

RALPH LAUREN CORP  
Form 10-Q  
October 30, 2014

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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 27, 2014
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-13057

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)

(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 October 24, 2014, 61,423,701 shares of the registrant's Class A common stock, \$.01 par value, and 26,281,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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RALPH LAUREN CORPORATION  
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RALPH LAUREN CORPORATION  
CONSOLIDATED BALANCE SHEETS

	September 27, 2014 (millions) (unaudited)	March 29, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$483	\$797
Short-term investments	708	488
Accounts receivable, net of allowances of \$300 million and \$270 million	641	588
Inventories	1,292	1,020
Income tax receivable	62	62
Deferred tax assets	150	150
Prepaid expenses and other current assets	224	224
Total current assets	3,560	3,329
Property and equipment, net	1,411	1,322
Deferred tax assets	45	39
Goodwill	940	964
Intangible assets, net	283	299
Other non-current assets	159	137
Total assets	\$6,398	\$6,090
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$210	\$—
Accounts payable	255	203
Income tax payable	56	77
Accrued expenses and other current liabilities	762	690
Total current liabilities	1,283	970
Long-term debt	300	300
Non-current liability for unrecognized tax benefits	133	132
Other non-current liabilities	653	654
Commitments and contingencies (Note 14)		
Total liabilities	2,369	2,056
Equity:		
Class A common stock, par value \$.01 per share; 99.2 million and 98.0 million shares issued; 61.2 million and 61.8 million shares outstanding	1	1
Class B common stock, par value \$.01 per share; 26.5 million and 26.9 million shares issued and outstanding	—	—
Additional paid-in-capital	2,056	1,979
Retained earnings	5,530	5,257
Treasury stock, Class A, at cost; 38.0 million and 36.2 million shares	(3,598)	(3,317)
Accumulated other comprehensive income	40	114
Total equity	4,029	4,034
Total liabilities and equity	\$6,398	\$6,090
See accompanying notes.		



RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions, except per share data)			
	(unaudited)			
Net sales	\$1,949	\$1,872	\$3,617	\$3,486
Licensing revenue	45	43	85	82
Net revenues	1,994	1,915	3,702	3,568
Cost of goods sold <sup>(a)</sup>	(862	) (831	) (1,527	) (1,480
Gross profit	1,132	1,084	2,175	2,088
Selling, general, and administrative expenses <sup>(a)</sup>	(837	) (777	) (1,626	) (1,512
Amortization of intangible assets	(7	) (10	) (13	) (19
Gain on acquisition of Chaps	—	—	—	16
Restructuring and other charges	(2	) (2	) (6	) (2
Total other operating expenses, net	(846	) (789	) (1,645	) (1,517
Operating income	286	295	530	571
Foreign currency gains (losses)	(3	) 1	(6	) (5
Interest expense	(5	) (7	) (9	) (12
Interest and other income, net	3	2	4	4
Equity in losses of equity-method investees	(3	) (3	) (6	) (5
Income before provision for income taxes	278	288	513	553
Provision for income taxes	(77	) (83	) (150	) (167
Net income	\$201	\$205	\$363	\$386
Net income per common share:				
Basic	\$2.27	\$2.28	\$4.09	\$4.27
Diluted	\$2.25	\$2.23	\$4.05	\$4.17
Weighted average common shares outstanding:				
Basic	88.4	90.4	88.7	90.6
Diluted	89.2	92.2	89.7	92.6
Dividends declared per share	\$0.45	\$0.40	\$0.90	\$0.80
<sup>(a)</sup> Includes total depreciation expense of:	\$(65	) \$(56	) \$(128	) \$(107

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended		
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
	(millions) (unaudited)				
Net income	\$201	\$205	\$363	\$386	
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	(97	) 50	(100	) 48	
Net gains (losses) on derivative financial instruments	23	(18	) 25	(23	)
Net losses on available-for-sale investments	—	—	—	(5	)
Net gains on defined benefit plans	1	—	1	—	
Other comprehensive income (loss), net of tax	(73	) 32	(74	) 20	
Total comprehensive income	\$128	\$237	\$289	\$406	

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	September 27, 2014	September 28, 2013
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$363	\$386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	141	126
Deferred income tax benefit	(9	) (16
Equity in losses of equity-method investees	6	5
Non-cash stock-based compensation expense	42	43
Gain on acquisition of Chaps	—	(16
Excess tax benefits from stock-based compensation arrangements	(5	) (20
Other non-cash charges, net	4	—
Changes in operating assets and liabilities:		
Accounts receivable	(63	) (93
Inventories	(295	) (271
Prepaid expenses and other current assets	(21	) (33
Accounts payable and accrued liabilities	104	61
Income tax receivables and payables	1	(12
Deferred income	(9	) (11
Other balance sheet changes, net	16	71
Net cash provided by operating activities	275	220
Cash flows from investing activities:		
Capital expenditures	(176	) (214
Purchases of investments	(793	) (644
Proceeds from sales and maturities of investments	532	492
Acquisitions and ventures	(3	) (36
Change in restricted cash deposits	—	(6
Net cash used in investing activities	(440	) (408
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	300
Proceeds from issuance of short-term debt	530	—
Repayments of short-term debt	(320	) —
Payments of capital lease obligations	(13	) (5
Payments of dividends	(79	) (73
Repurchases of common stock, including shares surrendered for tax withholdings	(281	) (210
Proceeds from exercise of stock options	33	19
Excess tax benefits from stock-based compensation arrangements	5	20
Net cash provided by (used in) financing activities	(125	) 51
Effect of exchange rate changes on cash and cash equivalents	(24	) 2
Net decrease in cash and cash equivalents	(314	) (135
Cash and cash equivalents at beginning of period	797	974
Cash and cash equivalents at end of period	\$483	\$839
See accompanying notes.		





RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and where otherwise indicated)  
(Unaudited)

1. Description of Business

Ralph Lauren Corporation ("RLC") is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. RLC's long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. RLC's brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, RRL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others. RLC 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 stores and specialty stores around the world. The Company also sells directly to consumers through its integrated retail channel, which includes its retail stores, concession-based shop-within-shops, and e-commerce operations around the world. In addition, the Company licenses to unrelated third parties for specified periods the right to operate retail stores and to use its various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear, and fragrances.

2. Basis of Presentation

Interim Financial Statements

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are unaudited. In the opinion of management, these consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income, and 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. ("U.S. 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 provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended March 29, 2014 (the "Fiscal 2014 10-K").

Basis of Consolidation

These unaudited interim consolidated financial statements present the consolidated financial position, income, comprehensive income, and cash flows of the Company, including all entities in which the Company has a controlling financial interest and is determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2015 will end on March 28, 2015 and will be a 52-week period ("Fiscal 2015"). Fiscal year 2014 ended on March 29, 2014 and was also a 52-week period ("Fiscal 2014"). The second quarter of Fiscal 2015 ended on September 27, 2014 and was a 13-week period. The second quarter of Fiscal 2014 ended on September 28, 2013 and was also a 13-week period.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain 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 bad debt, customer returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances; 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; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring; and accounting for business combinations, among others.

Reclassifications

Certain reclassifications have been made to the prior period's financial information in order to conform to the current period's presentation, including a change in the manner in which the Company allocates certain costs to its reportable segments, as described in Note 22 to the Company's Fiscal 2014 10-K.

Seasonality of Business

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth fiscal quarters and higher retail sales in its second and third fiscal 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. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended September 27, 2014 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2015.

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, the price has been fixed or is determinable, and collectability 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 markdown reserves, 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 markdown reserves are based on historical trends, actual and forecasted seasonal results, an evaluation of current economic and market conditions, retailer performance, and, in certain cases, contractual terms. Estimates for operational chargebacks are based on actual notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on at least a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Retail store and concession-based shop-within-shop 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 e-commerce sites is recognized upon delivery of the shipment to its customers. Such revenue is also 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 redemption 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.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

**Shipping and Handling Costs**

The costs associated with shipping goods to customers are reflected as a component of selling, general, and administrative ("SG&A") expenses in the unaudited interim consolidated statements of income. Shipping costs were approximately \$10 million and \$19 million during the three-month and six-month periods ended September 27, 2014, respectively, and \$9 million and \$17 million during the three-month and six-month periods ended September 28, 2013, respectively. The costs of preparing merchandise for sale, such as picking, packing, warehousing, and order charges ("handling costs") are also included in SG&A expenses. Handling costs were approximately \$45 million and \$87 million during the three-month and six-month periods ended September 27, 2014, respectively, and \$52 million and \$91 million during the three-month and six-month periods ended September 28, 2013, respectively. Shipping and handling costs billed to customers are included in revenue.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income attributable to common shares 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 ("RSUs"), and any other potentially dilutive instruments, only in the periods in which such effects are 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 shares used to calculate diluted net income per common share as follows:

	Three Months Ended		Six Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2014	2013	2014	2013
	(millions)			
Basic shares	88.4	90.4	88.7	90.6
Dilutive effect of stock options, restricted stock, and RSUs	0.8	1.8	1.0	2.0
Diluted shares	89.2	92.2	89.7	92.6

All earnings per share amounts have been calculated based on unrounded numbers. Options to purchase shares of the Company's 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 RSUs that are issuable only upon the achievement of certain service and/or performance goals. Performance-based RSUs are included in the computation of diluted shares only to the extent that the underlying performance conditions (and any applicable market condition modifiers) (i) are satisfied as of the end of the reporting period or (ii) would be considered 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 September 27, 2014 and September 28, 2013, there were approximately 2.0 million and 1.2 million, respectively, additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs, which were excluded from the diluted share calculations.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable, net is recorded at carrying value, which approximates fair value, and is presented in the Company's consolidated balance sheets net of certain reserves and allowances. These reserves and allowances consist of (i) reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances (see Revenue Recognition section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Beginning reserve balance	\$245	\$245	\$254	\$230
Amount charged against revenue to increase reserve	212	215	369	368
Amount credited against customer accounts to decrease reserve	(167	) (192	) (332	) (332
Foreign currency translation	(6	) 2	(7	) 4
Ending reserve balance	\$284	\$270	\$284	\$270

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors. The Company's allowance for doubtful accounts was \$16 million as of both September 27, 2014 and March 29, 2014. The activity in the allowance for doubtful accounts was not material during the three-month and six-month periods ended September 27, 2014 and September 28, 2013.

