POLO RALPH LAUREN CORP Form 10-Q November 08, 2007

## 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 September 29, 2007

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)

650 Madison Avenue, New York, New York (Address of principal executive offices) Identification No.)

13-2622036

(I.R.S. Employer

(Zip Code)

# Registrant s telephone number, including area code: (212) 318-7000

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 b No o

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

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

At November 2, 2007, 58,247,524 shares of the registrant s Class A common stock, \$.01 par value, and 43,280,021 shares of the registrant s Class B common stock, \$.01 par value, were outstanding.

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# POLO RALPH LAUREN CORPORATION

## CONSOLIDATED BALANCE SHEETS

|   | Sep | tember 29,<br>2007 | Μ  | arch 31,<br>2007 |
|---|-----|--------------------|----|------------------|
|   |     | (milli<br>(unau)   |    | )                |
| ASSETS  |     |                    |    |                  |
| Current assets:   |     |                    |    |                  |
| Cash and cash equivalents   | \$  | 473.0              | \$ | 563.9            |
| Accounts receivable, net of allowances of \$160.6 and \$138.1 million                 |     | 549.3              |    | 467.5            |
| Inventories   |     | 635.7              |    | 526.9            |
| Deferred tax assets   |     | 57.4               |    | 44.4             |
| Prepaid expenses and other  |     | 96.7               |    | 83.2             |
| Total current assets  |     | 1,812.1            |    | 1,685.9          |
| Property and equipment, net   |     | 647.0              |    | 629.8            |
| Deferred tax assets   |     | 130.6              |    | 56.9             |
| Goodwill  |     | 940.9              |    | 790.5            |
| Intangible assets, net  |     | 368.0              |    | 297.7            |
| Other assets  |     | 288.9              |    | 297.2            |
| Total assets  | \$  | 4,187.5            | \$ | 3,758.0          |
| LIABILITIES AND STOCKHOLDERS EQUIT  | Y   |                    |    |                  |
| Current liabilities:  | ¢   | 256.0              | ¢  | 1747             |
| Accounts payable  | \$  | 256.0              | \$ | 174.7<br>74.6    |
| Income tax payable<br>Accrued expenses and other                                      |     | 474.9              |    | 74.0<br>391.0    |
| Current maturities of debt  |     | 474.9              |    | 391.0            |
|   |     | 170.2              |    |                  |
| Total current liabilities   |     | 909.1              |    | 640.3            |
| Long-term debt  |     | 424.4              |    | 398.8            |
| Non-current tax liabilities   |     | 191.1              |    | 2010             |
| Other non-current liabilities   |     | 420.1              |    | 384.0            |
| Commitments and contingencies (Note 13)   |     |                    |    |                  |
| Total liabilities   |     | 1,944.7            |    | 1,423.1          |
| Stockholders equity:  |     |                    |    |                  |
| Class A common stock, par value \$.01 per share; 70.0 million and 68.6 million shares |     |                    |    |                  |
| issued; 58.2 million and 60.7 million shares outstanding                              |     | 0.7                |    | 0.7              |
| Class B common stock, par value \$.01 per share; 43.3 million shares issued and       |     |                    |    |                  |
| outstanding   |     | 0.4                |    | 0.4              |
| Additional paid-in-capital  |     | 960.1              |    | 872.5            |
|   |     |                    |    |                  |

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| Retained earnings<br>Treasury stock, Class A, at cost (11.8 million and 7.9 million shares)<br>Accumulated other comprehensive income | 1,873.2<br>(662.0)<br>70.4 | 1,742.3<br>(321.5)<br>40.5 |
|---|----------------------------|----------------------------|
| Total stockholders equity   | 2,242.8                    | 2,334.9                    |
| Total liabilities and stockholders equity   | \$<br>4,187.5              | \$<br>3,758.0              |

See accompanying notes.

