

*Unallocated restructuring charges* of \$0.6 million in the third quarter of Fiscal 2010 related to employee termination costs associated with the Company's wholesale operations. Unallocated restructuring charges of \$1.5 million in the third quarter of Fiscal 2009 primarily related to employee termination costs associated with the Company's sourcing and retail operations.

*Foreign Currency Gains (Losses).* The effect of foreign currency exchange rate fluctuations resulted in a loss of \$1.2 million in the third quarter of Fiscal 2010, compared to a loss of \$5.4 million in the third quarter of Fiscal 2009. Excluding a net decrease in foreign currency losses of \$2.3 million relating to undesignated foreign currency hedge contracts, the decrease in foreign currency losses for the three months ended December 26, 2009 as compared to the three months ended December 27, 2008 was primarily due to the timing of the settlement of intercompany receivables

and payables (that were not of a long-term investment nature) between certain of our international and domestic subsidiaries. Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

*Interest Expense.* Interest expense includes the borrowing costs of our outstanding debt, including amortization of debt issuance costs, and interest related to our capital lease obligations. Interest expense decreased by \$2.8 million, or 37.8%, to \$4.6 million in the third quarter of Fiscal 2010 from \$7.4 million in the third quarter of Fiscal 2009. This decrease was primarily due to a lower principal amount of our outstanding Euro-denominated 4.5% notes as a result of a partial debt extinguishment in July 2009, partially offset by unfavorable foreign currency effects related to this debt.

**Table of Contents**

*Interest and Other Income, net.* Interest and other income, net, decreased by \$4.2 million, or 77.8%, to \$1.2 million in the third quarter of Fiscal 2010 from \$5.4 million in the third quarter of Fiscal 2009, primarily due to lower yields relating to lower market rates of interest, offset in part by an increase in our average balance of cash and cash equivalents and non-current investments during the third quarter of Fiscal 2010.

*Equity in Income (Loss) of Equity-Method Investees.* The equity in loss of equity-method investees of \$2.4 million in the third quarter of Fiscal 2010 related to the Company's share of loss from its joint venture, the Ralph Lauren Watch and Jewelry Company, S.A.R.L. (the RL Watch Company), which is accounted for under the equity method of accounting. The equity in loss of equity-method investees of \$1.1 million in the third quarter of Fiscal 2009 related to certain start-up costs associated with the RL Watch Company.

*Provision for Income Taxes.* The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by \$1.6 million, or 3.0%, to \$54.4 million in the third quarter of Fiscal 2010 from \$52.8 million in the third quarter of Fiscal 2009. The increase in provision for income taxes was primarily a result of higher pretax income in the third quarter of Fiscal 2010 compared to the third quarter of Fiscal 2009. This increase was partially offset by a net reduction in our reported effective tax rate of 50 basis points, to 32.9% for the three months ended December 26, 2009 from 33.4% for the three months ended December 27, 2008. The lower effective tax rate was primarily due to a greater proportion of earnings generated in lower-taxed jurisdictions and tax reserve reductions principally associated with audit settlements, partially offset by certain higher non-deductible expenses. The effective tax 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 period to period based on non-recurring factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies.

*Net Income.* Net income increased by \$5.8 million, or 5.5%, to \$111.1 million in the third quarter of Fiscal 2010 from \$105.3 million in the third quarter of Fiscal 2009. The increase in net income was principally due to a \$5.9 million increase in operating income, offset in part by a \$1.6 million increase in the provision for income taxes, as previously discussed.

*Net Income Per Diluted Share.* Net income per diluted share increased by \$0.05, or 4.8%, to \$1.10 per share in the third quarter of Fiscal 2010 from \$1.05 per share in the third quarter of Fiscal 2009. The increase in diluted per share results was due to the higher level of net income, as previously discussed, partially offset by higher weighted-average diluted shares outstanding for the three months ended December 26, 2009.

**Table of Contents*****Nine Months Ended December 26, 2009 Compared to Nine Months Ended December 27, 2008***

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions:

	<b>Nine Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>December 26,</b>	<b>December 27,</b>		
	<b>2009</b>	<b>2008</b>		
	<b>(millions, except per share data)</b>			
<b>Net revenues</b>	\$ 3,641.8	\$ 3,794.5	\$ (152.7)	(4.0) %
Cost of goods sold <sup>(a)</sup>	(1,532.1)	(1,698.2)	166.1	(9.8) %
<b>Gross profit</b>	2,109.7	2,096.3	13.4	0.6 %
<i>Gross profit as % of net revenues</i>	<i>57.9%</i>	<i>55.2%</i>		
Selling, general and administrative expenses <sup>(a)</sup>	(1,545.0)	(1,515.3)	(29.7)	2.0 %
<i>SG&amp;A as % of net revenues</i>	<i>42.4%</i>	<i>39.9%</i>		
Amortization of intangible assets	(15.7)	(15.0)	(0.7)	4.7 %
Impairments of assets	(6.6)	(7.1)	0.5	(7.0) %
Restructuring charges	(7.3)	(2.8)	(4.5)	160.7 %
<b>Operating income</b>	535.1	556.1	(21.0)	(3.8) %
<i>Operating income as % of net revenues</i>	<i>14.7%</i>	<i>14.7%</i>		
Foreign currency gains (losses)	(2.9)	(2.5)	(0.4)	16.0 %
Interest expense	(16.8)	(20.5)	3.7	(18.0) %
Interest and other income, net	10.4	18.5	(8.1)	(43.8) %
Equity in income (loss) of equity-method investees	(3.9)	(2.7)	(1.2)	44.4 %
<b>Income before provision for income taxes</b>	521.9	548.9	(27.0)	(4.9) %
Provision for income taxes	(156.5)	(187.4)	30.9	(16.5) %
<i>Effective tax rate<sup>(b)</sup></i>	<i>30.0%</i>	<i>34.1%</i>		
<b>Net income</b>	\$ 365.4	\$ 361.5	\$ 3.9	1.1 %
<b>Net income per share Basic</b>	\$ 3.69	\$ 3.64	\$ 0.05	1.4 %
<b>Net income per share Diluted</b>	\$ 3.60	\$ 3.56	\$ 0.04	1.1 %

(a) Includes total depreciation expense of \$117.8 million and \$123.0 million for the nine-month periods ended December 26, 2009 and December 27, 2008, respectively.

