

RALPH LAUREN CORP  
Form 10-Q  
November 09, 2011

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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 October 1, 2011**  
**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)*

**13-2622036**

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

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

*(Address of principal executive offices)*

**10022**

*(Zip Code)*

**(212) 318-7000**

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

**Polo Ralph Lauren Corporation**

*(Former name, if changed since last report)*

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 November 4, 2011, 61,298,249 shares of the registrant's Class A common stock, \$.01 par value, and 30,831,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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**RALPH LAUREN CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>October 1, 2011</b>	<b>April 2, 2011</b>
	<b>(millions) (unaudited)</b>	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 407.7	\$ 453.0
Short-term investments	477.9	593.9
Accounts receivable, net of allowances of \$248.2 million and \$230.9 million	633.5	442.8
Inventories	988.4	702.1
Income tax receivable	5.9	57.8
Deferred tax assets	103.6	92.1
Prepaid expenses and other	156.9	136.3
<b>Total current assets</b>	<b>2,773.9</b>	<b>2,478.0</b>
Non-current investments	93.8	83.6
Property and equipment, net	833.5	788.8
Deferred tax assets	75.5	76.7
Goodwill	1,024.5	1,016.3
Intangible assets, net	378.6	387.7
Other assets	148.6	150.0
<b>Total assets</b>	<b>\$ 5,328.4</b>	<b>\$ 4,981.1</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 100.0	\$
Accounts payable	190.0	141.3
Income tax payable	123.1	8.9
Accrued expenses and other	709.3	681.8
<b>Total current liabilities</b>	<b>1,122.4</b>	<b>832.0</b>
Long-term debt	273.7	291.9
Non-current liability for unrecognized tax benefits	160.2	156.4
Other non-current liabilities	388.2	396.1
Commitments and contingencies (Note 13)		
<b>Total liabilities</b>	<b>1,944.5</b>	<b>1,676.4</b>
<b>Equity:</b>		
Class A common stock, par value \$.01 per share; 90.5 million and 89.5 million shares issued; 61.3 million and 63.7 million shares outstanding	0.9	0.9

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Class B common stock, par value \$.01 per share; 30.8 million shares issued and outstanding	0.3	0.3
Additional paid-in-capital	1,529.4	1,444.7
Retained earnings	3,816.0	3,435.3
Treasury stock, Class A, at cost (29.2 million and 25.8 million shares)	( 2,210.1)	(1,792.3)
Accumulated other comprehensive income	247.4	215.8
<b>Total equity</b>	<b>3,383.9</b>	<b>3,304.7</b>
<b>Total liabilities and equity</b>	<b>\$ 5,328.4</b>	<b>\$ 4,981.1</b>

See accompanying notes.

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**RALPH LAUREN CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	(millions, except per share data)			
	(unaudited)			
Net sales	\$ 1,856.8	\$ 1,485.6	\$ 3,343.3	\$ 2,601.1
Licensing revenue	47.8	46.5	87.7	84.3
<b>Net revenues</b>	<b>1,904.6</b>	<b>1,532.1</b>	<b>3,431.0</b>	<b>2,685.4</b>
Cost of goods sold <sup>(a)</sup>	(826.0)	(644.2)	(1,390.9)	(1,085.3)
<b>Gross profit</b>	<b>1,078.6</b>	<b>887.9</b>	<b>2,040.1</b>	<b>1,600.1</b>
<b>Other costs and expenses:</b>				
Selling, general and administrative expenses <sup>(a)</sup>	(720.3)	(574.3)	(1,392.6)	(1,106.3)
Amortization of intangible assets	(7.5)	(6.2)	(14.6)	(12.2)
<b>Total other costs and expenses</b>	<b>(727.8)</b>	<b>(580.5)</b>	<b>(1,407.2)</b>	<b>(1,118.5)</b>
<b>Operating income</b>	<b>350.8</b>	<b>307.4</b>	<b>632.9</b>	<b>481.6</b>
Foreign currency gains (losses)	1.8	2.2	(2.0)	1.4
Interest expense	(6.4)	(4.4)	(12.5)	(8.9)
Interest and other income, net	2.4	1.6	6.6	3.4
Equity in income (loss) of equity-method investees	(1.1)	(0.8)	(3.0)	(2.0)
<b>Income before provision for income taxes</b>	<b>347.5</b>	<b>306.0</b>	<b>622.0</b>	<b>475.5</b>
Provision for income taxes	(114.0)	(100.8)	(204.4)	(149.5)
<b>Net income attributable to RLC</b>	<b>\$ 233.5</b>	<b>\$ 205.2</b>	<b>\$ 417.6</b>	<b>\$ 326.0</b>
<b>Net income per common share attributable to RLC:</b>				
Basic	\$ 2.53	\$ 2.15	\$ 4.49	\$ 3.38
Diluted	\$ 2.46	\$ 2.09	\$ 4.35	\$ 3.30
<b>Weighted average common shares outstanding:</b>				
Basic	92.2	95.5	93.1	96.4
Diluted	94.9	98.0	95.9	98.9
Dividends declared per share	\$ 0.20	\$ 0.10	\$ 0.40	\$ 0.20
<sup>(a)</sup> Includes total depreciation expense of:	\$ (48.5)	\$ (40.2)	\$ (96.8)	\$ (80.2)