Concentration of Credit Risk

The Company sells its wholesale merchandise primarily to major department and specialty stores around the world, and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's 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 three key wholesale customers that generate significant sales volume. During Fiscal 2014, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 12% of its total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) represented approximately 25% of total net revenues during Fiscal 2014. As of September 27, 2014, these three key wholesale customers represented approximately 40% of gross accounts receivable.

Derivative Financial Instruments

The Company records all derivative financial instruments on its consolidated balance sheets at fair value. For derivative instruments that qualify for cash flow hedge accounting, the effective portion of changes in the fair value of these instruments is recognized in equity as a component of accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings.

Each derivative instrument that qualifies for hedge accounting is expected to be highly effective at reducing the risk associated with the exposure being hedged. For each derivative instrument that is designated as a hedge, the Company formally documents the related risk management objective and strategy, including identification of the hedging instrument, the hedged item, and the risk exposure, as well as how hedge effectiveness will be assessed prospectively

and retrospectively over the instrument's term. To assess the effectiveness of derivative instruments that are designated as hedges, the Company uses regression analysis, a statistical method, to compare the change in the fair value of the derivative instrument to the change in cash flows of the related



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

hedged item. The extent to which a hedging instrument has been and is expected to remain highly effective in achieving offsetting changes in cash flows is assessed and documented by the Company on at least a quarterly basis. To the extent that a derivative instrument designated as a cash flow hedge is not considered to be effective, any change in its fair value relating to such ineffectiveness is immediately recognized in earnings within foreign currency gains (losses). If it is determined that a derivative instrument has not been highly effective, and will continue not to be highly effective in hedging the designated exposure, hedge accounting is discontinued and further gains (losses) are recognized in earnings within foreign currency gains (losses). Upon discontinuance of hedge accounting, the cumulative change in fair value of the derivative instrument previously recorded in AOCI is recognized in earnings when the related hedged item affects earnings, consistent with the originally-documented hedging strategy, unless the forecasted transaction is no longer probable of occurring, in which case the accumulated amount is immediately recognized in earnings within foreign currency gains (losses).

As a result of the use of derivative instruments, the Company is exposed to the risk that the counterparties to such contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. The Company's established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of the creditworthiness of counterparties. The Company also enters into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with its derivative instruments. In the event of default or termination (as such terms are defined within the respective master netting arrangement), these arrangements allow the Company to net-settle amounts payable and receivable related to multiple derivative transactions with the same counterparty. The master netting arrangements specify a number of events of default and termination, including, among others, the failure to make timely payments.

The fair values of the Company's derivative instruments are recorded on its consolidated balance sheets on a gross basis. For cash flow reporting purposes, the Company classifies proceeds received or amounts paid upon the settlement of a derivative instrument in the same manner as the related item being hedged, primarily within cash flows from operating activities.

#### Forward Foreign Currency Exchange Contracts

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risks related to 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, and other foreign currency-denominated operational cash flows. To the extent forward foreign currency exchange contracts designated as cash flow hedges are highly effective in offsetting changes in the value of the hedged items, the related gains (losses) are initially deferred in equity as a component of AOCI and subsequently recognized in the consolidated statements of income as follows:

• **Forecasted Inventory Transactions** — Recognized as part of the cost of the inventory being hedged within cost of goods sold when the related inventory is sold to a third party.

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

#### Undesignated Hedges

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk. Changes in the fair value of undesignated derivative instruments are immediately recognized in earnings within foreign currency gains (losses).

See Note 13 for further discussion of the Company's derivative financial instruments.

Refer to Note 3 in the Fiscal 2014 10-K for a summary of all of the Company's significant accounting policies.



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Recently Issued Accounting Standards

Accounting for Share-Based Payments

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 clarifies the accounting for certain stock-based compensation awards by requiring that a performance target that affects an award's vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the award's grant-date fair value and the related compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 is effective for the Company beginning in its fiscal year 2017, with early adoption permitted, and may be applied prospectively to all awards granted after the effective date, or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented. Adoption of ASU 2014-12 is not expected to have a significant impact on the Company's consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that will supersede most existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance. ASU 2014-09 is effective for the Company beginning in its fiscal year 2018, and may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Proposed Amendments to Current Accounting Standards

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In May 2013, the FASB issued an exposure draft, "Leases" (the "Exposure Draft"), which would replace the existing guidance in ASC topic 840, "Leases." Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities on the consolidated balance sheet. The comment period for the Exposure Draft ended in September 2013. The FASB is currently redeliberating certain portions of the proposal to determine next steps. If and when effective, this proposed standard will likely have a significant impact on the Company's consolidated financial statements. However, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting would have on its consolidated financial statements at this time.

5. Acquisitions

Australia and New Zealand Licensed Operations Acquisition

On July 1, 2013, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in Australia and New Zealand (the "Australia and New Zealand Business") from a licensed to a wholly-owned operation, the Company acquired certain net assets from Oroton Group/PRL Australia ("Oroton") in exchange for an aggregate payment of approximately \$15 million. The Company funded this acquisition with available cash on-hand and accounted for it as a business combination, with the operating results of the Australia and New Zealand Business consolidated into the Company's operating results beginning on July 1, 2013. See Note 5 to the Company's Fiscal 2014 10-K for the allocation of the purchase price and other information related to this acquisition.



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Chaps Menswear License Acquisition

On April 10, 2013, in connection with the transition of the North American Chaps-branded men's sportswear business ("Chaps Menswear Business") from a licensed to a wholly-owned operation, the Company entered into an agreement with The Warnaco Group, Inc. ("Warnaco"), a subsidiary of PVH Corp. ("PVH"), to acquire certain net assets in exchange for an aggregate payment of approximately \$18 million (the "Chaps Menswear License Acquisition"). Warnaco was the Company's licensee for the Chaps Menswear Business. The Company funded the Chaps Menswear License Acquisition during the first quarter of Fiscal 2014 with available cash on-hand.

The Company accounted for the Chaps Menswear License Acquisition as a business combination during the first quarter of Fiscal 2014. The acquisition cost was allocated to the assets acquired and liabilities assumed based on an assessment of their respective fair values, as follows (in millions):

Assets acquired:

Inventory	\$30	
Accounts receivable	19	
Licensed trademark intangible asset	9	
Total assets acquired	58	
Liabilities assumed:		
Accounts payable	(22	)
Other net liabilities	(2	)
Total net liabilities assumed	(24	)
Fair value of net assets acquired	34	
Consideration paid	18	
Gain on acquisition <sup>(a)</sup>	\$16	

Represents the difference between the acquisition date fair value of net assets acquired and the

<sup>(a)</sup> contractually-defined purchase price under the Company's license agreement with Warnaco, which granted the Company the right to early-terminate the license upon PVH's acquisition of Warnaco in February 2013.

The licensed trademark intangible asset was valued using the excess earnings method, discounting the estimated after-tax cash flows associated with the Chaps-branded men's sportswear licensed trademark as of the acquisition date, factoring in market participant-based operating and cash flow assumptions. The reacquired licensed trademark intangible asset was amortized over a nine-month period through December 31, 2013, representing the remaining term of the prior license agreement that was terminated in connection with this acquisition.

The operating results of the Chaps Menswear Business have been consolidated into the Company's operating results beginning on April 10, 2013. Transaction costs of \$3 million were expensed as incurred and classified within SG&A expenses in the consolidated statement of income during the first quarter of Fiscal 2014.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

Inventories consist of the following:

	September 27, 2014 (millions)	March 29, 2014	September 28, 2013
Raw materials	\$2	\$3	\$2
Work-in-process	2	2	1
Finished goods	1,288	1,015	1,212
Total inventories	\$1,292	\$1,020	\$1,215

7. Property and Equipment

Property and equipment, net consists of the following:

	September 27, 2014 (millions)	March 29, 2014
Land and improvements	\$17	\$17
Buildings and improvements	412	183
Furniture and fixtures	694	661
Machinery and equipment	307	245
Capitalized software	378	366
Leasehold improvements	1,132	1,064
Construction in progress	87	312
	3,027	2,848
Less: accumulated depreciation	(1,616	) (1,526
Property and equipment, net	\$1,411	\$1,322

8. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	September 27, 2014 (millions)	March 29, 2014
Other taxes receivable	\$76	\$77
Derivative financial instruments	33	3
Tenant allowances receivable	18	22
Prepaid samples	18	13
Prepaid rent expense	14	31
Fixed asset advance	—	19
Other prepaid expenses and current assets	65	59
Total prepaid expenses and other current assets	\$224	\$224

RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets consist of the following:

	September 27, 2014	March 29, 2014
	(millions)	
Restricted cash	\$38	\$42
Assets held under deferred compensation arrangements	33	20
Security deposits	29	27
Derivative financial instruments	11	5
Non-current investments	2	2
Other non-current assets	46	41
Total other non-current assets	\$159	\$137

Accrued expenses and other current liabilities consist of the following:

	September 27, 2014	March 29, 2014
	(millions)	
Accrued operating expenses	\$202	\$183
Accrued payroll and benefits	140	190
Accrued inventory	131	84
Other taxes payable	99	76
Accrued capital expenditures	78	45
Deferred income	41	41
Dividends payable	40	40
Capital lease obligations	18	16
Other accrued expenses and current liabilities	13	15
Total accrued expenses and other current liabilities	\$762	\$690

Other non-current liabilities consist of the following:

	September 27, 2014	March 29, 2014
	(millions)	
Capital lease obligations	\$249	\$255
Deferred rent obligations	223	224
Deferred tax liabilities	74	81
Deferred compensation	42	29
Deferred income	30	39
Other non-current liabilities	35	26
Total other non-current liabilities	\$653	\$654

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Restructuring and Other Charges

A description of the Company's restructuring and other activities and related costs is included below.