(b) Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

*Net Revenues.* Net revenues decreased by \$152.7 million, or 4.0%, to \$3.642 billion for the nine months ended December 26, 2009 from \$3.794 billion for the nine months ended December 27, 2008. The decrease was primarily due to lower revenues from our global Wholesale businesses and a net decline in our global Retail store sales, both including net unfavorable foreign currency effects. Excluding the effect of foreign currency, net revenues decreased by 3.9%. On a reported basis, Wholesale revenues decreased by \$138.1 million, primarily as a result of a net sales decline in most of our domestic and European product lines largely due to the ongoing challenging global retail environment. Retail revenues decreased by \$2.5 million primarily as a result of a net decrease in comparable global full-price and domestic factory store sales, largely offset by an increase in our comparable European factory store sales, continued store expansion and growth in RalphLauren.com sales. Licensing revenue decreased by \$12.1 million, principally due to a decrease in domestic product licensing revenues due to lower fragrance-related royalties, as well as a decrease in international licensing royalties driven by the loss of licensing revenues from the Japanese childrenswear and golf businesses, which are now consolidated as part of the Wholesale segment.

**Table of Contents**

Net revenues for our three business segments are provided below:

	Nine Months Ended		\$ Change	% Change
	December 26, 2009	December 27, 2008 (millions)		
<b>Net Revenues:</b>				
Wholesale	\$ 1,937.6	\$ 2,075.7	\$ (138.1)	(6.7)%
Retail	1,567.6	1,570.1	(2.5)	(0.2)%
Licensing	136.6	148.7	(12.1)	(8.1)%
Total net revenues	\$ 3,641.8	\$ 3,794.5	\$ (152.7)	(4.0)%

*Wholesale net revenues* The net decrease primarily reflects:

a \$118 million aggregate net decrease in our domestic businesses primarily due to a decrease in womenswear and menswear sales (including a decline in revenues from related *American Living* product categories) as a result of the ongoing challenging U.S. retail environment (as discussed further in the *Overview* section). This decrease was offset in part by higher footwear and childrenswear sales;

a \$19 million net decrease in our European businesses on a constant currency basis primarily driven by decreased sales in our menswear and childrenswear product lines, partially offset by an increase in womenswear sales largely due to the inclusion of revenues from the newly launched *Lauren* product line; and

a \$3 million net decrease in revenues due to an unfavorable foreign currency effect related to the overall weakening of the Euro, partially offset by a favorable foreign currency effect related to the strengthening of the Yen, both in comparison to the U.S. dollar during the nine months ended December 26, 2009.

The above net decrease was partially offset by:

a \$2 million net increase in our Japanese operations on a constant currency basis primarily as a result of the inclusion of nine months of revenues from the Japanese Childrenswear and Golf Acquisition in comparison to four months in the comparable prior year period (see *Recent Developments* for further discussion), offset in part by a net sales decline in our core businesses.

*Retail net revenues* The net decrease primarily reflects:

a \$58 million aggregate net decrease in comparable physical store sales driven by our global full-price and domestic factory stores, including a net aggregate unfavorable foreign currency effect of \$11 million primarily related to the overall weakening of the Euro in comparison to the U.S. dollar during the nine months ended December 26, 2009. This decrease was partially offset by a \$17 million increase in RalphLauren.com sales.

**Table of Contents**

Comparable store sales are provided below:

	<b>Nine Months Ended December 26, 2009</b>
Increases/(decreases) in comparable store sales as reported:	
Full-price Ralph Lauren store sales	(13) %
Full-price Club Monaco store sales	(4) %
Factory store sales	(1) %
RalphLauren.com sales	13 %
<b>Total decrease in comparable store sales as reported</b>	<b>(3) %</b>
Increases/(decreases) in comparable store sales excluding the effect of foreign currency:	
Full-price Ralph Lauren store sales	(12) %
Full-price Club Monaco store sales	(4) %
Factory store sales	(1) %
RalphLauren.com sales	13 %
<b>Total decrease in comparable store sales excluding the effect of foreign currency</b>	<b>(2) %</b>

The above net decrease was partially offset by:

a \$38 million aggregate net increase in sales from non-comparable stores, primarily relating to new store openings within the past twelve months. There was a net increase in average global store count of 5 stores, to a total of 333 stores, as compared to the nine months ended December 27, 2008. The net increase in store count was primarily due to a number of new domestic and international full-price and factory store openings, offset in part by the closure of certain Club Monaco stores.

*Licensing revenue* The net decrease primarily reflects:

a \$5 million net decrease in domestic product licensing royalties primarily driven by lower fragrance-related royalties, offset in part by higher Chaps royalties;

a \$4 million decrease in international licensing royalties, primarily due to the Japanese Childrenswear and Golf Acquisition (see *Recent Developments* for further discussion); and

a \$3 million decrease in home licensing royalties.

*Gross Profit.* Gross profit increased by \$13.4 million, or 0.6%, to \$2.110 billion for the nine months ended December 26, 2009 from \$2.096 billion for the nine months ended December 27, 2008. Gross profit as a percentage of net revenues increased by 270 basis points to 57.9% for the nine months ended December 26, 2009 from 55.2% for the nine months ended December 27, 2008. This increase was primarily due to supply chain cost savings initiatives, improved inventory management and decreased promotional activity particularly across our global Retail businesses and our European Wholesale operations, as well as growth in our Japanese Wholesale operations driven by the Japanese Childrenswear and Golf Acquisition (see *Recent Developments* for further discussion).