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# POLO RALPH LAUREN CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

|  |          | Three Months EndedSix MontSeptember 29, September 30, September 29,<br>200720062007200720062007(millions, except per<br>share data) (unaudited) |          |  |          |  |          | nths Ended<br>, September 30,<br>2006        |  |  |  |
|--|----------|---|----------|--|----------|--|----------|--|--|--|--|
| Net sales<br>Licensing revenue   | \$       | 1,245.8<br>53.3   | \$       | 1,104.5<br>62.3                              | \$       | 2,269.8<br>99.6                                    | \$       | 2,007.8<br>112.6                             |  |  |  |
| Net revenues<br>Cost of goods sold <sup>(a)</sup>  |          | 1,299.1<br>(603.9)  |          | 1,166.8<br>(534.2)                           |          | 2,369.4<br>(1,082.2)                               |          | 2,120.4<br>(956.3)                           |  |  |  |
| Gross profit   |          | 695.2   |          | 632.6  |          | 1,287.2  |          | 1,164.1                                      |  |  |  |
| Other costs and expenses:<br>Selling, general and administrative expenses <sup>(a)</sup><br>Amortization of intangible assets<br>Restructuring charges                               |          | (488.2)<br>(14.4)   |          | (412.1)<br>(3.8)<br>(1.8)                    |          | (926.7)<br>(22.1)                                  |          | (802.4)<br>(9.4)<br>(4.0)                    |  |  |  |
| Total other costs and expenses   |          | (502.6)   |          | (417.7)                                      |          | (948.8)  |          | (815.8)                                      |  |  |  |
| <b>Operating income</b><br>Foreign currency gains (losses)<br>Interest expense<br>Interest income<br>Equity in income (loss) of equity-method investees<br>Minority interest expense |          | 192.6<br>(0.9)<br>(6.2)<br>5.5<br>(0.6)<br>(0.1)  |          | 214.9<br>1.2<br>(4.5)<br>4.7<br>0.9<br>(3.6) |          | 338.4<br>(2.2)<br>(12.0)<br>13.7<br>(0.6)<br>(1.9) |          | 348.3<br>0.1<br>(8.9)<br>8.5<br>1.7<br>(7.6) |  |  |  |
| <b>Income before provision for income taxes</b><br>Provision for income taxes  |          | 190.3<br>(75.0)   |          | 213.6<br>(76.6)                              |          | 335.4<br>(131.8)                                   |          | 342.1<br>(124.9)                             |  |  |  |
| Net income   | \$       | 115.3   | \$       | 137.0  | \$       | 203.6  | \$       | 217.2  |  |  |  |
| <b>Net income per common share:</b><br>Basic<br>Diluted  | \$<br>\$ | 1.12<br>1.09  | \$<br>\$ | 1.31<br>1.28                                 | \$<br>\$ | 1.97<br>1.92                                       | \$<br>\$ | 2.07<br>2.02                                 |  |  |  |
| <b>Weighted average common shares outstanding:</b><br>Basic  |          | 102.6   |          | 104.5  |          | 103.3  |          | 104.8  |  |  |  |
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| Diluted  |    | 105.4  |    | 107.3  |    | 106.3  | 107.7        |
|--|----|--------|----|--------|----|--------|--------------|
| Dividends declared per share                           | \$ | 0.05   | \$ | 0.05   | \$ | 0.10   | \$<br>0.10   |
| <sup>(a)</sup> Includes total depreciation expense of: | \$ | (37.1) | \$ | (29.8) | \$ | (72.5) | \$<br>(62.0) |
| See accompanying notes.                                |    |        |    |        |    |        |              |
|  | 4  |        |    |        |    |        |              |