Fiscal 2015

During the six months ended September 27, 2014, the Company recorded \$6 million of restructuring charges, primarily related to severance and benefit costs associated with its retail and wholesale operations. The related restructuring liability at September 27, 2014 was \$4 million, reflecting payments of \$2 million to date, and is expected to be settled by the end of the Company's fiscal year 2016.

Fiscal 2014

During Fiscal 2014, the Company recorded \$8 million of restructuring charges, \$2 million of which were recorded during the six months ended September 28, 2013. These charges were primarily comprised of severance and benefit costs associated with the restructuring of its corporate operations. At March 29, 2014, the restructuring liability related to these charges was \$6 million, which was reduced by payments to \$3 million at September 27, 2014, and is expected to be paid by the end of Fiscal 2015.

10. Income Taxes

Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's provision for income taxes by pretax income, was 27.8% and 28.8% for the three-month periods ended September 27, 2014 and September 28, 2013, respectively, and 29.3% and 30.2% for the six-month periods ended September 27, 2014 and September 28, 2013, respectively. The Company's effective tax rate differs from the statutory rate due to the effect of state and local taxes, tax rates in foreign jurisdictions, and certain nondeductible expenses. The effective tax rates in the periods presented were lower than the U.S. federal statutory income tax rate of 35% principally as a result of the effect of earnings generated in lower taxed foreign jurisdictions and income tax benefits resulting from the legal entity restructuring of certain of the Company's foreign operations during Fiscal 2015 and Fiscal 2014. The lower effective tax rate of the six-month period ended September 27, 2014 was partially offset by additional tax reserves associated with the conclusion of tax examinations.

Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. The total amount of unrecognized tax benefits, including interest and penalties, was \$133 million and \$132 million as of September 27, 2014 and March 29, 2014, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The activity in the unrecognized tax benefits, including interest and penalties, was not material during the three-month and six-month periods ended September 27, 2014 and September 28, 2013. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$85 million and \$86 million as of September 27, 2014 and March 29, 2014, respectively.

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 tax audits and assessments and the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits, excluding interest and penalties, could potentially be reduced by up to approximately \$20 million during the next 12 months as a result of anticipated audit settlements. However, changes in the occurrence, expected outcomes, and timing of such events could cause the Company's current estimate to change materially in the future.





RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company files a consolidated U.S. federal income tax return, as well as tax returns in various state, local, and foreign jurisdictions. The Company is generally no longer subject to examinations by the relevant tax authorities for years prior to fiscal year 2006.

11. Debt

Debt consists of the following:

	September 27, 2014 (millions)	March 29, 2014
2.125% Senior Notes due September 26, 2018	\$ 300	\$ 300
Commercial paper notes	210	—
Total debt	510	300
Less: short-term debt	210	—
Total long-term debt	\$ 300	\$ 300
Senior Notes		

In September 2013, the Company completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018 (the "Senior Notes") at a price equal to 99.896% of their principal amount. The Senior Notes bear interest at a fixed rate of 2.125%, payable semi-annually. The proceeds from this offering were used for general corporate purposes, including the repayment of the Company's €209 million principal amount previously outstanding of 4.5% Euro-denominated notes (the "Euro Debt"), which matured on October 4, 2013.

The Company has the option to redeem the Senior Notes, in whole or in part, at any time at a price equal to accrued interest on the redemption date, plus the greater of (i) 100% of the principal amount of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the indenture governing the Senior Notes (the "Indenture"). The Indenture contains certain covenants that restrict the Company's ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of the Company's property or assets to another party. However, the Indenture does not contain any financial covenants.

Commercial Paper

In May 2014, the Company initiated a commercial paper borrowing program (the "Commercial Paper Program") that allows it to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below, and may be used to support the Company's general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program ranks equally with the Company's other unsecured indebtedness. As of September 27, 2014, the Company had \$210 million in borrowings outstanding under its Commercial Paper Program, with a weighted-average annual interest rate of 0.23% and a weighted-average remaining term of 34 days.

Revolving Credit Facilities

Global Credit Facility

The Company has a credit facility that provides for a \$500 million senior unsecured revolving line of credit through March 2016 (the "Global Credit Facility"), and is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. The Company has the ability to expand its borrowing availability under the Global



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Credit Facility to \$750 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 Global Credit Facility. As of September 27, 2014, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$10 million of outstanding letters of credit.

The Global 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; sell or dispose of assets; 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 certain investments. The Global 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 the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus eight times consolidated rent expense for the last four consecutive fiscal quarters. Consolidated 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 September 27, 2014, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

Domestic Credit Facility

In August 2014, the Company entered into an uncommitted credit facility (the "Domestic Credit Facility") with Santander Bank, N.A. ("Santander"), which provides for a revolving line of credit up to \$100 million through August 2015. Borrowings under the Domestic Credit Facility are granted at the sole discretion of Santander, subject to availability of its funds, and bear interest at a rate equal to the London Interbank Offered Rate plus a spread determined by Santander at the time of borrowing. The Domestic Credit Facility does not contain any financial covenants. As of September 27, 2014, there were no borrowings outstanding under the Domestic Credit Facility.

Pan-Asia Credit Facilities

Certain of the Company's subsidiaries in Asia have uncommitted credit facilities with regional branches of JPMorgan Chase (the "Banks") in China, Malaysia, South Korea, and Taiwan (the "Pan-Asia Credit Facilities"). These credit facilities are subject to annual renewal and may be used to fund general working capital and corporate needs of the Company's operations in the respective countries. Borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company and are granted at the sole discretion of the Banks, subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. The Pan-Asia Credit Facilities do not contain any financial covenants. The Company's Pan-Asia Credit Facilities by country are as follows:

- China Credit Facility — provides Ralph Lauren Trading (Shanghai) Co., Ltd. with a revolving line of credit of up to 100 million Chinese Renminbi (approximately \$16 million) through April 8, 2015, and may also be used to support bank guarantees. As of September 27, 2014, bank guarantees of 12 million Chinese Renminbi (approximately \$2 million) were supported by this facility.
- Malaysia Credit Facility — provides Ralph Lauren (Malaysia) Sdn Bhd with a revolving line of credit of up to 16 million Malaysian Ringgit (approximately \$5 million) through September 30, 2015.
- South Korea Credit Facility — provides Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 11 billion South Korean Won (approximately \$11 million) through October 31, 2014.

Taiwan Credit Facility — provides Ralph Lauren (Hong Kong) Retail Company Ltd., Taiwan Branch with a revolving line of credit of up to 59 million New Taiwan Dollars (approximately \$2 million) through October 15, 2015.

As of September 27, 2014, there were no borrowings outstanding under any of the Pan-Asia Credit Facilities.

Refer to Note 14 of the Fiscal 2014 10-K for additional disclosure of the terms and conditions of the Company's debt and credit facilities.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Fair Value Measurements

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

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

	September 27, 2014	March 29, 2014
	(millions)	
Financial assets recorded at fair value:		
Government bonds <sup>(a)</sup>	\$—	\$1
Auction rate securities <sup>(b)</sup>	2	2
Derivative financial instruments <sup>(b)</sup>	44	8
Total	\$46	\$11
Financial liabilities recorded at fair value:		
Derivative financial instruments <sup>(b)</sup>	\$5	\$7
Total	\$5	\$7

<sup>(a)</sup> Based on Level 1 measurements.

<sup>(b)</sup> Based on Level 2 measurements.

To the extent the Company invests in bonds, such investments are classified as available-for-sale and recorded at fair value in its consolidated balance sheets based upon quoted prices in active markets.

The Company's auction rate securities are classified as available-for-sale and recorded at fair value within other non-current assets in its consolidated balance sheets. Third-party pricing institutions may value auction rate securities at par, which may not necessarily reflect prices that would be obtained if sold 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 recent successfully traded securities, and the total principal balance of each security. The Company's derivative financial instruments are recorded at fair value in its consolidated balance sheets on a gross basis and are valued using a pricing model, which is primarily based on market observable external inputs, including forward and spot exchange rates for foreign currencies, and considers the impact of the Company's own credit risk, if any. Changes in counterparty credit risk are also considered in the valuation of derivative financial instruments.



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's cash and cash equivalents, restricted cash, and time deposits are recorded at carrying value, which approximates fair value based on Level 1 measurements.

The Company's debt instruments are recorded at their carrying values in its consolidated balance sheets, which may differ from their respective fair values. The carrying values of the Company's Senior Notes and commercial paper notes reflect their face amount, adjusted for any unamortized discount, which is not material. The fair value of the Senior Notes is estimated based on external pricing data, including available quoted market prices, and with reference to comparable debt instruments with similar interest rates, credit ratings, and trading frequency, among other factors. The fair value of the notes issued under the Commercial Paper Program is estimated using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's outstanding borrowings. Due to its short-term nature, the fair value of commercial paper notes outstanding at September 27, 2014 approximates its carrying value.

The following table summarizes the carrying values and the estimated fair values of the Company's debt instruments:

	September 27, 2014		March 29, 2014	
	Carrying Value (millions)	Fair Value <sup>(a)</sup>	Carrying Value	Fair Value <sup>(a)</sup>
2.125% Senior Notes	\$300	\$301	\$300	\$300
Commercial paper notes	210	210	N/A	N/A

<sup>(a)</sup> Based on Level 2 measurements.

Unrealized gains or losses on the Company's debt do not result in the realization or expenditure of cash, unless the debt is retired prior to its maturity.