See accompanying notes.



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

	<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>
	<b>(millions)</b>	
	<b>(unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 417.6	\$ 326.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	111.4	92.4
Deferred income tax benefit	(13.7)	(22.1)
Equity in losses of equity-method investees, net of dividends received	3.0	2.0
Non-cash stock-based compensation expense	34.0	30.8
Excess tax benefits from stock-based compensation arrangements	(21.2)	(7.0)
Other non-cash charges (benefits), net	0.6	(3.7)
Changes in operating assets and liabilities:		
Accounts receivable	(195.8)	(138.1)
Inventories	(284.4)	(219.2)
Accounts payable and accrued liabilities	32.7	113.4
Income tax receivables and payables	184.9	23.8
Deferred income	(8.6)	(11.6)
Other balance sheet changes	23.0	37.3
<b>Net cash provided by operating activities</b>	<b>283.5</b>	<b>224.0</b>
<b>Cash flows from investing activities:</b>		
Acquisitions and ventures, net of cash acquired and purchase price settlements	(7.9)	(21.4)
Purchases of investments	(792.9)	(567.7)
Proceeds from sales and maturities of investments	880.3	667.7
Capital expenditures	(92.4)	(93.8)
Change in restricted cash deposits	0.3	(3.2)
<b>Net cash used in investing activities</b>	<b>(12.6)</b>	<b>(18.4)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facilities	107.7	
Repayments of borrowings on credit facilities	(7.7)	
Payments of capital lease obligations	(4.2)	(3.9)
Payments of dividends	(37.4)	(19.4)
Repurchases of common stock, including shares surrendered for tax withholdings	(417.8)	(347.7)
Proceeds from exercise of stock options	29.5	21.9
Excess tax benefits from stock-based compensation arrangements	21.2	7.0
Payment on interest rate swap termination	(7.6)	
Other financing activities	0.2	(0.5)

<b>Net cash used in financing activities</b>	(316.1)	(342.6)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	9.8
Net decrease in cash and cash equivalents	(45.3)	(127.2)
Cash and cash equivalents at beginning of period	453.0	563.1
Cash and cash equivalents at end of period	\$ 407.7	\$ 435.9

See accompanying notes.

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**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 men s, women s and children s apparel, accessories, fragrances and home furnishings. RLC s long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. RLC s brand names include *Polo Ralph Lauren*, *Purple Label*, *Ralph Lauren Collection*, *Black Label*, *Blue Label*, *Lauren by Ralph Lauren*, *RRL*, *RLX*, *Ralph Lauren Denim & Supply*, *Rugby Ralph Lauren*, *Ralph Lauren Childrenswear*, *American Living*, *Chaps* and *Club Monaco*, 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 and specialty stores located throughout the U.S., Canada, Europe, Asia and South America. The Company also sells directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, Asia and South America; through concessions-based shop-within-shops located primarily in Asia; and through its retail e-commerce channel, which includes domestic sites located at [www.RalphLauren.com](http://www.RalphLauren.com) and [www.Rugby.com](http://www.Rugby.com) and its United Kingdom site located at [www.RalphLauren.co.uk](http://www.RalphLauren.co.uk). In September 2011, the Company expanded its e-commerce presence by launching a new retail e-commerce site in France located at [www.RalphLauren.fr](http://www.RalphLauren.fr), which also ships products to Belgium, Luxembourg and the Netherlands. The Company also licenses the right to unrelated third parties to use its various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods.