*Selling, General and Administrative Expenses.* SG&A expenses primarily include compensation and benefits, marketing, distribution, bad debts, information technology, facilities, legal and other costs associated with finance and administration. SG&A expenses increased by \$29.7 million, or 2.0%, to \$1.545 billion for the nine months ended December 26, 2009 from \$1.515 billion for the nine months ended December 27, 2008. The increase included a net unfavorable foreign currency effect of approximately \$5 million, primarily related to the strengthening of the Yen, partially offset by the overall weakening of the Euro, both in comparison to the U.S. dollar during the nine months ended December 26, 2009. SG&A expenses as a percent of net revenues increased to 42.4% for the nine months ended December 26, 2009 from 39.9% for the nine months ended December 27, 2008. The 250 basis point increase was primarily driven by the decrease in net revenues as well as higher compensation-related

**Table of Contents**

expenses and an increase in operating expenses attributable to our new business initiatives. Including the \$5 million net unfavorable foreign currency effect, the \$29.7 million increase in SG&A expenses was primarily driven by:

higher compensation-related expenses of approximately \$44 million primarily relating to an increase in incentive-based compensation;

an approximate \$22 million increase related to the inclusion of nine months of SG&A costs for our recently acquired Japanese childrenswear and golf businesses in comparison to four months in the comparable prior year period, including costs incurred pursuant to transition service arrangements (see *Recent Developments* for further discussion);

an approximate \$17 million increase in rent and utility costs primarily to support the ongoing global growth of our businesses; and

an increase in SG&A costs attributable to our new business initiatives, including the expansion of our operations in Southeast Asia.

The above increases were partially offset by lower SG&A expenses associated with the Company's cost-savings initiatives implemented in late Fiscal 2009, as well as:

lower selling expenses of approximately \$21 million principally relating to lower wholesale sales;

an approximate \$15 million decrease in brand-related marketing and advertising costs; and

an approximate \$7 million net decrease in litigation-related charges.

*Amortization of Intangible Assets.* Amortization of intangible assets increased by \$0.7 million, or 4.7%, to \$15.7 million for the nine months ended December 26, 2009 from \$15.0 million for the nine months ended December 27, 2008. This increase was primarily due to the inclusion of nine months of amortization expense related to intangible assets acquired in connection with the Japanese Childrenswear and Golf Acquisition in comparison to four months in the comparable prior year period.

*Impairments of Assets.* A non-cash impairment charge of \$6.6 million was recognized during the nine months ended December 26, 2009 to reduce the net carrying value of certain long-lived assets primarily in the Company's Retail segment to their estimated fair value due to the lower-than-expected operating performance of certain retail stores. A non-cash impairment charge of \$7.1 million was recognized during the nine months ended December 27, 2008 to reduce the net carrying value of certain long-lived assets to their estimated fair value within the Company's Wholesale and Retail segments. See Note 7 to the accompanying unaudited interim consolidated financial statements for further discussion.

*Restructuring Charges.* Restructuring charges of \$7.3 million recognized during the nine months ended December 26, 2009 related to employee termination costs, as well as the write-down of an asset associated with exiting a retail store in Japan. Restructuring charges of \$2.8 million recognized during the nine months ended December 27, 2008 primarily related to employee termination costs associated with the Company's sourcing and retail operations. See Note 8 to the accompanying unaudited interim consolidated financial statements for further discussion.

*Operating Income.* Operating income decreased by \$21.0 million, or 3.8%, to \$535.1 million for the nine months ended December 26, 2009 from \$556.1 million for the nine months ended December 27, 2008. Operating income as a percentage of net revenues was 14.7% for both the nine months ended December 26, 2009 and the nine months ended

December 27, 2008, as the increase in gross profit margin was offset by higher SG&A expenses as a percent of net revenues, as previously discussed.

**Table of Contents**

Operating income as reported for our three business segments is provided below:

	<b>Nine Months Ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>December 26,</b>	<b>December 27,</b>		
	<b>2009</b>	<b>2008 (millions)</b>		
<b>Operating Income:</b>				
Wholesale	\$ 403.7	\$ 448.9	\$ (45.2)	(10.1) %
Retail	234.0	182.1	51.9	28.5 %
Licensing	73.3	78.4	(5.1)	(6.5) %
	711.0	709.4	1.6	0.2 %
Less:				
Unallocated corporate expenses	(168.6)	(150.5)	(18.1)	12.0 %
Unallocated restructuring charges	(7.3)	(2.8)	(4.5)	160.7 %
Total operating income	\$ 535.1	\$ 556.1	\$ (21.0)	(3.8) %

*Wholesale operating income* decreased by \$45.2 million primarily as a result of lower revenues, as well as higher SG&A expenses in support of the Japanese Childrenswear and Golf Acquisition. These decreases were partially offset by higher gross margins primarily in our European and Japanese businesses.

*Retail operating income* increased by \$51.9 million primarily as a result of higher gross margins across our global Retail businesses driven by decreased promotional activity and lower reductions in the carrying cost of our retail inventory, as well as lower operating expenses principally relating to our cost-savings initiatives. These increases were partially offset by lower revenues.

*Licensing operating income* decreased by \$5.1 million primarily as a result of lower revenues largely driven by a decline in domestic product royalties and international royalties, offset in part by lower net costs associated with the transition of our licensed businesses to wholly owned operations.

*Unallocated corporate expenses* increased by \$18.1 million, primarily as a result of an increase in compensation-related expenses, partially offset by lower brand-related marketing and advertising costs.

*Unallocated restructuring charges* of \$7.3 million during the nine months ended December 26, 2009 related to employee termination costs, as well as the write-down of an asset associated with exiting a retail store in Japan. Unallocated restructuring charges of \$2.8 million during the nine months ended December 27, 2008 primarily related to employee termination costs associated with the Company's sourcing and retail operations.

*Foreign Currency Gains (Losses).* The effect of foreign currency exchange rate fluctuations resulted in a loss of \$2.9 million for the nine months ended December 26, 2009, compared to a loss of \$2.5 million for the nine months ended December 27, 2008. Excluding a net decrease in foreign currency losses of \$3.6 million relating to undesignated foreign currency hedge contracts, the increase in foreign currency losses for the nine months ended December 26, 2009 as compared to the nine months ended December 27, 2008 was primarily due to the timing of the settlement of intercompany receivables and payables (that were not of a long-term investment nature) between certain

of our international and domestic subsidiaries. Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

*Interest Expense.* Interest expense includes the borrowing costs of our outstanding debt, including amortization of debt issuance costs, and interest related to our capital lease obligations. Interest expense decreased by \$3.7 million, or 18.0%, to \$16.8 million for the nine months ended December 26, 2009 from \$20.5 million for the nine months ended December 27, 2008. This decrease was primarily due to a lower principal amount of our outstanding Euro-denominated 4.5% notes as a result of a partial debt extinguishment in July 2009, as well as favorable foreign currency effects related to this debt.