#### Non-financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of goodwill, other 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 or whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written-down to and recorded at fair value, considering external market participant assumptions. There were no material impairment charges recorded during either of the six-month periods ended September 27, 2014 or September 28, 2013.

No goodwill impairment charges were recorded during either of the six-month periods ended September 27, 2014 or September 28, 2013. The Company performed its annual goodwill impairment assessment as of the beginning of the second quarter of Fiscal 2015 using a quantitative approach. Based on the results of the impairment assessment as of June 29, 2014, the Company concluded that the fair values of its reporting units significantly exceeded their respective carrying values, and there are no reporting units at risk of impairment.

#### 13. Financial Instruments

##### Derivative Financial Instruments

The Company is exposed to changes in foreign currency exchange rates, primarily relating to certain anticipated cash flows of its international operations. Consequently, the Company uses derivative financial instruments to manage such risks. The Company does not enter into derivative transactions for speculative or trading purposes.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of September 27, 2014 and March 29, 2014:

Derivative Instrument <sup>(a)</sup>	Notional Amounts		Derivative Assets				Derivative Liabilities			
	September 27, 2014	March 29, 2014	September 27, 2014	March 29, 2014	September 27, 2014	March 29, 2014	September 27, 2014	March 29, 2014		
			Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value
	(millions)									
Designated Hedges:										
FC — Inventory purchases	\$482	\$476	(c)	\$25	(d)	\$2	AE	\$3	AE	\$5
FC — Other	220	223	PP	8	—	—	AE	1	AE	2
Total Designated Hedges	\$702	\$699		\$33		\$2		\$4		\$7
Undesignated Hedges:										
FC — Other	\$301	\$280	(g)	\$11	(h)	\$6	AE	\$1	—	\$—
Total Hedges	\$1,003	\$979		\$44		\$8		\$5		\$7

(a) FC = Forward foreign currency exchange contracts.

(b) PP = Prepaid expenses and other current assets; AE = Accrued expenses and other current liabilities.

(c) \$20 million included within prepaid expenses and other current assets and \$5 million included within other non-current assets.

(d) \$1 million included within prepaid expenses and other current assets and \$1 million included within other non-current assets.

(e) Primarily designated hedges of foreign currency-denominated intercompany royalty payments, marketing contributions, and other operational exposures.

(f) Primarily related to undesignated hedges of foreign currency-denominated intercompany loans.

(g) \$5 million included within prepaid expenses and other current assets and \$6 million included within other non-current assets.

(h) \$2 million included within prepaid expenses and other current assets and \$4 million included within other non-current assets.

The Company records and presents the fair values of all of its derivative assets and liabilities in its consolidated balance sheets on a gross basis, even though they are subject to master netting arrangements. However, if the Company were to offset and record the asset and liability balances of all of its forward foreign currency exchange contracts on a net basis in accordance with the terms of each of its master netting arrangements, spread across eight separate counterparties, the amounts presented in the consolidated balance sheets as of September 27, 2014 and March 29, 2014 would be adjusted from the current gross presentation as detailed in the following table:

Derivative Instrument	September 27, 2014			March 29, 2014		
	Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are	Net Amount	Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are	Net Amount

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	(millions)	Subject to Master Netting Agreements		Subject to Master Netting Agreements
FC — Derivative assets	\$44	\$(5 )	\$39	\$8
FC — Derivative liabilities	\$5	\$(5 )	\$—	\$7
				\$(1 )
				\$7
				\$(1 )
				\$6

The Company's master netting arrangements do not require cash collateral to be pledged by the Company or its counterparties. Refer to Note 3 for further discussion of the Company's master netting arrangements.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the pretax impact of the effective portion of gains and losses from the Company's derivative instruments on its unaudited interim consolidated financial statements for the three-month and six-month periods ended September 27, 2014 and September 28, 2013:

Derivative Instrument	Gains (Losses) Recognized in OCI			
	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Designated Cash Flow Hedges:				
FC — Inventory purchases	\$21	\$(7)	\$22	\$(8)
FC — Other	11	(1)	9	(1)
	\$32	\$(8)	\$31	\$(9)
Designated Hedge of Net Investment:				
Euro Debt <sup>(a)</sup>	\$—	\$1	\$—	\$—
Total Designated Hedges	\$32	\$(7)	\$31	\$(9)

<sup>(a)</sup> Relates to remeasurement of the Euro Debt, which was repaid in October 2013.

Derivative Instrument	Gains (Losses) Reclassified from AOCI to Earnings				Location of Gains (Losses) Reclassified from AOCI to Earnings
	Three Months Ended		Six Months Ended		
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
	(millions)				
Designated Cash Flow Hedges:					
FC — Inventory purchases	\$(1)	\$1	\$(2)	\$6	Cost of goods sold
FC — Other	7	(1)	5	(1)	Foreign currency gains (losses)
	\$6	\$—	\$3	\$5	

During the six months ended September 28, 2013, the Company also recorded a foreign currency gain of \$2 million associated with the discontinuance of certain cash flow hedges, as the related forecasted transactions were no longer probable of occurring.

As of September 27, 2014, it is expected that approximately \$18 million of net gains deferred in AOCI related to derivative financial instruments will be recognized in earnings over the next twelve months. No material gains or losses relating to ineffective hedges were recognized during any of the fiscal periods presented.

The following table summarizes the impact of gains and losses from the Company's undesignated hedge contracts on its unaudited interim consolidated financial statements for the three-month and six-month periods ended September 27, 2014 and September 28, 2013:

Derivative Instrument	Gains (Losses) Recognized in Earnings				Location of Gains (Losses) Recognized in Earnings
	Three Months Ended		Six Months Ended		
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
	(millions)				
Undesignated Hedges:					
FC — Other	\$8	\$10	\$6	\$18	Foreign currency gains (losses)

Total Undesignated Hedges	\$8	\$10	\$6	\$18
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RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Risk Management Strategies

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, intercompany contributions to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational cash flows. 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 South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, the Company hedges a portion of its foreign currency exposures anticipated over a two-year period. In doing so, the Company uses foreign currency exchange forward contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

See Note 3 for further discussion of the Company's accounting policies relating to its derivative financial instruments.

Investments

The following table summarizes the Company's short-term and non-current investments recorded in its consolidated balance sheets as of September 27, 2014 and March 29, 2014:

Type of Investment	September 27, 2014			March 29, 2014		
	Short-term	Non-current	Total	Short-term	Non-current	Total
			(millions)			
Available-for-Sale:						
Government bonds	\$—	\$—	\$—	\$1	\$—	\$1
Auction rate securities <sup>(a)</sup>	—	2	2	—	2	2
Total available-for-sale investments	\$—	\$2	\$2	\$1	\$2	\$3
Other:						
Time deposits	\$708	\$—	\$708	\$487	\$—	\$487
Total Investments	\$708	\$2	\$710	\$488	\$2	\$490

Auction rate securities have characteristics similar to short-term investments. However, the Company has recorded <sup>(a)</sup>these securities within other non-current assets in its consolidated balance sheets as current market conditions call into question its ability to redeem these investments for cash within the next twelve months.

No significant realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded during the three-month and six-month periods ended September 27, 2014 and September 28, 2013. Refer to Note 16 for further detail.

See Note 3 to the Fiscal 2014 10-K for further discussion of the Company's accounting policies relating to its investments.

14. Commitments and Contingencies

Lease Obligations

During the first quarter of Fiscal 2015, the Company entered into a lease for a new domestic distribution facility in North Carolina to support its future business growth. The initial lease term is approximately 15 years, with optional renewal periods and a purchase option. The Company's total commitment relating to this lease is approximately \$56 million, with minimum lease payments of approximately \$2 million due in the Company's fiscal year 2016, \$3 million due each year from the Company's fiscal year 2017 through 2019, and aggregate minimum lease payments of \$45 million for the Company's fiscal years 2020 through 2031. The Company expects to take possession of this property in the second quarter of its fiscal year 2016.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Customs Audit

In September 2014, one of the Company's international subsidiaries received a pre-assessment notice from the relevant customs officials concerning the method used to determine the dutiable value of imported inventory. The notice communicated the customs officials' assertion that the Company should have applied an alternative duty method, which could result in up to approximately \$46 million in incremental duty and non-creditable value-added tax, including approximately \$11 million in interest and penalties. The Company believes that the alternative duty method claimed by the customs officials is not applicable to the Company's facts and circumstances and is vigorously contesting their asserted methodology.

In October 2014, the Company filed an appeal of the pre-assessment notice in accordance with the standard procedures established by the relevant customs authorities. The customs officials have 30 to 90 days to respond with either an adjustment to the pre-assessment notice or the issuance of an assessment and tax payment notice. Once the assessment is issued, the Company would be required to remit the full assessed amount to preserve its legal rights in appealing the notice, as well as to eliminate any future interest and penalties. If the Company prevails in its appeals, all amounts required to be deposited would be fully recoverable, including interest. If the Company is unsuccessful in its initial appeals, it may further appeal this decision within the Courts. At this time, while the Company believes that the customs officials' claims are not meritorious and that the Company will ultimately prevail, the outcome of the appeals process and potential court proceedings is subject to risk and uncertainty and the ultimate resolution of this examination in favor of the customs authority could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

Wathne Imports Litigation

On August 19, 2005, Wathne Imports, Ltd. ("Wathne"), the Company's 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 Mr. Ralph Lauren, its 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 originally 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 the Company's 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, the Company moved for summary judgment on the remaining claims and Wathne cross-moved for partial summary judgment. In an April 11, 2008 Decision and Order, the Court granted the Company'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. Since then, Wathne has made various attempts to expand the scope of its claim and the damages sought by making various motions and pursuing several intermediate appeals.

At this time, Wathne's principal remaining claim is that the Company required Wathne to discontinue the use of the Polo Sport brand on handbags in violation of its contract. A trial date has not been scheduled and the Company intends to continue to contest the remaining claims and dispute any alleged damages 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 consolidated financial statements.