On August 11, 2011, at the Annual Meeting of Stockholders, the Company s stockholders approved an amendment to the Company s Amended and Restated Certificate of Incorporation to change the Company s name from Polo Ralph Lauren Corporation to Ralph Lauren Corporation. The Company s name change became effective on August 15, 2011.

**2. Basis of Presentation**

***Interim Financial Statements***

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

The consolidated balance sheet data as of April 2, 2011 is derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K filed with the SEC for the fiscal year ended April 2, 2011 (the Fiscal 2011 10-K ), which should be read in conjunction with these interim unaudited consolidated financial

statements. Reference is made to the Fiscal 2011 10-K for a complete set of financial statements.

***Basis of Consolidation***

The unaudited interim consolidated financial statements present the financial position, results of operations and cash flows of the Company, including all entities in which the Company has a controlling financial interest and

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**RALPH LAUREN CORPORATION**

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

is determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

***Fiscal Year***

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2012 will end on March 31, 2012 and will be a 52-week period ( Fiscal 2012 ). Fiscal year 2011 ended on April 2, 2011 and also reflected a 52-week period ( Fiscal 2011 ). Accordingly, the second quarter of Fiscal 2012 ended on October 1, 2011 and was a 13-week period. The second quarter of Fiscal 2011 ended on October 2, 2010 and also was a 13-week period.

Prior to the first quarter of Fiscal 2012, the financial position and operating results of the Company's Japanese subsidiary, Ralph Lauren Corporation Japan (formerly Polo Ralph Lauren Kabushiki Kaisha) were reported on a one-month lag. During the first quarter of Fiscal 2012, the Company's Japanese subsidiary changed its fiscal year to conform to the Company's fiscal-year basis. The previously existing reporting lag was eliminated as the lag was no longer required to achieve a timely consolidation due to the Company's investments in technology to enhance its financial statement close process. The Company believes this change is preferable as it resulted in contemporaneous reporting of the subsidiary's operating results. The Company has not retrospectively applied this change in accounting principle as the effect was not material to its previously reported annual and interim consolidated financial statements. The cumulative effect of this change was reflected within Interest and other income, net in the Company's consolidated statement of operations, and increased the Company's pretax income and net income by \$1.0 million and \$0.6 million, respectively, for the six months ended October 1, 2011.

***Use of Estimates***

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

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

***Reclassifications***

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

***Seasonality of Business***

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales generated in its second and fourth quarters and higher retail sales generated in its second and third quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school and holiday

shopping periods in the Retail segment. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended October 1, 2011 are not necessarily indicative of the results and cash flows that may be expected for the full Fiscal 2012.

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**RALPH LAUREN CORPORATION**

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

**3. Summary of Significant Accounting Policies**

***Revenue Recognition***

Revenue is recognized across all segments of the business when there is persuasive evidence of an arrangement, delivery has occurred, price has been fixed or is determinable and 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 allowances, 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 a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Retail store and concessions-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 retail Internet sites is recognized upon delivery and receipt of the shipment by 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 a gift card being redeemed by a customer is remote and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property.

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

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

***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 consolidated statements of operations. Shipping costs were \$10.1 million and \$18.3 million during the three-month and six-month periods ended October 1, 2011, respectively, and \$7.8 million and \$14.0 million during the three-month and six-month periods ended October 2, 2010, 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 \$35.0 million and \$65.5 million during the three-month and six-month periods ended October 1, 2011, respectively, and \$26.2 million and \$49.0 million during the three-month and six-month periods ended October 2, 2010, 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 the net income applicable to common shares after preferred dividend requirements, if any, by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the effects of outstanding stock options, restricted stock, restricted stock units and any other potentially dilutive financial instruments, only in the periods in which such effect is dilutive under the treasury stock method.