# POLO RALPH LAUREN CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (millions)<br>(unaudited)Cash flows from operating activities:Net income\$ 203.6\$ 217.2Adjustments to reconcile net income to net cash provided by operating activities:Depreciation and amorization expense94.671.4Deferred income tax expense (benefit)0.9(7.0)Minority interest expense1.97.6Equity in (income) loss of equity-method investees, net of dividends received0.6(0.5)Non-cash stock compensation expense29.519.3Non-cash stock compensation expense0.91.0Loss on disposal of property and equipment2.1Non-cash foreign currency losses (gains)1.0(0.1)Non-cash restructuring charges2.5(35.6)Inventories(45.4)(96.4)Accounts receivable(45.4)(96.4)Accounts receivable0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities254.2256.6Cash flows from investing activities:Cash diposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(28.3)(117.3)Cash flows from financing activities:28.3(117.3)Cash flows from financing activities:Proceeds from issuance of debt168.9Oce cash acquired and purchase price settlements(13.5)(52.4)Net cash used in investing activities:  |   | Sept | Six Months Ended<br>September 29, September<br>2007 2006 |    |         |
|---|---|------|--|----|---------|
| Net income\$203.6\$217.2Adjustments to reconcile net income to net cash provided by operating activities:<br>Depreciation and amortization expense94.671.4Deferred income tax expense (benefit)0.9(7.0)Minority interest expense1.97.6Equity in (income) loss of equity-method investees, net of dividends received0.6(0.5)Non-cash stock compensation expense29.519.3Non-cash provision for bad debt expense0.91.0Loss on disposal of property and equipment2.1Non-cash restructuring charges2.5Charges in operating assets and liabilities:<br>Accounts receivable(46.2)Accounts receivable(45.4)(96.4)Inventories(45.4)(96.4)Accounts payable and accrued liabilities(28.0)54.6Deferred income liabilities0.7(8.4)Other balance sheet changes254.2256.6Cash flows from investing activities:<br>Acquisitions and investments, net of cash acquired and purchase price settlements<br>(13.5)(13.1)<br>(63.6)Cash flows from investing activities:<br>Proceeds from issuance of debt<br>   |   |      |  |    |         |
| Adjustments to reconcile net income to net cash provided by operating activities:94.671.4Depreciation and amortization expense94.671.4Deferred income tax expense (benefit)0.9(7.0)Minority interest expense1.97.6Equity in (income) loss of equity-method investees, net of dividends received0.6(0.5)Non-cash stock compensation expense0.91.01.0Loss on disposal of property and equipment2.1Non-cash foreign currency losses (gains)1.0(0.1)Non-cash structuring charges2.52.5Changes in operating assets and liabilities:2.5Changes in operating assets and liabilities:2.5Accounts payable and accrued liabilities(46.2)(35.6)1.0(0.6)Inventories(45.4)(96.4)28.99Accounts payable and accrued liabilities0.7(8.4)0.128.9Net cash provided by operating activities254.2256.626.6Cash flows from investing activities(13.5)(52.4)1.3)Net cash used in investing activities(28.3)(117.3)Cash flows from financing activities:(28.3)(117.3)Proceeds from issuance of debt168.9168.9Debt issuance costs(0.3)(0.5)Payments of capital lease obligations(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)Payments of capital lease obligations(2.6) <th>Cash flows from operating activities:</th> <th></th> <th></th> <th></th> <th></th> | Cash flows from operating activities:   |      |  |    |         |
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| Deferred income tax expense (benefit)0.9(7.0)Minority interest expense1.97.6Equity in (income) loss of equity-method investees, net of dividends received0.6(0.5)Non-cash stock compensation expense29.519.3Non-cash provision for bad debt expense0.91.0Loss on disposal of property and equipment2.1Non-cash restructuring charges2.5Changes in operating assets and liabilities:2.5Accounts receivable(46.2)Inventories(45.4)Accounts payable and accrued liabilities(28.0)Accounts payable and accrued liabilities0.7Reak provided by operating activities:254.2Cash flows from investing activities:(93.1)Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)Cash flows from financing activities:(13.5)Cash flows from financing activities:(28.3)Net cash used in investing activities:(28.3)Net cash used in investing activities:(28.3)Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)Debt issuance costs(0.3)Payments of capital lease obligations(2.6)Distributions to minority interest holders(4.5)   |   |      |  |    |         |
| Minority interest expense1.97.6Equity in (income) loss of equity-method investees, net of dividends received0.6(0.5)Non-cash stock compensation expense29.519.3Non-cash provision for bad debt expense0.91.0Loss on disposal of property and equipment2.1Non-cash foreign currency losses (gains)1.0(0.1)Non-cash receivable(46.2)(35.6)Inventories(45.4)(96.4)Accounts receivable(46.2)(35.6)Inventories(28.0)54.6Deferred income liabilities0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities:254.2256.6Cash flows from investing activities:(13.5)(52.4)Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)(1.3)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(288.3)(117.3)Cash flows from financing activities:(28.3)(117.3)Proceeds from issuance of debt168.90.3)Debt issuance costs(0.3)(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)(2.5)Payments of capital lease obligations(2.6)(2.5)(2.5)Payments of capital lease obligations(2.6)(2.5)(2.5)Payments of capital lease obligations(2.6)(2.5)(2.5)Payments of capita   |   |      |  |    |         |
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| Accounts receivable(46.2)(35.6)Inventories(45.4)(96.4)Accounts payable and accrued liabilities(28.0)54.6Deferred income liabilities0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities254.2256.6Cash flows from investing activities:(181.7)(1.3)Cash genetities(13.5)(52.4)Net cash upper to cash acquired and purchase price settlements(181.7)(1.3)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(288.3)(117.3)Cash flows from financing activities:(288.3)(117.3)Proceeds from issuance of debt168.9(0.3)Debt issuance costs(0.3)(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)(2.5)Payments of dividends(10.3)(10.5)(10.5)Distributions to minority interest holders(4.5)(4.5)  | · · ·   |      |  |    | 2.5     |