Other Matters

The Company is otherwise involved, from time to time, in litigation, other legal claims, and proceedings involving matters associated with or incidental to its business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, importation and exportation of its products, taxation, unclaimed property, and employee relations. The Company believes at present that the resolution of currently pending matters, other than those separately discussed above, will not individually or in the aggregate have a material adverse effect on its consolidated financial statements. However, the Company's assessment of the current litigation or other legal claims could potentially change in light of the discovery of facts not presently known 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.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the normal course of business, the Company enters into agreements that provide general indemnifications. The Company has not made any significant indemnification payments under such agreements in the past, and does not currently anticipate incurring any material indemnification payments.

15. Equity

Summary of Changes in Equity

A reconciliation of the beginning and ending amounts of equity is presented below:

	Six Months Ended	
	September 27, 2014	September 28, 2013
	(millions)	
Balance at beginning of period	\$4,034	\$3,785
Comprehensive income	289	406
Dividends declared	(79	) (72
Repurchases of common stock, including shares surrendered for tax withholdings	(281	) (210
Stock-based compensation	42	43
Shares issued and tax benefits recognized pursuant to stock-based compensation arrangements	38	39
Conversion of stock-based compensation awards	(14	) —
Balance at end of period	\$4,029	\$3,991

Class B Common Stock Conversion

During the second quarter of Fiscal 2015, the Lauren Family, L.L.C., a limited liability company managed by the children of Mr. Ralph Lauren, converted 0.4 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, which were subsequently sold on the open market as part of a pre-determined, systematic trading plan. This transaction resulted in a reclassification within equity and had no effect on the Company's consolidated balance sheets.

Common Stock Repurchase Program

A summary of the Company's repurchases of Class A common stock under its common stock repurchase program is presented below:

	Six Months Ended	
	September 27, 2014	September 28, 2013
	(millions)	
Cost of shares repurchased	\$250	\$200
Number of shares repurchased	1.6	1.1

Includes two separate \$50 million prepayments made in March 2013 and June 2013 pursuant to share repurchase programs with third-party financial institutions, in exchange for the right to receive shares of the Company's Class

(a) A common stock at the conclusion of each of the 93-day repurchase terms, which resulted in a delivery of 0.6 million shares during the six months ended September 28, 2013, based on the volume-weighted average market price of the Company's Class A common stock over the programs' respective 93-day repurchase terms, less a discount.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 27, 2014, the remaining availability under the Company's Class A common stock repurchase program was approximately \$330 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during the six-month periods ended September 27, 2014 and September 28, 2013, 0.2 million and 0.4 million shares of Class A common stock at a cost of \$31 million and \$60 million, respectively, 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 Incentive Plan"), and its Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan").

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

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On November 5, 2013, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.40 per share to \$0.45 per share. The second quarter Fiscal 2015 dividend of \$0.45 per share was declared on September 11, 2014, was payable to stockholders of record at the close of business on September 26, 2014, and was paid on October 10, 2014. Dividends paid amounted to \$79 million and \$73 million during the six-month periods ended September 27, 2014 and September 28, 2013, respectively.

Conversion of Stock-based Compensation Awards

During the first quarter of Fiscal 2015, the Company converted certain fully-vested and expensed stock-based compensation awards to a cash contribution into a deferred compensation account. The Company recorded the excess of these awards' then current redemption value over their original grant-date fair value to retained earnings, with a corresponding increase to other non-current liabilities in the consolidated balance sheet.

16. Accumulated Other Comprehensive Income

The following table presents other comprehensive income (loss) ("OCI") activity, net of tax, which is accumulated in equity:

	Foreign Currency Translation Gains (Losses)	Net Unrealized (Losses) on Derivative Financial Instruments	Net Unrealized Gains (Losses) on Available-for-Sale Investments	Net Unrealized Gains (Losses) on Defined Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)	
	(millions)					
Balance at March 30, 2013	\$73	\$23	\$ 5	\$(7	) \$ 94	
Other comprehensive income (loss), net of tax:						
OCI before reclassifications <sup>(a)</sup>	48	(19	) (4	) —	25	
Amounts reclassified from AOCI to earnings	—	(4	) (1	) —	(5	)
Other comprehensive income (loss), net of tax	48	(23	) (5	) —	20	
Balance at September 28, 2013	\$121	\$—	\$ —	\$(7	) \$ 114	
Balance at March 29, 2014	\$125	\$(4	) \$ —	\$(7	) \$ 114	

Other comprehensive income (loss), net of tax:					
OCI before reclassifications <sup>(a)</sup>	(100	) 28	—	1	(71 )
Amounts reclassified from AOCI to earnings	—	(3 )	—	—	(3 )
Other comprehensive income (loss), net of tax	(100	) 25	—	1	(74 )
Balance at September 27, 2014	\$25	\$21	\$ —	\$(6	) \$ 40

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amounts are presented net of taxes. Net unrealized gain on derivative financial instruments for the six months<sup>(a)</sup> ended September 27, 2014 is net of a \$3 million provision for income taxes. The tax effects relating to all other components of OCI are immaterial for the periods presented.

The following table presents reclassifications from AOCI to earnings for derivative financial instruments, by component:

	Three Months Ended		Six Months Ended		Location of Gains (Losses) Reclassified from AOCI to Earnings
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
Gains (losses) on derivative financial instruments <sup>(a)</sup> :	(millions)				
FC — Inventory purchases	\$(1	) \$ 1	\$(2	) \$ 6	Cost of goods sold
FC — Other	7	(1	) 5	(1	) Foreign currency gains (losses)
Tax effect	(1	) —	—	(1	) Provision for income taxes
Net of tax	\$5	\$ —	\$3	\$ 4	

<sup>(a)</sup>FC = Forward foreign currency exchange contracts.

#### 17. Stock-based Compensation

The Company's stock-based compensation awards are currently issued under the 2010 Incentive Plan, which was approved by its stockholders on August 5, 2010. However, any prior awards granted under the 1997 Incentive Plan remain subject to the terms of that plan. Any awards that expire, are forfeited, or are surrendered to the Company in satisfaction of taxes are available for issuance under the 2010 Incentive Plan.

Refer to Note 20 in the Fiscal 2014 10-K for a detailed description of the Company's stock-based compensation awards, including information related to vesting terms, service and performance conditions, and payout percentages.

#### Impact on Results

A summary of the total compensation expense recorded within SG&A expenses and the associated income tax benefits recognized related to stock-based compensation arrangements is as follows:

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Compensation expense	\$19	\$21	\$42	\$43
Income tax benefit	\$(8	) \$(8	) \$(16	) \$(16

The Company issues its annual grants of stock-based compensation awards in the first half of each fiscal year. Due to the timing of the annual grants and other factors, stock-based compensation expense recognized during the three-month and six-month periods ended September 27, 2014 is not indicative of the level of compensation expense expected to be incurred for the full Fiscal 2015.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options

Stock options are granted to employees and non-employee directors with exercise prices equal to the fair market value of the Company's Class A common stock on the date of grant. Generally, options become exercisable ratably (graded-vesting schedule) over a three-year vesting period. Stock options generally expire seven years from the date of grant. 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 nonemployee directors. The Company's weighted average assumptions used to estimate the fair value of stock options granted during the six months ended September 27, 2014 and September 28, 2013 were as follows:

	Six Months Ended			
	September 27, 2014	September 28, 2013		
Expected term (years)	4.2	4.2		
Expected volatility	30.2	% 33.3	%	%
Expected dividend yield	1.10	% 0.97	%	%
Risk-free interest rate	1.4	% 1.1	%	%
Weighted-average option grant date fair value	\$37.91	\$46.98		

A summary of stock option activity under all plans for the six months ended September 27, 2014 is as follows:

	Number of Options (thousands)	
Options outstanding at March 29, 2014	3,026	
Granted	847	
Exercised	(333)	)
Cancelled/Forfeited	(71)	)
Options outstanding at September 27, 2014	3,469	

Service-based RSUs and Restricted Stock Awards

The fair values of restricted stock awards granted to non-employee directors are determined based on the fair value of the Company's Class A common stock on the date of grant. The weighted-average grant date fair values of restricted stock awards granted, which entitle holders to receive cash dividends in connection with the payments of dividends on the Company's Class A common stock, were \$162.36 and \$164.76 per share during the six-month periods ended September 27, 2014 and September 28, 2013, respectively. The weighted-average grant date fair value of service-based RSUs, which are not entitled to dividends, granted during the six-months ended September 27, 2014 was \$153.05.

A summary of restricted stock and service-based RSU activity during the six months ended September 27, 2014 is as follows:

	Number of Shares	
	Restricted Stock (thousands)	Service-based RSUs
Nonvested at March 29, 2014	5	7
Granted	3	12
Vested	(3)	) —
Nonvested at September 27, 2014	5	19



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Performance-based RSUs

The fair value of the Company's performance-based RSUs that are not subject to a market condition in the form of a total shareholder return ("TSR") modifier is based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for those securities that are not entitled to dividend equivalents. The fair value of the Company's performance-based RSUs with a TSR modifier is determined on the date of grant using a Monte Carlo simulation valuation model. This pricing model uses multiple simulations to evaluate the probability of the Company achieving various stock price levels to determine its expected TSR performance ranking. The weighted average assumptions used to estimate the fair value of performance-based RSUs with a TSR modifier granted during the six-month periods ended September 27, 2014 and September 28, 2013 were as follows:

	Six Months Ended			
	September 27, 2014	September 28, 2013		
Expected term (years)	3.0	3.0		
Expected volatility	29.8	% 33.1	%	%
Expected dividend yield	1.09	% 0.96	%	%
Risk-free interest rate	0.9	% 0.4	%	%
Weighted-average grant date fair value per share	\$169.47	\$171.07		

The weighted-average grant date fair values of performance-based RSUs that do not contain a TSR modifier granted during the six-month periods ended September 27, 2014 and September 28, 2013 were \$157.09 and \$172.91 per share, respectively.