*Interest and Other Income, net.* Interest and other income, net, decreased by \$8.1 million, or 43.8%, to \$10.4 million for the nine months ended December 26, 2009 from \$18.5 million for the nine months ended

**Table of Contents**

December 27, 2008, primarily due to lower yields relating to lower market rates of interest. This decrease was offset in part by an increase in our average balance of cash and cash equivalents and non-current investments during the nine months ended December 26, 2009, as well as a net gain of \$4.1 million related to a partial extinguishment of the Company's Euro-denominated 4.5% notes in July 2009.

*Equity in Income (Loss) of Equity-Method Investees.* The equity in loss of equity-method investees of \$3.9 million for the nine months ended December 26, 2009 related to the Company's share of loss from its joint venture, the RL Watch Company, which is accounted for under the equity method of accounting. The equity in loss of equity-method investees of \$2.7 million for the nine months ended December 27, 2008 related to certain start-up costs associated with the RL Watch Company.

*Provision for Income Taxes.* The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes decreased by \$30.9 million, or 16.5%, to \$156.5 million for the nine months ended December 26, 2009 from \$187.4 million for the nine months ended December 27, 2008. The decrease in provision for income taxes was primarily due to a net reduction in our reported effective tax rate of 410 basis points, to 30.0% for the nine months ended December 26, 2009 from 34.1% for the nine months ended December 27, 2008. The lower effective tax rate was primarily due to a greater proportion of earnings generated in lower-taxed jurisdictions, as well as tax reserve reductions principally associated with audit settlements. This decrease in provision for income taxes also was due to an overall decrease in pretax income for the nine months ended December 26, 2009 compared to the nine months ended December 27, 2008.

*Net Income.* Net income increased by \$3.9 million, or 1.1%, to \$365.4 million for the nine months ended December 26, 2009 from \$361.5 million for the nine months ended December 27, 2008, principally due to a \$30.9 million decrease in the provision for income taxes, which more than offset a \$21.0 million decrease in operating income.

*Net Income Per Diluted Share.* Net income per diluted share increased by \$0.04, or 1.1%, to \$3.60 per share for the nine months ended December 26, 2009 from \$3.56 per share for the nine months ended December 27, 2008. The increase in diluted per share results was due to the higher level of net income, as previously discussed, and slightly lower weighted-average diluted shares outstanding for the nine months ended December 26, 2009.

**FINANCIAL CONDITION AND LIQUIDITY***Financial Condition*

	<b>December 26, 2009</b>	<b>March 28, 2009 (millions)</b>	<b>\$ Change</b>
Cash and cash equivalents	\$ 973.8	\$ 481.2	\$ 492.6
Short-term investments	316.9	338.7	(21.8)
Non-current investments	43.3	29.7	13.6
Long-term debt	(298.3)	(406.4)	108.1
Net cash and investments (net debt) <sup>(a)</sup>	\$ 1,035.7	\$ 443.2	\$ 592.5
Equity	\$ 3,076.1	\$ 2,735.1	\$ 341.0

- (a) Net cash and investments is defined as total cash and cash equivalents, plus short-term and non-current investments, less total debt. Net debt is defined as total debt less total cash and cash equivalents, and short-term and non-current investments.

The increase in the Company's net cash and investments position as of December 26, 2009 as compared to March 28, 2009 was primarily due to our operating cash flows, partially offset by the Company's investing activities and treasury stock repurchases. During the nine months ended December 26, 2009, the Company spent \$104.3 million for capital expenditures and used \$153.4 million to repurchase 2.2 million shares of Class A common stock, including shares surrendered for tax withholdings. The decrease in the Company's long-term debt reflected the

**Table of Contents**

repurchase of 90.8 million principal amount of Euro-denominated 4.5% notes in July 2009 (see *Debt and Covenant Compliance* below for further discussion).

The increase in equity was primarily due to the net income during the nine months ended December 26, 2009, offset in part by an increase in treasury stock as a result of the Company's common stock repurchase program.

**Cash Flows**

	<b>Nine Months Ended</b>		
	<b>December 26,</b>	<b>December 27,</b>	
	<b>2009</b>	<b>2008</b>	<b>\$ Change</b>
	<b>(millions)</b>		
Net cash provided by operating activities	\$ 804.3	\$ 750.8	\$ 53.5
Net cash used in investing activities	(64.7)	(350.6)	285.9
Net cash used in financing activities	(244.1)	(347.8)	103.7
Effect of exchange rate changes on cash and cash equivalents	(2.9)	(29.6)	26.7
Net increase in cash and cash equivalents	\$ 492.6	\$ 22.8	\$ 469.8

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities increased to \$804.3 million during the nine months ended December 26, 2009, compared to \$750.8 million during the nine months ended December 27, 2008. This net increase in operating cash flow was primarily driven by:

a decrease related to inventory primarily due to the effects of ongoing inventory management across most businesses; and

improved accounts receivable cash collections in the Company's Wholesale segment.

The above increases in operating cash flow were partially offset by:

a decrease related to accounts payable and accrued liabilities primarily due to the timing of payments; and

a decrease in net income before depreciation, amortization, stock-based compensation and other non-cash expenses.

Other than the items described above, the changes in operating assets and liabilities were attributable to normal operating fluctuations.

*Net Cash Used in Investing Activities.* Net cash used in investing activities was \$64.7 million during the nine months ended December 26, 2009, as compared to \$350.6 million during the nine months ended December 27, 2008. The net decrease in cash used in investing activities was primarily driven by:

an increase in proceeds from sales and maturities of investments, less cash used to purchase investments.

During the nine months ended December 26, 2009, the Company received \$889.3 million of proceeds from sales and maturities of investments and used \$846.5 million to purchase investments. On a comparative basis, during the nine months ended December 27, 2008, the Company received \$230.3 million of proceeds from



sales and maturities of investments and used \$456.4 million to purchase investments;

a decrease in net cash used to fund the Company's acquisitions and ventures to \$3.7 million during the nine months ended December 26, 2009 from \$46.3 million during the nine months ended December 27, 2008. Acquisition spending for the nine months ended December 27, 2008 primarily related to the funding of the Japanese Childrenswear and Golf Acquisition and the completion of the minority interest buyout related to the acquisition of certain of the Company's formerly-licensed Japanese businesses; and

a decrease in cash used in connection with capital expenditures. During the nine months ended December 26, 2009, the Company spent \$104.3 million for capital expenditures, as compared to \$129.9 million during the nine months ended December 27, 2008.