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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	(millions)			
Basic	92.2	95.5	93.1	96.4
Dilutive effect of stock options, restricted stock and restricted stock units	2.7	2.5	2.8	2.5
Diluted shares	94.9	98.0	95.9	98.9

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding restricted stock units that are issuable only upon the achievement of certain service and/or performance goals. Performance-based restricted stock units are included in the computation of diluted shares only to the extent that the underlying performance conditions (a) are satisfied prior to the end of the reporting period or (b) would be satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of October 1, 2011 and October 2, 2010, there was an aggregate of approximately 0.7 million and 1.7 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and the contingent vesting of performance-based restricted stock units that were excluded from the diluted share calculations.

***Accounts Receivable***

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

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

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

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

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	(millions)			
Beginning reserve balance	\$ 197.1	\$ 162.1	\$ 213.2	\$ 186.0
Amount charged against revenue to increase reserve	169.1	135.1	282.1	228.6
Amount credited against customer accounts to decrease reserve	(129.9)	(101.6)	(261.7)	(213.3)
Foreign currency translation	(5.3)	6.5	(2.6)	0.8
Ending reserve balance	\$ 231.0	\$ 202.1	\$ 231.0	\$ 202.1

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

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	(millions)			
Beginning reserve balance	\$ 17.7	\$ 19.8	\$ 17.7	\$ 20.1
Amount recorded to expense to increase reserve <sup>(a)</sup>	0.6	0.5	0.9	1.3
Amount written off against customer accounts to decrease reserve	(0.5)	(1.1)	(1.1)	(1.3)
Foreign currency translation	(0.6)	0.9	(0.3)	
Ending reserve balance	\$ 17.2	\$ 20.1	\$ 17.2	\$ 20.1

<sup>(a)</sup> Amounts charged to bad debt expense are included within SG&A expenses in the unaudited interim consolidated statements of operations.

***Concentration of Credit Risk***

The Company sells its wholesale merchandise primarily to major department and specialty stores across the U.S., Canada, Europe, South America and Asia, 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 four key wholesale customers that generate significant sales volume. For Fiscal 2011, these customers in the aggregate contributed approximately 40% of all wholesale revenues. Further, as of October 1, 2011, the Company's four key wholesale customers represented approximately 30% of gross accounts receivable.

***Derivative Financial Instruments***

The Company records all derivative instruments on the consolidated balance sheets at fair value. In addition, for derivative instruments that qualify for hedge accounting, the effective portion of changes in their fair value is either (a) offset against the changes in fair value of the hedged assets, liabilities or firm commitments through earnings or (b) recognized in equity as a component of accumulated other comprehensive income (loss) ( AOCI )

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**RALPH LAUREN CORPORATION**

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

until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows, respectively.

Each derivative instrument entered into by the Company which qualifies for hedge accounting is expected to be highly effective at reducing the risk associated with the exposure being hedged. For each derivative that is designated as a hedge, the Company formally documents the related risk management objective and strategy, including the identification of the hedging instrument, the hedged item and the risk exposure, as well as how effectiveness is to be assessed prospectively and retrospectively. To assess the effectiveness of derivative instruments that are designated as hedges, the Company uses non-statistical methods, including the dollar-offset method, which compare the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a hedging instrument has been and is expected to continue to be effective at achieving offsetting changes in fair value or cash flows is assessed and documented by the Company on at least a quarterly basis.

To the extent that a derivative contract designated as a cash flow hedge is not considered to be effective, any changes in fair value relating to the ineffective portion are immediately recognized in earnings within foreign currency gains (losses). If it is determined that a derivative has not been highly effective, and will continue not to be highly effective at hedging the designated exposure, hedge accounting is discontinued. If a hedge relationship is terminated, the change in fair value of the derivative previously recorded in AOCI is recognized when the hedged item affects earnings consistent with the original hedging strategy, unless the forecasted transaction is no longer probable of occurring in which case the accumulated amount is immediately recognized in earnings.

As a result of the use of derivative instruments, the Company is exposed to the risk that counterparties to derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon their credit ratings and certain other financial factors, adhering to established limits for credit exposure. The Company's established policies and procedures for mitigating credit risk on derivative transactions include continually reviewing and assessing the creditworthiness of counterparties.

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.