A summary of performance-based RSU activity during the six months ended September 27, 2014 is as follows:

	Number of Shares	
	Performance-based RSUs — without TSR Modifier (thousands)	Performance-based RSUs — with TSR Modifier
Nonvested at March 29, 2014	798	145
Granted	303	79
Change due to performance/market conditions achievement	83	—
Vested	(422	) —
Forfeited	(40	) (9
Nonvested at September 27, 2014	722	215

## 18. Segment Information

The Company has three reportable segments based on its business activities and organization: Wholesale, Retail, and Licensing. These segments offer a variety of products through different channels of distribution. The Wholesale segment consists of apparel, accessories, home furnishings, and related products which are sold to major department stores, specialty stores, golf and pro shops, and the Company's owned, licensed, and franchised retail stores in the U.S. and overseas. The Retail segment consists of the Company's integrated worldwide retail operations, which sell products through its retail stores, concession-based shop-within-shops, and e-commerce sites, which are 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.





RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 2014 10-K. Sales and transfers between segments are generally recorded at cost and treated as transfers of inventory. All intercompany revenues, including such sales between segments, 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. Certain corporate overhead expenses related to global functions, most notably the Company's executive office, information technology, finance and accounting, human resources, and legal departments, remain at corporate. Additionally, other costs that cannot be allocated to the segments based on specific usage are also maintained at corporate, including corporate advertising and marketing expenses, depreciation and amortization of corporate assets, and other general and administrative expenses resulting from corporate-level activities and projects.

During the fourth quarter of Fiscal 2014, the Company changed the manner in which it allocates certain costs to its reportable segments. All prior period segment information has been recast and is presented below on a comparable basis. See Note 22 to the Company's Fiscal 2014 10-K for further discussion.

Net revenues and operating income for each of the Company's reportable segments are as follows:

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Net revenues:				
Wholesale	\$943	\$928	\$1,651	\$1,663
Retail	1,006	944	1,966	1,823
Licensing	45	43	85	82
Total net revenues	\$1,994	\$1,915	\$3,702	\$3,568
	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Operating income:				
Wholesale	\$247	\$243	\$427	\$450
Retail	137	135	305	300
Licensing	42	40	78	75
	426	418	810	825
Unallocated corporate expenses	(138	) (121	) (274	) (268
Gain on acquisition of Chaps <sup>(a)</sup>	—	—	—	16
Unallocated restructuring and other charges <sup>(b)</sup>	(2	) (2	) (6	) (2
Total operating income	\$286	\$295	\$530	\$571

<sup>(a)</sup> See Note 5 for further discussion of the gain on acquisition of Chaps.

<sup>(b)</sup> The three-month and six-month periods ended September 27, 2014 included certain unallocated restructuring charges, of which \$1 million and \$3 million, respectively, related to the Company's wholesale operations and \$1 million and \$3 million, respectively, related to its retail operations. The prior fiscal periods' unallocated restructuring charges primarily related to the Company's corporate operations (see Note 9).



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Depreciation and amortization expense for the Company's reportable segments is as follows:

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Depreciation and amortization:				
Wholesale	\$17	\$17	\$34	\$33
Retail	37	31	71	60
Unallocated corporate expenses	18	18	36	33
Total depreciation and amortization	\$72	\$66	\$141	\$126

Net revenues by geographic location of the reporting subsidiary are as follows:

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Net revenues <sup>(a)</sup> :				
The Americas <sup>(b)</sup>	\$1,309	\$1,296	\$2,448	\$2,450
Europe	452	415	812	725
Asia <sup>(c)</sup>	233	204	442	393
Total net revenues	\$1,994	\$1,915	\$3,702	\$3,568

(a) Net revenues for certain of the Company's licensed operations are included within the geographic location of the reporting subsidiary which holds the respective license.

(b) Includes the U.S., Canada, and Latin America. Net revenues earned in the U.S. were \$1.246 billion and \$2.330 billion during the three-month and six-month periods ended September 27, 2014, respectively, and \$1.231 billion and \$2.336 billion during the three-month and six-month periods ended September 28, 2013, respectively.

(c) Also includes Australia and New Zealand.

19. Additional Financial Information

Cash Interest and Taxes

Cash paid for interest and income taxes is as follows:

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Cash paid for interest	\$5	\$1	\$7	\$2
Cash paid for income taxes	\$126	\$132	\$176	\$168

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Non-cash Transactions

Non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of \$78 million and \$56 million for the six-month periods ended September 27, 2014 and September 28, 2013, respectively. In addition, non-cash investing activities for the six months ended September 27, 2014 included the capitalization of a fixed asset, for which a \$19 million non-binding advance payment was made during Fiscal 2014 and recorded within prepaid expenses and other current assets as of March 29, 2014.

Non-cash activities during the six months ended September 28, 2013 also included the \$16 million gain recorded in connection with the Chaps Menswear License Acquisition in April 2013 (see Note 5).

Non-cash financing activities included the conversion of 0.4 million shares of Class B common stock into an equal number of shares of Class A common stock during the six months ended September 27, 2014, as further described in Note 15.

There were no other significant non-cash investing or financing activities for the periods presented.

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 envisions," and 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. These risks, uncertainties, and other factors include, among others:

- the loss of key personnel, including Mr. Ralph Lauren;
- our ability to successfully implement our anticipated growth strategies and to capitalize on our repositioning initiatives in certain regions and merchandise categories;
- our ability to secure our facilities and systems and those of our third-party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses, or similar Internet or email events;
- our ability to continue to maintain our brand image and reputation and protect our trademarks;
- the impact of global economic conditions on us, our customers, our suppliers, and our vendors and on our ability and their ability to access sources of liquidity;
- the impact of the volatile state of the global economy or consumer preferences on purchases of premium lifestyle products that we offer for sale and our ability to forecast consumer demand, which could result in a build-up of inventory;
- changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors, and consolidations, liquidations, restructurings, and other ownership changes in the retail industry;
- a variety of legal, regulatory, tax, political, and economic risks, including risks related to the importation and exportation of products, tariffs, and other trade barriers which our international operations are subject to and other risks associated with our international operations, such as compliance with the Foreign Corrupt Practices Act or violations of other anti-bribery and corruption laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including tax laws, trade and labor restrictions, and related laws that may reduce the flexibility of our business;
- the impact to our business of events of unrest and instability that are currently taking place in certain parts of the world, as well as from any terrorist action, retaliation, and the threat of further action or retaliation;
- our ability to continue to expand or grow our business internationally and the impact of related changes in our customer, channel, and geographic sales mix as a result;
- our exposure to currency exchange rate fluctuations and risks associated with increases in the costs of raw materials, transportation, and labor;
- changes to our effective tax rates;
- changes in our relationships with department store customers and licensing partners;
- our efforts to improve the efficiency of our distribution system and to continue to enhance and upgrade our global information technology systems and our global e-commerce platform;
- our intention to introduce new products or enter into or renew alliances and exclusive relationships;

our ability to access sources of liquidity to provide for our cash needs, including our debt obligations, payment of dividends, capital expenditures, and potential repurchase of our Class A common stock;

our ability to open new retail stores, concession shops, and e-commerce sites in an effort to expand our direct-to-consumer presence;

our ability to make certain strategic acquisitions and successfully integrate the acquired businesses into our existing operations;

our ability to maintain our credit profile and ratings within the financial community; and

the potential impact on our operations and on our customers resulting from natural or man-made disasters.

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 29, 2014 (the "Fiscal 2014 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.

In this Form 10-Q, references to "Ralph Lauren," "ourselves," "we," "our," "us," and the "Company" refer to Ralph Lauren Corporation and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2015 will end on March 28, 2015 and will be a 52-week period ("Fiscal 2015"). Fiscal year 2014 ended on March 29, 2014 and was also a 52-week period ("Fiscal 2014"). The second quarter of Fiscal 2015 ended on September 27, 2014 and was a 13-week period. The second quarter of Fiscal 2014 ended on September 28, 2013 and was also a 13-week period.

#### INTRODUCTION

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

**Overview.** This section provides a general description of our business, current trends and outlook, and a summary of our financial performance for the three-month and six-month periods ended September 27, 2014. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we 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 six-month periods ended September 27, 2014 compared to the three-month and six-month periods ended September 28, 2013.

**Financial condition and liquidity.** This section provides a discussion of our financial condition and liquidity as of September 27, 2014, which includes (i) an analysis of our financial condition compared to the prior fiscal year-end; (ii) an analysis of changes in our cash flows for the six-month period ended September 27, 2014 compared to the six-month period ended September 28, 2013; (iii) an analysis of our liquidity, including common stock repurchases, payments of dividends, our outstanding debt and covenant compliance, and the availability under our credit facilities and our commercial paper program; and (iv) any material changes in our contractual and other obligations since March 29, 2014.

**Market risk management.** This section discusses any significant changes in our risk exposures related to foreign currency exchange rates and our investments since March 29, 2014.

Critical accounting policies. This section discusses any significant changes in our critical accounting policies since March 29, 2014. Critical accounting policies typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 3 to our audited consolidated financial statements included in our Fiscal 2014 10-K.

Recently issued accounting standards. This section discusses the potential impact on our reported results of operations and financial condition of certain accounting standards that have been recently issued or proposed.

## OVERVIEW

### Our Business

Our Company is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. Our brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, RRL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others.