## **Table of Contents**

The above decreases in cash used in investing activities were partially offset by:

a change in cash deposits restricted in connection with taxes. During the nine months ended December 27, 2008, net restricted cash of \$51.7 million was released in connection with the partial settlement of certain international tax matters. On a comparative basis, during the nine months ended December 26, 2009, net restricted cash of \$0.5 million was released.

*Net Cash Used in Financing Activities.* Net cash used in financing activities was \$244.1 million during the nine months ended December 26, 2009, as compared to \$347.8 million during the nine months ended December 27, 2008. The decrease in net cash used in financing activities was primarily driven by:

a decrease in cash used in connection with the Company's repayment of debt. During the nine months ended December 26, 2009, the Company completed a cash tender offer and used \$121.0 million to repurchase 90.8 million of principal amount of its 4.5% notes due October 4, 2013. On a comparative basis, during the nine months ended December 27, 2008, the Company repaid ¥20.5 billion (\$196.8 million as of the repayment date) of borrowings under a one-year term loan agreement pursuant to an amendment and restatement to the Company's existing credit facility; and

a decrease in cash used in connection with repurchases of the Company's Class A common stock. During the nine months ended December 26, 2009, 1.9 million shares of Class A common stock at a cost of \$138.3 million were repurchased pursuant to the Company's common stock repurchase program and 0.3 million shares of Class A common stock at a cost of \$15.1 million were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Plan"). On a comparative basis, during the nine months ended December 27, 2008, \$169.8 million of cash was used in connection with common stock repurchases and shares surrendered for tax withholdings.

## ***Liquidity***

The Company's primary sources of liquidity are the cash flow generated from its operations, \$450 million of availability under its credit facility, available cash and cash equivalents, investments and other available financing options. These sources of liquidity are needed to fund the Company's ongoing cash requirements, including working capital requirements, global retail store expansion, construction and renovation of shop-in-shops, investment in technological infrastructure, acquisitions, joint ventures, dividends, debt repayment/repurchase, stock repurchases, contingent liabilities (including uncertain tax positions) and other corporate activities. Management believes that the Company's existing sources of cash will be sufficient to support its operating, capital and debt service requirements for the foreseeable future, including the finalization of potential acquisitions and plans for business expansion.

As discussed in the *Debt and Covenant Compliance* section below, the Company had no revolving credit borrowings outstanding under its credit facility as of December 26, 2009. As discussed further below, the Company may elect to draw on its credit facility or other potential sources of financing for, among other things, a material acquisition, settlement of a material contingency (including uncertain tax positions) or a material adverse business development, as well as for other general corporate business purposes. The Company believes its credit facility is adequately diversified with no undue concentrations in any one financial institution. In particular, as of December 26, 2009, there were 13 financial institutions participating in the credit facility, with no one participant maintaining a maximum commitment percentage in excess of approximately 20%. Management has no reason at this time to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the Credit Facility (as defined below) in the event of the Company's election to draw funds in the foreseeable future.

***Common Stock Repurchase Program***

On November 4, 2009, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows the Company to repurchase up to an additional \$225 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market

## **Table of Contents**

conditions. During the nine months ended December 26, 2009, 1.9 million shares of Class A common stock were repurchased by the Company at a cost of \$138.3 million under its repurchase program. The remaining availability under the Company's common stock repurchase program was approximately \$352 million as of December 26, 2009.

In addition, during the nine months ended December 26, 2009, 0.3 million shares of Class A common stock at a cost of \$15.1 million were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Plan.

### ***Dividends***

On November 4, 2009, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.05 per share to \$0.10 per share. The Company declared a quarterly dividend of \$0.10 per outstanding share in the third quarter of Fiscal 2010 and \$0.05 per outstanding share in the third quarter of Fiscal 2009. Dividends paid amounted to \$14.9 million during both the nine months ended December 26, 2009 and the nine months ended December 27, 2008.

The Company intends to continue to pay regular quarterly dividends on its outstanding common stock. However, any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's results of operations, cash requirements, financial condition and other factors that the Board of Directors may deem relevant.

### ***Debt and Covenant Compliance***

#### ***Euro Debt***

As of December 26, 2009, the Company had outstanding 209.2 million principal amount of 4.5% notes due October 4, 2013 (the Euro Debt). The Company has the option to redeem all of the outstanding Euro Debt at any time at a redemption price equal to the principal amount plus a premium. The Company also has the option to redeem all of the outstanding Euro Debt at any time at par plus accrued interest in the event of certain developments involving U.S. tax law. Partial redemption of the Euro Debt is not permitted in either instance. In the event of a change of control of the Company, each holder of the Euro Debt has the option to require the Company to redeem the Euro Debt at its principal amount plus accrued interest. The indenture governing the Euro Debt (the Indenture) contains certain limited covenants that restrict the Company's ability, subject to specified exceptions, to incur liens or enter into a sale and leaseback transaction for any principal property. The Indenture does not contain any financial covenants.

As of December 26, 2009, the carrying value of the Euro Debt was \$298.3 million, compared to \$406.4 million as of March 28, 2009.

In July 2009, the Company completed a cash tender offer and used \$121.0 million to repurchase 90.8 million of principal amount of its then outstanding 300 million principal amount of 4.5% notes due October 4, 2013 at a discounted purchase price of approximately 95%. A net pretax gain of \$4.1 million related to this extinguishment of debt was recorded during the second quarter of Fiscal 2010 and has been classified as a component of interest and other income, net, in the Company's consolidated statement of operations. The Company used its cash on hand to fund the debt extinguishment.