*Forward Foreign Currency Exchange Contracts*

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of its international operations, intercompany contributions to fund certain marketing efforts of its international operations, interest payments made in connection with outstanding debt and other foreign currency-denominated operational cash flows. To the extent foreign currency exchange contracts designated as cash flow hedges at hedge inception are highly effective in offsetting the change in the value of the hedged item, the related gains (losses) are initially deferred in equity as a component of AOCI and subsequently recognized in the consolidated statements of operations as follows:

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

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

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

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**RALPH LAUREN CORPORATION**

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

*Hedge of a Net Investment in a Foreign Operation*

Changes in the fair value of a derivative instrument or a non-derivative financial instrument (such as debt) that is designated as a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment, to the extent it is effective as a hedge. In assessing the effectiveness of a non-derivative financial instrument that has been designated as a hedge of a net investment, the Company uses the spot rate method of accounting to value foreign currency exchange rate changes in both its foreign subsidiaries and the financial instrument. If the notional amount of the financial instrument designated as a hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness is recognized immediately in earnings within foreign currency gains (losses). To the extent the financial instrument remains effective, changes in its fair value are recorded in equity as a component of AOCI until the sale or liquidation of the hedged net investment.

*Undesignated Hedges*

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

See Note 12 for further discussion of the Company's derivative financial instruments.

For a summary of all of the Company's significant accounting policies, refer to Note 3 to the audited consolidated financial statements included in the Company's Fiscal 2011 10-K.

**4. Recently Issued Accounting Standards**

*Goodwill Impairment Testing*

In September 2011, the Financial Accounting Standards Board ( FASB ) issued revised guidance for goodwill impairment testing as Accounting Standards Update ( ASU ) No. 2011-08, Testing Goodwill for Impairment ( ASU 2011-08 ). ASU 2011-08 simplifies goodwill impairment testing by providing entities with the option of performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of such assessment may be used as a basis for determining whether it is necessary to perform the two-step quantitative impairment test currently required under Accounting Standards Codification ( ASC ) topic 350, Intangible Goodwill and Other. ASU 2011-08 is effective for annual and interim goodwill impairment tests beginning in Fiscal 2013. The application of ASU 2011-08 is not expected to have an impact on the Company's consolidated financial statements.

*Presentation of Comprehensive Income*

In June 2011, the FASB issued revised guidance on the presentation of comprehensive income as ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income ( ASU 2011-05 ). ASU 2011-05 eliminates the option to present the components of other comprehensive income ( OCI ) as part of the consolidated statement of equity and provides two alternatives for presenting the components of net income and OCI, either: (i) in a single continuous statement of comprehensive income or (ii) in two separate but consecutive financial statements, consisting of an

income statement followed by a separate statement of comprehensive income. Additionally, items that are reclassified from AOCI to net income must be presented on the face of the financial statements. ASU 2011-05 requires retrospective application, and is effective for the Company as of the beginning of fiscal year 2013. The application of ASU 2011-05 is not expected to have a significant impact on the Company's consolidated financial statements, but will result in a change in the presentation of the Company's consolidated statements of operations and equity.



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

In May 2011, the FASB issued new guidance to improve and align fair value measurement and disclosure requirements as ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amends and clarifies certain existing fair value measurements guidance, including limiting the highest and best use concept to nonfinancial assets, permitting certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured on a net basis and providing guidance on the use of premiums and discounts. ASU 2011-04 also expands the disclosure requirements for Level 3 fair value measurements, including for transfers between Levels 1 and 3 and Levels 2 and 3 of the fair value hierarchy and in instances where the use of a nonfinancial asset differs from its highest and best use. In addition, ASU 2011-04 requires disclosure of the fair value hierarchy level for financial instruments not measured at fair value but for which disclosure of fair value is required. ASU 2011-04 requires prospective application, and is effective for the Company beginning in the fourth quarter of Fiscal 2012. The application of ASU 2011-04 is expected to expand the Company's quarterly and annual disclosures, but will not have an impact 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 August 2010, the FASB issued an exposure draft, Leases (the Exposure Draft), which would replace the existing guidance in Accounting Standards Codification (ASC) topic 840, Leases. Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under all leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Subsequent to the end of the related comment period, the FASB made several amendments to the exposure draft, including revising the definition of the lease term to include the non-cancelable lease term plus only those option periods for which there is significant economic incentive for the lessee to extend or not terminate the lease. The FASB also redefined the initial lease liability to be recorded on the Company's balance sheet to contemplate only those variable lease payments that are in substance fixed. In July 2011, the FASB re-exposed the proposed lease standard for comment, with a final standard expected to be issued by mid-2012. When and if 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 will have on its consolidated financial statements at this time.