We classify our businesses into three segments: Wholesale, Retail, and Licensing. Our Wholesale business, which represented approximately 47% of our Fiscal 2014 net revenues, consists of sales made principally to major department stores and specialty stores around the world. Our Retail business, which represented approximately 51% of our Fiscal 2014 net revenues, consists of sales made directly to consumers through our integrated retail channel, which includes our retail stores, concession-based shop-within-shops, and e-commerce operations around the world. Our Licensing business, which represented approximately 2% of our Fiscal 2014 net revenues, consists of royalty-based arrangements under which we license to unrelated third parties for specified periods the right to operate retail stores and to use our various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear, and fragrances. Approximately 36% of our Fiscal 2014 net revenues were earned outside of the U.S.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth fiscal quarters and higher retail sales in our second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting our Retail segment. In addition, fluctuations in net sales, operating income, and cash flows in any fiscal quarter may be affected by other events impacting retail sales, such as changes in weather patterns. Accordingly, our operating results and cash flows for the three-month and six-month periods ended September 27, 2014 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2015.

### Current Trends and Outlook

Certain worldwide events, including the current political unrest in areas such as Hong Kong, eastern Europe, and the Middle East, and the threat of disease epidemics, have had an impact on consumer travel and spending, as well as the global economy as a whole. Several organizations that monitor the world's economy, including the International Monetary Fund and the World Trade Organization, have recently scaled back their predictions of economic growth for 2014 and beyond. While certain geographic regions are withstanding these pressures better than others, the level of spending on discretionary items remains constrained due to continued economic uncertainty. Other more localized conditions, such as unseasonably warm weather patterns, have resulted in a more challenging start to the fall selling season for many retailers. Because of these factors, consumer retail traffic remains relatively weak and inconsistent, which has led to increased competition and a desire to offset traffic declines with increased levels of conversion, a situation that is likely to continue. Certain of our operations have experienced and have been impacted by these dynamics, with variations across the geographic regions and businesses in which we operate.

If the economic uncertainty and challenging industry trends continue or worsen, the constrained level of worldwide consumer spending and modified consumption behavior may continue to have a negative effect on our sales, inventory levels, and operating margin for the remainder of Fiscal 2015 and potentially beyond. Despite these challenges, we remain optimistic about our future growth prospects and continue to invest in our longer-term growth objectives, while continually monitoring macroeconomic risks and remaining focused on disciplined expense management. Although we continue to expect that the dilutive effects of investments





that we are making in our business will outpace our sales growth in the near-term, we expect that these initiatives will create longer-term shareholder value. We will continue to monitor these risks and evaluate and adjust our operating strategies and cost management opportunities to mitigate the related impact on our results of operations, while remaining focused on the long-term growth of our business and protecting the value of our brand.

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 2014 10-K.

#### Summary of Financial Performance

##### Operating Results

During the three months ended September 27, 2014, we reported net revenues of \$1.994 billion, net income of \$201 million, and net income per diluted share of \$2.25, as compared to net revenues of \$1.915 billion, net income of \$205 million, and net income per diluted share of \$2.23 during the three months ended September 28, 2013. During the six months ended September 27, 2014, we reported net revenues of \$3.702 billion, net income of \$363 million, and net income per diluted share of \$4.05, as compared to net revenues of \$3.568 billion, net income of \$386 million, and net income per diluted share of \$4.17 during the six months ended September 28, 2013.

Our operating performance for the three-month and six-month periods ended September 27, 2014 reflected revenue growth of 4.1% and 3.8%, respectively, on a reported basis, and 3.7% and 3.1%, respectively, on a constant currency basis, as defined within "Transactions Affecting Comparability of Results of Operations and Financial Condition" below. The net revenues increase for the three months ended September 27, 2014 reflected increased revenues from our retail and wholesale businesses across all major geographies, as well as net favorable foreign currency effects. For the six months ended September 27, 2014, the net revenue increase reflected higher revenues from our retail businesses across all of our major geographies and net favorable foreign currency effects, partially offset by lower revenues from our domestic wholesale business. The revenue growth for the six months ended September 27, 2014 also reflected an incremental three months of revenues from the previously licensed Australia and New Zealand Business acquired in July 2013 (see "Recent Developments" below for further discussion). Our gross margin percentage increased by 20 basis points to 56.8% during the three months ended September 27, 2014 and increased by 30 basis points to 58.8% during the six months ended September 27, 2014, primarily attributable to favorable channel and geographic mix. Selling, general, and administrative ("SG&A") expenses increased during the three-month and six-month periods ended September 27, 2014 due to increased investments in our stores, facilities, and infrastructure consistent with our longer-term objectives. In addition, the six months ended September 27, 2014 included an incremental three months of operating expenses attributable to the Australia and New Zealand Business. During the six months ended September 28, 2013, we recorded a \$16 million gain relating to our acquisition of the Chaps Menswear Business, as defined within "Recent Developments" below.

Net income declined by \$4 million during the three months ended September 27, 2014, as compared to the three months ended September 28, 2013, primarily due to a \$9 million decrease in operating income, partially offset by a \$6 million decline in our provision for income taxes. During the six months ended September 27, 2014, net income declined by \$23 million as compared to the six months ended September 28, 2013, primarily due to a \$41 million decrease in operating income, partially offset by a \$17 million decline in our provision for income taxes. The lower income tax provisions for the three-month and six-month periods ended September 27, 2014 were primarily driven by lower operating income, coupled with the declines in our reported effective tax rates of 100 basis points and 90 basis points, respectively.

Net income per diluted share increased during the three months ended September 27, 2014, as the effect of slightly lower net income was more than offset by lower weighted-average diluted shares outstanding during the current fiscal quarter. Net income per diluted share for the six months ended September 27, 2014 declined due to lower net income, partially offset by lower weighted-average diluted shares outstanding. The declines in the weighted-average diluted shares outstanding were primarily driven by our share repurchases over the last twelve months.

##### Financial Condition and Liquidity

We ended the second quarter of Fiscal 2015 in a net cash and investments position (cash and cash equivalents plus short-term and non-current investments, less total debt) of \$683 million, compared to \$987 million as of the end of Fiscal 2014. The decline in our net cash and investments position was primarily due to our use of cash to support Class A common stock repurchases of \$281 million, including withholdings in satisfaction of tax obligations for

stock-based compensation awards, capital expenditures

of \$176 million, and dividend payments of \$79 million, partially offset by our operating cash flows of \$275 million during the six months ended September 27, 2014.

We generated \$275 million of cash from operations during the six months ended September 27, 2014, compared to \$220 million during the six months ended September 28, 2013. The increase in operating cash flows primarily relates to an increase in our net income before non-cash items, as well as net favorable change related to our operating assets and liabilities, including working capital, during the six months ended September 27, 2014 compared to the prior fiscal year period.

Our equity declined to \$4.029 billion as of September 27, 2014 from \$4.034 billion as of March 29, 2014, primarily due to our Class A common stock repurchases and dividends declared, largely offset by our comprehensive income and the net impact of stock-based compensation arrangements during the six months ended September 27, 2014.

#### Recent Developments

##### Australia and New Zealand Licensed Operations Acquisition

In July 2013, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in Australia and New Zealand (the "Australia and New Zealand Business") from a licensed to a wholly-owned operation, we acquired certain net assets from Oroton Group/PRL Australia ("Oroton") in exchange for an aggregate payment of approximately \$15 million (the "Australia and New Zealand Licensed Operations Acquisition"). Oroton was our licensee for the Australia and New Zealand Business. The operating results of the acquired business have been consolidated in our operating results beginning on July 1, 2013.

##### Chaps Menswear License Acquisition

In April 2013, in connection with the transition of the North American Chaps-branded men's sportswear business (the "Chaps Menswear Business") from a licensed to a wholly-owned operation, we entered into an agreement with The Warnaco Group, Inc. ("Warnaco"), a subsidiary of PVH Corp. ("PVH"), to acquire certain net assets in exchange for an aggregate payment of approximately \$18 million (the "Chaps Menswear License Acquisition"). Warnaco was our licensee for the Chaps Menswear Business. The operating results of the Chaps Menswear Business have been consolidated in our operating results beginning on April 10, 2013.

##### Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results for the three-month and six-month periods ended September 27, 2014 and September 28, 2013 has been affected by certain events, including:

pretax restructuring and other charges of \$2 million and \$6 million recorded during the three-month and six-month periods ended September 27, 2014, respectively, compared to \$2 million during both of the three-month and six-month periods ended September 28, 2013 (see Note 9 to the accompanying unaudited interim consolidated financial statements); and

our acquisitions of previously licensed businesses, including the Chaps Menswear License Acquisition in April 2013, which resulted in a \$16 million gain recorded during the first quarter of Fiscal 2014, and the Australia and New Zealand Licensed Operations Acquisition in July 2013 (see Note 5 to the accompanying unaudited interim consolidated financial statements).

Since we are a global company, the comparability of our operating results reported in U.S. dollars are also affected by foreign currency exchange rate fluctuations because the underlying currencies in which we transact change in value over time compared to the U.S. dollar. These rate fluctuations can have a significant effect on our reported results. As such, in addition to financial measures prepared in accordance with generally accepted accounting principles ("GAAP"), our discussions often contain references to constant currency measures, which are calculated by translating the current-year and prior-year reported amounts into comparable amounts using a single foreign exchange rate for each currency. We present constant currency financial information, which is a non-GAAP financial measure, as a supplement to our reported operating results. We use constant currency information to provide a framework to assess how our businesses performed excluding the effects of foreign currency exchange rate fluctuations. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our businesses. The constant currency performance measures should be viewed in addition to, and not in lieu of or superior to, our operating performance measures calculated in accordance with U.S. GAAP.



Our "Results of Operations" discussion that follows includes the significant changes in operating results arising from these items affecting comparability. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users should consider the types of events and transactions that have affected operating trends.