#### ***Revolving Credit Facility and Term Loan***

The Company has a credit facility that provides for a \$450 million unsecured revolving line of credit through November 2011 (the Credit Facility). The Credit Facility also is used to support the issuance of letters of credit. As of

December 26, 2009, there were no borrowings outstanding under the Credit Facility and the Company was contingently liable for \$13.8 million of outstanding letters of credit (primarily relating to inventory purchase commitments). The Company has the ability to expand its borrowing availability to \$600 million subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Credit Facility.

## **Table of Contents**

The Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens and contingent liabilities; sell or dispose of assets, including equity interests; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. The Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the leverage ratio) of no greater than 3.75 as of the date of measurement for four consecutive quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus 8 times consolidated rent expense for the last twelve months. EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense and (iv) consolidated rent expense. As of December 26, 2009, no Event of Default (as such term is defined pursuant to the Credit Facility) has occurred under the Company's Credit Facility.

Refer to Note 14 of the Fiscal 2009 10-K for detailed disclosure of the terms and conditions of the Company's debt.

## **MARKET RISK MANAGEMENT**

As discussed in Note 15 to the Company's audited consolidated financial statements included in its Fiscal 2009 10-K and Note 11 to the accompanying unaudited interim consolidated financial statements, the Company is exposed to a variety of risks, including changes in foreign currency exchange rates relating to certain anticipated cash flows from its international operations and possible declines in the fair value of reported net assets of certain of its foreign operations, as well as changes in the fair value of its fixed-rate debt relating to changes in interest rates. Consequently, in the normal course of business the Company employs established policies and procedures, including the use of derivative financial instruments, to manage such risks. The Company does not enter into derivative transactions for speculative or trading purposes.

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon their credit ratings and other financial factors. The Company's established policies and procedures for mitigating credit risk on derivative transactions include reviewing and assessing the creditworthiness of counterparties. As a result of the above considerations, the Company does not believe it is exposed to any undue concentration of counterparty risk with respect to its derivative contracts as of December 26, 2009.

### ***Foreign Currency Risk Management***

The Company manages its exposure to changes in foreign currency exchange rates through the use of foreign currency exchange contracts. Refer to Note 11 to the accompanying unaudited interim consolidated financial statements for a summarization of the notional amounts and fair values of the Company's foreign currency exchange contracts outstanding as of December 26, 2009.

From time to time, the Company may enter into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, interest payments made in connection with outstanding debt, other foreign currency-denominated operational obligations including payroll, rent, insurance and benefit payments, and foreign currency-denominated revenues. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the Swiss Franc, and the British Pound Sterling, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month to two-year periods. In doing so, the Company uses foreign currency exchange contracts that generally have maturities

of three months to two years to provide continuing coverage throughout the hedging period.

The Company's foreign exchange risk management activities are governed by policies and procedures approved by its Audit Committee. Our policies and procedures provide a framework that allows for the management of currency exposures while ensuring the activities are conducted within established Company guidelines. Our

**Table of Contents**

policies include guidelines for the organizational structure of our risk management function and for internal controls over foreign exchange risk management activities, including but not limited to authorization levels, transactional limits, and credit quality controls, as well as various measurements for monitoring compliance. We monitor foreign exchange risk using different techniques including a periodic review of market value and sensitivity analyses.

During the first quarter of Fiscal 2010, the Company entered into two foreign currency exchange contracts to mitigate the foreign exchange cash flow variability associated with the then forecasted repurchase of a portion of the Company's outstanding Euro-denominated 4.5% notes in July 2009. The exchange contracts had an aggregate notional value of \$123.0 million and were designated as cash flow hedges. Refer to Note 10 to the accompanying unaudited interim consolidated financial statements for further discussion of the Company's partial repurchase of its Euro-denominated 4.5% notes and the *Debt and Covenant Compliance Euro Debt* section above.

As of December 26, 2009, other than the aforementioned foreign currency exchange contracts related to the Company's partial repurchase of its Euro-denominated 4.5% notes, there have been no significant changes in the Company's interest rate or foreign currency exposures, or in the types of derivative instruments used to hedge those exposures.

***Investment Risk Management***

As of December 26, 2009, the Company had cash and cash equivalents on-hand of \$973.8 million, primarily invested in money market funds, time deposits and treasury bills with original maturities of less than 90 days. The Company's other significant investments included \$316.9 million of short-term investments, primarily in treasury bills, municipal bonds, time deposits and variable rate municipal securities with original maturities greater than 90 days; \$85.8 million of restricted cash placed in escrow with certain banks as collateral primarily to secure guarantees in connection with certain international tax matters; \$40.5 million of deposits with maturities greater than one year; \$2.3 million of auction rate securities issued through a municipality and \$0.5 million of other securities.

The Company evaluates investments held in unrealized loss positions for other-than-temporary impairment on a quarterly basis. Such evaluation involves a variety of considerations, including assessments of risks and uncertainties associated with general economic conditions and distinct conditions affecting specific issuers. Factors considered by the Company include (i) the length of time and the extent to which the fair value has been below cost, (ii) the financial condition, credit worthiness and near-term prospects of the issuer, (iii) the length of time to maturity, (iv) future economic conditions and market forecasts, (v) the Company's intent and ability to retain its investment for a period of time sufficient to allow for recovery of market value, and (vi) an assessment of whether it is more-likely-than-not that the Company will be required to sell its investment before recovery of market value.

**CRITICAL ACCOUNTING POLICIES**

The Company's significant accounting policies are described in Notes 3 and 4 to the audited consolidated financial statements included in the Company's Fiscal 2009 10-K. The SEC's Financial Reporting Release No. 60, *Cautionary Advice Regarding Disclosure About Critical Accounting Policies* (FRR 60), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations and requires significant judgment and estimates on the part of management in its application. The Company's estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of the Company's critical accounting policies, see the *Critical Accounting Policies* section of the MD&A in the Company's Fiscal 2009 10-K. The following discussion only is intended to update the Company's critical



accounting policies for any significant changes in policy implemented during the nine months ended December 26, 2009.