| Inventories(45.4)(96.4)Accounts payable and accrued liabilities(28.0)54.6Deferred income liabilities0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities:254.2256.6Cash flows from investing activities:(13.7)(1.3)Capital expenditures(93.1)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(288.3)(117.3)Cash flows from financing activities:(0.3)(0.3)Proceeds from issuance of debt168.9(0.3)Debt issuance costs(0.3)(2.6)(2.5)Payments of cipital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)(10.5)Distributions to minority interest holders(4.5)(4.5)   |   |      | $(A \in \mathcal{D})$                                    |    | (25.6)  |
| Accounts payable and accrued liabilities(28.0)54.6Deferred income liabilities0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities254.2256.6Cash flows from investing activities:254.2256.6Cash flows from investing activities:(181.7)(1.3)Capital expenditures(93.1)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(288.3)(117.3)Proceeds from issuance of debt168.9168.9Debt issuance costs(0.3)(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)   |   |      |  |    |         |
| Deferred income liabilities0.7(8.4)Other balance sheet changes40.128.9Net cash provided by operating activities254.2256.6Cash flows from investing activities:(181.7)(1.3)Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)(1.3)Capital expenditures(93.1)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:(288.3)(117.3)Proceeds from issuance of debt168.9(0.3)Debt issuance costs(0.3)(2.6)(2.5)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)(10.5)Distributions to minority interest holders(4.5)(4.5)  |   |      | . ,  |    |         |
| Other balance sheet changes40.128.9Net cash provided by operating activities254.2256.6Cash flows from investing activities:<br>Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)(1.3)Capital expenditures(93.1)(63.6)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities:<br>Proceeds from issuance of debt168.9(117.3)Debt issuance costs(0.3)(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(110.5)Distributions to minority interest holders(4.5)  | - ·   |      |  |    |         |
| Net cash provided by operating activities254.2256.6Cash flows from investing activities:<br>Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)(1.3)Capital expenditures(93.1)(63.6)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities(288.3)(117.3)Cash flows from financing activities:<br>Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)  |   |      |  |    |         |
| Cash flows from investing activities:Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)Capital expenditures(93.1)Cash deposits restricted in connection with taxes(13.5)Net cash used in investing activities(288.3)Proceeds from financing activities:Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)Payments of dividends(10.3)Distributions to minority interest holders(4.5)  | Other balance sheet changes   |      | 40.1   |    | 20.9    |
| Acquisitions and investments, net of cash acquired and purchase price settlements(181.7)(1.3)Capital expenditures(93.1)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities(288.3)(117.3)Cash flows from financing activities:(288.3)(117.3)Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)  | Net cash provided by operating activities   |      | 254.2  |    | 256.6   |
| Capital expenditures(93.1)(63.6)Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities(288.3)(117.3)Cash flows from financing activities:<br>Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)   | Cash flows from investing activities:   |      |  |    |         |
| Cash deposits restricted in connection with taxes(13.5)(52.4)Net cash used in investing activities(288.3)(117.3)Cash flows from financing activities:168.9Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)Payments of dividends(10.3)Distributions to minority interest holders(4.5)   | Acquisitions and investments, net of cash acquired and purchase price settlements |      | (181.7)  |    | (1.3)   |
| Net cash used in investing activities(288.3)(117.3)Cash flows from financing activities:<br>Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)  | Capital expenditures  |      | (93.1)   |    | (63.6)  |
| Cash flows from financing activities:Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)   | Cash deposits restricted in connection with taxes                                 |      | (13.5)   |    | (52.4)  |
| Proceeds from issuance of debt168.9Debt issuance costs(0.3)Payments of capital lease obligations(2.6)Payments of dividends(10.3)Distributions to minority interest holders(4.5)   | Net cash used in investing activities   |      | (288.3)  |    | (117.3) |
| Debt issuance costs(0.3)Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)   | Cash flows from financing activities:   |      |  |    |         |
| Payments of capital lease obligations(2.6)(2.5)Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)   | Proceeds from issuance of debt  |      | 168.9  |    |         |
| Payments of dividends(10.3)(10.5)Distributions to minority interest holders(4.5)  | Debt issuance costs   |      | (0.3)  |    |         |
| Distributions to minority interest holders (4.5)  | Payments of capital lease obligations   |      | (2.6)  |    | (2.5)   |
|   |   |      | (10.3)   |    | (10.5)  |
| Repurchases of common stock (270.0) (129.6)   |   |      |  |    |         |
|   | Repurchases of common stock   |      | (270.0)  |    | (129.6) |
| Proceeds from exercise of stock options, net8.325.5   | Proceeds from exercise of stock options, net                                      |      | 8.3  |    | 25.5    |