**5. Acquisitions*****South Korea Licensed Operations Acquisition***

On January 1, 2011, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in South Korea (the Ralph Lauren South Korea business) from a licensed to a wholly owned operation, the Company acquired certain net assets (including inventory) and employees from Doosan Corporation (Doosan) in exchange for an initial payment of approximately \$25 million plus an additional aggregate payment of approximately \$22 million (the South Korea Licensed Operations Acquisition). Doosan was the Company's licensee for the Ralph Lauren South Korea business. The Company funded the South Korea Licensed Operations Acquisition with available cash on-hand. In conjunction with the South Korea Licensed Operations Acquisition, the Company also entered into a transition

services agreement with Doosan for the provision of certain financial and information systems services for a period of up to twelve months commencing on January 1, 2011.

The Company accounted for the South Korea Licensed Operations Acquisition as a business combination during the third quarter of Fiscal 2011. The acquisition cost of \$47 million (excluding transaction costs) has been allocated to the net assets acquired based on their respective fair values as follows: inventory of \$8 million; property and equipment of \$7 million; customer relationship intangible asset of \$26 million; other net assets of \$3 million;

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

and non tax-deductible goodwill of \$3 million. Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets acquired. Transaction costs of \$3 million were expensed as incurred and classified within SG&A expenses in the consolidated statement of operations during Fiscal 2011.

The customer relationship intangible asset was valued using the excess earnings method. This approach discounts the estimated after tax cash flows associated with the existing base of customers as of the acquisition date, factoring in expected attrition of the existing customer base. The customer relationship intangible asset is being amortized over its estimated useful life of ten years.

The operating results for the Ralph Lauren South Korea business have been consolidated in the Company's operating results commencing on January 1, 2011.

**6. Inventories**

Inventories consist of the following:

	<b>October 1, 2011</b>	<b>April 2, 2011 (millions)</b>	<b>October 2, 2010</b>
Raw materials	\$ 6.1	\$ 7.5	\$ 3.8
Work-in-process	1.1	1.8	0.5
Finished goods	981.2	692.8	728.2
Total inventories	\$ 988.4	\$ 702.1	\$ 732.5

**7. Property and Equipment**

Property and equipment, net, consist of the following:

	<b>October 1, 2011</b>	<b>April 2, 2011 (millions)</b>
Land and improvements	\$ 9.9	\$ 9.9
Buildings and improvements	118.4	115.3
Furniture and fixtures	551.0	490.9
Machinery and equipment	152.3	144.4
Capitalized software	185.4	165.4
Leasehold improvements	876.5	826.3
Construction in progress	46.1	58.1

	1,939.6	1,810.3
Less: accumulated depreciation	(1,106.1)	(1,021.5)
Property and equipment, net	\$ 833.5	\$ 788.8

Table of Contents**RALPH LAUREN CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consist of the following:

	<b>October 1, 2011</b>	<b>April 2, 2011</b>
	<b>(millions)</b>	
Accrued operating expenses	\$ 186.1	\$ 167.0
Accrued payroll and benefits	160.2	209.3
Accrued inventory	154.6	132.0
Accrued capital expenditures	60.3	8.6
Deferred income	51.8	46.8
Other taxes payable	56.2	66.2
Other accrued expenses and current liabilities	40.1	51.9
<b>Total accrued expenses and other current liabilities</b>	<b>\$ 709.3</b>	<b>\$ 681.8</b>

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

A reconciliation of the beginning and ending amounts of unrecognized tax benefits, excluding interest and penalties, for the three-month and six-month periods ended October 1, 2011 and October 2, 2010 is presented below:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	<b>(millions)</b>			
Unrecognized tax benefits beginning balance	\$ 127.0	\$ 111.5	\$ 125.0	\$ 96.2
Additions related to current period tax positions	0.9	1.3	1.9	2.1
Additions related to prior period tax positions	0.1	2.5	0.2	27.3
Reductions related to prior period tax positions	(0.3)	(0.1)	(0.7)	(8.2)
Additions (reductions) related to foreign currency translation	(2.9)	3.5	(1.6)	1.3
<b>Unrecognized tax benefits ending balance</b>	<b>\$ 124.8</b>	<b>\$ 118.7</b>	<b>\$ 124.8</b>	<b>\$ 118.7</b>