**Table of Contents*****Fair Value Measurements***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Codification ( ASC ) topic 820, Fair Value Measurements and Disclosures ( ASC 820 ) (formerly referred to as Statement of Financial Accounting Standards ( FAS ) No. 157, Fair Value Measurements ). ASC 820 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 within an identified principal or most advantageous market, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S. ( US GAAP ) and expands disclosures regarding fair value measurements through a three-level valuation hierarchy. In addition to the provisions of ASC 820 adopted by the Company for all of its financial assets and liabilities within scope as of the beginning of Fiscal 2009, the Company adopted the provisions of ASC 820 for all of its nonfinancial assets and liabilities within scope as of the beginning of Fiscal 2010 (March 29, 2009). The Company uses judgment in the determination of the applicable level within the hierarchy of a particular asset or liability when evaluating the inputs used in valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). See Notes 4 and 11 to the accompanying unaudited interim consolidated financial statements for further discussion of the effect of this accounting change on the Company's consolidated financial statements.

***Business Combinations***

In December 2007, the FASB issued ASC topic 805, Business Combinations ( ASC 805 ) (formerly referred to as FAS No. 141R, Business Combinations, as amended, which replaces FAS No. 141). ASC 805 establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree, as well as the goodwill acquired. Significant changes resulting from ASC 805 include the need for the acquirer to record 100% of all assets and liabilities of the acquired business, including goodwill, generally at fair value for all business combinations (whether partial, full or step acquisitions); the need to recognize contingent consideration at fair value on the acquisition date and, for certain arrangements, to recognize changes in fair value in earnings until settlement; and the need for acquisition-related transaction and restructuring costs to be expensed rather than treated as part of the cost of the acquisition. These fair value determinations require management's judgment and may involve the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. The Company adopted the provisions of ASC 805 as of the beginning of Fiscal 2010 (March 29, 2009) and will prospectively account for all business combinations in accordance with the standard. See Note 4 to the accompanying unaudited interim consolidated financial statements for further discussion of the effect of this accounting change on the Company's consolidated financial statements.

Other than the aforementioned changes in fair value and business combination accounting, there have been no other significant changes in the application of the Company's critical accounting policies since March 28, 2009.

***Goodwill Impairment Assessment***

In accordance with the provisions of ASC 350, Intangibles – Goodwill and Other (formerly referred to as FAS No. 142, Goodwill and Other Intangible Assets ), the Company performed its annual impairment assessment of goodwill during the second quarter of Fiscal 2010. Based on the results of the impairment assessment as of June 28, 2009, the Company confirmed that the fair value of its reporting units exceeded their respective carrying values and that there were no reporting units that were at risk of impairment.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 4 to the accompanying unaudited interim consolidated financial statements for a description of certain recently issued accounting standards which may impact the Company's results of operations and/or financial condition in future reporting periods.

**Table of Contents**

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

For a discussion of the Company's exposure to market risk, see "Market Risk Management" presented in Part I, Item 2 "MD&A" of this Form 10-Q and incorporated herein by reference.

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

The Company maintains disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13(a)-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as of December 26, 2009. Except as discussed below, there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended December 26, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

During the third quarter of Fiscal 2010, the Company continued to implement certain modules of a new enterprise resource planning (ERP) system for certain of its Japan operations. Through the first nine months of Fiscal 2010, the modules implemented included general ledger, fixed assets and accounts payable during the first quarter, order management, accounts receivable and inventory systems for certain operations during the second quarter and order management, accounts receivable and inventory systems for certain other operations during the third quarter. These initiatives are part of an ongoing multi-year plan to replace the technological infrastructure inherited in the acquisition of certain of the Company's formerly-licensed Japanese businesses, which is expected to be completed in fiscal year 2011. The implementation of these modules of the ERP system represents a significant change in the Company's internal control over financial reporting for its Japan operations. Although management believes internal controls have been maintained, and will ultimately be enhanced, by the modules implemented, there is a risk that deficiencies may exist that have not yet been identified.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. *Legal Proceedings.***

Reference is made to the information disclosed under Item 3 LEGAL PROCEEDINGS in our Annual Report on Form 10-K for the fiscal year ended March 28, 2009. The following is a summary of recent litigation developments.

On October 11, 2007 and November 2, 2007, two class action lawsuits were filed by two customers in state court in California asserting that while they were shopping at certain of the Company's factory stores in California, the Company allegedly required them to provide certain personal information at the point-of-sale in order to complete a credit card purchase. The plaintiffs purported to represent a class of customers in California who allegedly were injured by being forced to provide their address and telephone numbers in order to use their credit cards to purchase items from the Company's stores, which allegedly violated Section 1747.08 of California's Song-Beverly Act. The complaints sought an unspecified amount of statutory penalties, attorneys' fees and injunctive relief. The Company subsequently had the actions moved to the United States District Court for the Eastern and Central Districts of California. The Company commenced mediation proceedings with respect to these lawsuits and on October 17, 2008, the Company agreed in principle to settle these claims by agreeing to issue \$20 merchandise discount coupons with six month expiration dates to eligible parties and paying the plaintiffs' attorneys' fees. The court granted preliminary approval of the settlement terms on July 17, 2009. In connection with this settlement, the Company recorded a \$5 million reserve against its expected loss exposure during the second quarter of Fiscal 2009. As part of the required settlement process, the Company notified the relevant attorneys general regarding the potential settlement, and no objections were registered. At a hearing on December 7, 2009, the Court held that the terms of the settlement were fair, just and reasonable and provided fair compensation for class members. In addition, the Court overruled an objection that had been filed by a single customer. The Court then denied the objector's subsequent motion for the Court to reconsider its order on the fairness of the settlement. The period within which the objector has to appeal or otherwise seek relief from the Court's orders will expire in February 2010. Once such time period has expired without an appeal or further legal action by the objector, the settlement would become effective.