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|--|------|-----------------|---------------|
| Excess tax benefits from stock-based compensation arrangements   |      | 29.5            | 12.9          |
| Net cash used in financing activities  |      | (76.5)          | (108.7)       |
| Effect of exchange rate changes on cash and cash equivalents   |      | 19.7            | 4.7           |
| Net increase (decrease) in cash and cash equivalents<br>Cash and cash equivalents at beginning of period |      | (90.9)<br>563.9 | 35.3<br>285.7 |
| Cash and cash equivalents at end of period   | \$   | 473.0           | \$<br>321.0   |

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See accompanying notes.

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## 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, Polo by Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Black Label, RLX, Ralph Lauren Blue Label, Lauren, RRL, Rugby, Chaps, Club Monaco* and *American Living*, 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 site located at www.RalphLauren.com (formerly known as Polo.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

#### **Basis of Consolidation**

The accompanying 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 accompanying 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 accounting principles generally accepted in the U.S. (US GAAP).

Prior to the Company s acquisition of the minority ownership interest in Polo Ralph Lauren Japan Corporation (PRL Japan) in May 2007, the Company consolidated PRL Japan, formerly a 50%-owned venture with Onward Kashiyama Co. Ltd and its affiliates (Onward Kashiyama) and The Seibu Department Stores, Ltd (Seibu), pursuant to the provisions of Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 46R, Consolidation of Variable Interest Entities (FIN 46R). Additionally, prior to the acquisition of the minority ownership interests in Ralph Lauren Media, LLC (RL Media) in March 2007, the Company consolidated RL Media, formerly a 50%-owned venture with NBC-Lauren Media Holdings, Inc., a subsidiary wholly owned by the National Broadcasting Company, Inc. (NBC) and Value Vision Media, Inc. (Value Vision), pursuant to FIN 46R. RL Media conducts the Company s e-commerce initiatives through an internet site known as RalphLauren.com. See Note 5 for further discussion of the acquisitions referred to above, including their respective bases of consolidation in the first half of fiscal year 2008.

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

## Fiscal Year

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The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2008 will end on March 29, 2008 and will be a 52-week period (Fiscal 2008). Fiscal year 2007 ended on March 31, 2007 and reflected a 52-week period (Fiscal 2007). In turn, the second quarter for Fiscal 2008 ended on September 29, 2007 and was a 13-week period. The second quarter for Fiscal 2007 ended on September 30, 2006 and was also a 13-week period.

## POLO RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The financial position and operating results of the Company s consolidated PRL Japan and Impact 21 Co., Ltd. (Impact 21) entities are reported on a one-month lag. Accordingly, the Company s operating results for the three-month and six-month periods ended September 29, 2007 include the operating results of PRL Japan and Impact 21 for the three-month and six-month periods ended August 31, 2007, respectively. The net effect of this reporting lag is not material to the accompanying unaudited interim consolidated financial statements.

#### Interim Financial Statements

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The accompanying 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 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 31, 2007 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 31, 2007 (the Fiscal 2007 10-K), which should be read in conjunction with these financial statements. Reference is made to the Fiscal 2007 10-K for a complete set of financial statements.

## 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.