## RESULTS OF OPERATIONS

Three Months Ended September 27, 2014 Compared to Three Months Ended September 28, 2013

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Three Months Ended		\$	% / bps	
	September 27, 2014	September 28, 2013			
	(millions, except per share data)				
Net revenues	\$1,994	\$1,915	\$79	4.1	%
Cost of goods sold <sup>(a)</sup>	(862)	(831)	(31)	3.6	%
Gross profit	1,132	1,084	48	4.5	%
Gross profit as % of net revenues	56.8	% 56.6	%	20	bps
Selling, general, and administrative expenses <sup>(a)</sup>	(837)	(777)	(60)	7.8	%
SG&A expenses as % of net revenues	42.0	% 40.6	%	140	bps
Amortization of intangible assets	(7)	(10)	3	(33.5)	)%
Restructuring and other charges	(2)	(2)	—	NM	
Operating income	286	295	(9)	(3.0)	)%
Operating income as % of net revenues	14.4	% 15.4	%	(100)	bps)
Foreign currency gains (losses)	(3)	1	(4)	NM	
Interest expense	(5)	(7)	2	(32.5)	)%
Interest and other income, net	3	2	1	13.7	%
Equity in losses of equity-method investees	(3)	(3)	—	NM	
Income before provision for income taxes	278	288	(10)	(3.8)	)%
Provision for income taxes	(77)	(83)	6	(7.2)	)%
Effective tax rate <sup>(b)</sup>	27.8	% 28.8	%	(100)	bps)
Net income	\$201	\$205	\$(4)	(2.4)	)%
Net income per common share:					
Basic	\$2.27	\$2.28	\$(0.01)	(0.4)	)%
Diluted	\$2.25	\$2.23	\$0.02	0.9	%

<sup>(a)</sup> Includes total depreciation expense of \$65 million and \$56 million for the three-month periods ended September 27, 2014 and September 28, 2013, respectively.

<sup>(b)</sup> 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 increased by \$79 million, or 4.1%, to \$1.994 billion for the three months ended September 27, 2014, from \$1.915 billion for the three months ended September 28, 2013. On a constant currency basis, net revenues increased by \$71 million, or 3.7%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period, are provided below:

	Three Months Ended			% Change		
	September 27, 2014	September 28, 2013	\$ Change	As Reported	Constant Currency	
Net Revenues:						
Wholesale	\$943	\$928	\$15	1.7	% 1.7	%
Retail	1,006	944	62	6.5	% 5.8	%
Licensing	45	43	2	1.9	% 1.9	%
Total net revenues	\$1,994	\$1,915	\$79	4.1	% 3.7	%

Wholesale net revenues — Net revenues increased \$15 million, or 1.7% for the three months ended September 27, 2014 as compared to the three months ended September 28, 2013, with relatively consistent year-over-year revenue increases across all of our three major geographies, primarily driven by higher womenswear revenues, partially offset by lower menswear revenues.

Retail net revenues — Net revenues increased \$62 million, or 6.5%, for the three months ended September 27, 2014 as compared to the three months ended September 28, 2013, including a \$7 million increase in net revenues due to net favorable foreign currency effects, primarily related to the strengthening of the Euro and the South Korean Won, partially offset by the weakening of the Japanese Yen against the U.S. Dollar. On a constant currency basis, net revenues increased by \$55 million, or 5.8%.

The \$62 million net increase in Retail net revenues was driven by:

a \$54 million, or a 29%, net increase in non-comparable store sales, including net favorable foreign currency effects of \$6 million. On a constant currency basis, non-comparable store sales increased by \$48 million, or 26%, primarily driven by new global store openings and the expansion of our e-commerce operations within the past twelve months, which more than offset the impact of store closings; and

an \$8 million, or a 1%, net increase in consolidated comparable store sales during the three months ended September 27, 2014, including net favorable foreign currency effects of \$1 million. On a constant currency basis, comparable store sales increased by \$7 million, or 1%, primarily due to higher revenues from our Ralph Lauren e-commerce operations, partially offset by lower revenues from certain retail stores and concession shops. Comparable store sales related to our e-commerce operations increased by approximately 16% on a reported and a constant currency basis and had a favorable impact on our total comparable store sales of approximately 2% to 3% on a reported and a constant currency basis. Our consolidated comparable store sales excluding e-commerce declined between 1% and 2% on a reported and a constant currency basis.

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 closed 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 their newly renovated state for at least one full fiscal year. Sales from our e-commerce sites are included within comparable store sales for those geographies that have been serviced by the related e-commerce site for at least one full fiscal year. Consolidated comparable store sales information includes our Ralph Lauren stores (including concession-based shop-within-shops), factory stores, Club Monaco stores and e-commerce sites, and certain of our Ralph Lauren e-commerce sites. We use an integrated omni-channel strategy to operate our retail business, in which our e-commerce operations are interdependent with our physical stores.

Our global average store count increased by 21 stores and concession shops during the three months ended September 27, 2014 compared with the three months ended September 28, 2013, primarily due to new global store openings, partially offset by store closures. The following table details our retail store and e-commerce presence as of the periods presented:

	September 27, 2014	September 28, 2013
Stores:		
Freestanding stores	448	416
Concession shops	494	523
Total stores	942	939
E-commerce Sites:		
North American sites <sup>(a)</sup>	3	3
European sites <sup>(b)</sup>	3	3
Asian sites <sup>(c)</sup>	3	2
Total e-commerce sites	9	8

<sup>(a)</sup> Includes www.RalphLauren.com and www.ClubMonaco.com (servicing the U.S.) and www.ClubMonaco.ca (servicing Canada).

<sup>(b)</sup> Includes www.RalphLauren.co.uk (servicing the United Kingdom), www.RalphLauren.fr (servicing Belgium, France, Italy, Luxembourg, the Netherlands, Portugal, and Spain), and www.RalphLauren.de (servicing Germany and Austria).

<sup>(c)</sup> Includes www.RalphLauren.co.jp (servicing Japan), www.RalphLauren.co.kr (servicing South Korea), and www.RalphLauren.asia launched in June 2014 (servicing Australia, Hong Kong, Macau, Malaysia, New Zealand, and Singapore).

Licensing revenues — The \$2 million increase in net revenues is primarily attributable to increased product-licensing revenues.

Gross Profit. Gross profit increased by \$48 million, or 4.5%, to \$1.132 billion for the three months ended September 27, 2014, from \$1.084 billion for the three months ended September 28, 2013. Gross profit as a percentage of net revenues increased by 20 basis points to 56.8% for the three months ended September 27, 2014, from 56.6% for the three months ended September 28, 2013. This increase is primarily attributable to favorable channel and geographic mix as compared to the prior year period.

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.

Selling, General, and Administrative Expenses. SG&A expenses primarily include compensation and benefits, advertising and marketing, distribution, bad debt, information technology, facilities, legal, and other costs associated with finance and administration. SG&A expenses increased by \$60 million, or 7.8%, to \$837 million for the three months ended September 27, 2014, from \$777 million for the three months ended September 28, 2013. This increase included a net unfavorable foreign currency effect of approximately \$4 million, primarily related to the strengthening of the Euro and the South Korean Won, partially offset by the weakening of the Japanese Yen, against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 42.0% in the three months ended September 27, 2014, from 40.6% in the three months ended September 28, 2013. The 140 basis point increase was primarily due to the increase in operating expenses associated with the growth of our retail businesses (which typically carry higher operating expense margins), increased investments in our stores, facilities and infrastructure, increased advertising and marketing costs, and new business initiatives. These increases were partially offset by our operating leverage on higher net revenues and operational discipline.





The \$60 million increase in SG&A expenses was driven by the following:

	Three Months Ended September 27, 2014 Compared to Three Months Ended September 28, 2013 (millions)
SG&A expense category:	
Compensation-related expenses <sup>(a)</sup>	\$28
Marketing, advertising and promotional expenses	18
Depreciation expense	9
Rent and occupancy expenses	7
Other	(2)
Total change in SG&A expenses	\$60

<sup>(a)</sup> Primarily due to increased salaries and related expenses to support our retail business growth.

During the remainder of Fiscal 2015, we continue to expect a certain amount of operating expense deleverage due to continued investment in our long-term strategic growth initiatives, including global retail store expansion, the introduction of the Polo store concept around the world, department store renovations, and continued investment in our infrastructure.

**Amortization of Intangible Assets.** Amortization of intangible assets decreased by \$3 million, or 33.5%, to \$7 million for the three months ended September 27, 2014, from \$10 million for the three months ended September 28, 2013. This decrease was primarily due to amortization of the licensed trademark intangible asset acquired in April 2013 in connection with the Chaps Menswear License Acquisition, which was fully amortized in Fiscal 2014.

**Restructuring and Other Charges.** During the three months ended September 27, 2014, we recorded restructuring charges of \$2 million, primarily related to severance and benefit costs associated with our retail and wholesale operations. The \$2 million in restructuring charges for the three months ended September 28, 2013 were primarily comprised of severance and benefit costs associated with our corporate operations (see Note 9 to the accompanying unaudited interim consolidated financial statements).

**Operating Income.** Operating income decreased by \$9 million, or 3.0%, to \$286 million for the three months ended September 27, 2014, from \$295 million for the three months ended September 28, 2013. Operating income as a percentage of net revenues decreased 100 basis points to 14.4% for the three months ended September 27, 2014, from 15.4% for the three months ended September 28, 2013. The overall decline in operating income as a percentage of net revenues was primarily driven by the increase in SG&A as a percentage of net revenues, partially offset by the increase in our gross profit margin, as previously discussed.

During the fourth quarter of Fiscal 2014, we changed the manner in which we allocate certain costs to our reportable segments. All prior period segment information has been recast and is presented below on a comparable basis. See Note 22 to our Fiscal 2014 10-K for further discussion.

Operating income and margin for each of our three reportable segments are provided below:

	Three Months Ended				\$	Margin
	September 27, 2014	September 28, 2013	Operating	Operating		
Segment:	Operating	Operating	Income	Margin	(millions)	(millions)
	Income	Margin	(millions)			
Wholesale	\$247	26.2%	\$243	26.2%	\$4	0 bps
Retail	137	13.6%	135	14.4%	2	(80 bps)
Licensing	42	92.5%	40	92.2%	2	30 bps
	426		418		8	
Unallocated corporate expenses	(138 )		(121 )		(17 )	