On August 19, 2005, Wathne Imports, Ltd. (Wathne), our then domestic licensee for luggage and handbags, filed a complaint in the U.S. District Court in the Southern District of New York against the Company and Ralph Lauren, our Chairman and Chief Executive Officer, asserting, among other things, federal trademark law violations, breach of contract, breach of obligations of good faith and fair dealing, fraud and negligent misrepresentation. The complaint sought, among other relief, injunctive relief, compensatory damages in excess of \$250 million and punitive damages of not less than \$750 million. On September 13, 2005, Wathne withdrew this complaint from the U.S. District Court and filed a complaint in the Supreme Court of the State of New York, New York County, making substantially the same allegations and claims (excluding the federal trademark claims), and seeking similar relief. On February 1, 2006, the court granted our motion to dismiss all of the causes of action, including the cause of action against Mr. Lauren, except for breach of contract related claims, and denied Wathne's motion for a preliminary injunction. Following some discovery, we moved for summary judgment on the remaining claims. Wathne cross-moved for partial summary judgment. In an April 11, 2008 Decision and Order, the court granted Polo's summary judgment motion to dismiss most of the claims against the Company, and denied Wathne's cross-motion for summary judgment. Wathne appealed the dismissal of its claims to the Appellate Division of the Supreme Court. Following a hearing on May 19, 2009, the Appellate Division issued a Decision and Order on June 9, 2009 which, in large part, affirmed the lower court's ruling. Discovery on those claims that were not dismissed is ongoing and a trial date has not yet been set. We intend to continue to contest the remaining claims in this lawsuit vigorously. Management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

On May 30, 2006, four former employees of our Ralph Lauren stores in Palo Alto and San Francisco, California filed a lawsuit in the San Francisco Superior Court alleging violations of California wage and hour laws. The plaintiffs purport to represent a class of employees who allegedly have been injured by not properly being paid commission earnings, not being paid overtime, not receiving rest breaks, being forced to work off of the clock while waiting to enter or leave stores and being falsely imprisoned while waiting to leave stores. The complaint seeks an

**Table of Contents**

unspecified amount of compensatory damages, damages for emotional distress, disgorgement of profits, punitive damages, attorneys' fees and injunctive and declaratory relief. We have filed a cross-claim against one of the plaintiffs for his role in allegedly assisting a former employee to misappropriate Company property. Subsequent to answering the complaint, we had the action moved to the United States District Court for the Northern District of California. On July 8, 2008, the United States District Court for the Northern District of California granted plaintiffs' motion for class certification and subsequently denied our motion to decertify the class. Trial is scheduled to begin in March 2010. We believe this suit is without merit and intend to contest it vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

On May 15, 2009, the Company's subsidiary, Club Monaco Corp., commenced an action in the Supreme Court of the State of New York, New York County, against LCJG Distribution Co., Ltd. ( "LCJG" ) and Lane Crawford Joyce Group Limited ( "Lane Crawford" ). LCJG is a Club Monaco Corp. licensee in Asia pursuant to a Club Monaco Store License Agreement, dated as of February 28, 2005 (as amended, the "License Agreement" ). Lane Crawford is the guarantor of LCJG's obligations under the License Agreement, pursuant to a Guaranty, dated as of February 28, 2005, which was executed by Lane Crawford (the "Guaranty" ). The License Agreement requires that LCJG pay royalties and other payments to Club Monaco Corp. for the use by LCJG of the Club Monaco brand in connection with the operation of various Club Monaco stores in Asia. Club Monaco Corp.'s Complaint alleged that LCJG and Lane Crawford had breached the License Agreement and Guaranty by, among other things, failing to pay Club Monaco certain royalties and other payments which both LCJG and Lane Crawford are responsible for under the License Agreement and Guaranty. Club Monaco Corp., LCJG and Lane Crawford resolved their differences by signing an amendment to the License Agreement, dated as of June 4, 2009, pursuant to which, among other things, LCJG agreed to make certain royalty and other payments to Club Monaco Corp. As a result of the execution of this amendment, Club Monaco Corp. withdrew the Complaint that it had filed against LCJG and Lane Crawford and the action against such parties was dismissed.

We are otherwise involved, from time to time, in litigation, other legal claims and proceedings involving matters associated with or incidental to our business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, and employee relations. We believe that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations. However, our assessment of the current litigation or other legal claims could change in light of the discovery of facts 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 claims.

**Item 1A. *Risk Factors.***

Our Annual Report on Form 10-K for the fiscal year ended March 28, 2009 contains a detailed discussion of certain risk factors that could materially adversely affect our business, our operating results, and/or our financial condition. There are no material changes to the risk factors previously disclosed nor have we identified any previously undisclosed risks that could materially adversely affect our business, our operating results and/or our financial condition.

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

Items 2(a) and (b) are not applicable.

**Table of Contents****(c) Stock Repurchases**

The following table sets forth the repurchases of shares of our Class A common stock during the fiscal quarter ended December 26, 2009:

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs (millions)
September 27, 2009 to October 24, 2009	7,123 <sup>(2)</sup>	\$ 75.19		\$ 431
October 25, 2009 to November 28, 2009	1,000,000	78.33	1,000,000	352
November 29, 2009 to December 26, 2009				352
	1,007,123		1,000,000	

- (1) Except as noted below, these purchases were made on the open market under the Company's Class A common stock repurchase program. On November 4, 2009, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows the Company to repurchase up to an additional \$225 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions. This program does not have a fixed termination date.
- (2) Represents shares surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of an award under the Company's 1997 Long-Term Stock Incentive Plan.

**Item 6. Exhibits.**

- 10.1 Employment Agreement dated September 28, 2009 between the Company and Tracey T. Travis (filed as Exhibit 10.1 to our Current Report on Form 8-K dated October 1, 2009).\*
- 10.2 Employment Agreement dated October 14, 2009 between the Company and Roger N. Farah (filed as Exhibit 10.1 to our Current Report on Form 8-K dated October 19, 2009).\*
- 10.3 Employment Agreement dated October 14, 2009 between the Company and Jackwyn Nemerov (filed as Exhibit 10.2 to our Current Report on Form 8-K dated October 19, 2009).\*
- 10.4 Employment Agreement dated October 14, 2009 between the Company and Mitchell A. Kosh (filed as Exhibit 10.3 to our Current Report on Form 8-K dated October 19, 2009).\*
- 31.1 Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 17 CFR 240.13a-14(a).
- 31.2



Edgar Filing: POLO RALPH LAUREN CORP - Form 10-Q

Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 17 CFR 240.13a-14(a).

- 32.1 Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Incorporated herein by reference.

Exhibit is a management contract or compensatory plan or arrangement.

Exhibits 32.1 and 32.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibits shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.

**Table of Contents**

**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.

POLO RALPH LAUREN CORPORATION

By: /s/ TRACEY T. TRAVIS  
Tracey T. Travis

*Senior Vice President and Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

Date: February 4, 2010