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. A reconciliation of the beginning and ending amounts of accrued interest and penalties related to unrecognized tax benefits for the three-month and six-month periods ended October 1, 2011 and October 2, 2010 is presented

below:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(millions)</b>			
Accrued interest and penalties beginning balance	\$ 33.8	\$ 30.2	\$ 31.4	\$ 29.8
Net additions charged to expense	2.1	1.7	4.1	4.7
Reductions related to prior period tax positions				(2.1)
Additions (reductions) related to foreign currency translation	(0.5)	0.7	(0.1)	0.2
Accrued interest and penalties ending balance	\$ 35.4	\$ 32.6	\$ 35.4	\$ 32.6

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**RALPH LAUREN CORPORATION**

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

The total amount of unrecognized tax benefits, including interest and penalties, was \$160.2 million as of October 1, 2011 and \$156.4 million as of April 2, 2011 and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$113.5 million as of October 1, 2011.

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

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

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

**10. Debt**

***Euro Debt***

As of October 1, 2011, the Company had outstanding 209.2 million principal amount of 4.5% notes due October 4, 2013 (the Euro Debt). The Company has the option to redeem all of the outstanding Euro Debt at any time at a redemption price equal to the principal amount plus a premium. The Company also has the option to redeem all of the outstanding Euro Debt at any time at par plus accrued interest in the event of certain developments involving U.S. tax law. Partial redemption of the Euro Debt is not permitted in either instance. In the event of a change of control of the Company, each holder of the Euro Debt has the option to require the Company to redeem the Euro Debt at its principal amount plus accrued interest. The indenture governing the Euro Debt (the Indenture) contains certain limited covenants that restrict the Company's ability, subject to specified exceptions, to incur liens or enter into a sale and leaseback transaction for any principal property. The Indenture does not contain any financial covenants.

As of October 1, 2011, the carrying value of the Euro Debt was \$273.7 million, compared to \$291.9 million as of April 2, 2011.

***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, also used to support the issuance of letters of credit (the Global Credit Facility). 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 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.

In August 2011, the Company borrowed \$100.0 million under the Global Credit Facility to be used for general corporate purposes. These borrowings have been classified as short-term debt in the Company's unaudited consolidated balance sheet as of October 1, 2011. The Company was also contingently liable for \$15.4 million of outstanding letters of credit, and the remaining availability under the Global Credit Facility was \$384.6 million as of October 1, 2011.



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

Subsequent to the end of the second quarter of Fiscal 2012, in November 2011, the Company repaid the \$100.0 million in borrowings outstanding under the Global Credit Facility.

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 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 8 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 October 1, 2011, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

*Chinese Credit Facility*

The Company also has an uncommitted credit facility in China that provides for a revolving line of credit of up to 70 million Chinese Renminbi (approximately \$11 million as of October 1, 2011) through February 9, 2012 (the Chinese Credit Facility). The Chinese Credit Facility is used to fund general working capital needs of the Company's operations in China. The borrowing availability under the Chinese Credit Facility is at the sole discretion of JPMorgan Chase Bank (China) Company Limited, Shanghai Branch (the Bank) and is subject to availability of the Bank's funds and satisfaction of certain regulatory requirements. Borrowings under the Chinese Credit Facility are guaranteed by RLC and bear interest at either (i) at least 90% of the short-term interest rate published by the People's Bank of China or (ii) a rate determined by the Bank at its discretion based on prevailing market conditions. The Chinese Credit Facility does not contain any financial covenants.

During the second quarter of Fiscal 2012, the Company repaid its previously outstanding borrowings under the Chinese Credit Facility, and there were no borrowings outstanding as of October 1, 2011.

Refer to Note 14 of the Fiscal 2011 10-K for detailed disclosure of the terms and conditions of the Company's debt and credit facilities.

**11. Fair Value Measurements**

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

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

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

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

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

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

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

	October 1, 2011	April 2, 2011 (millions)
<i>Financial assets carried at fair value:</i>		
Government and municipal bonds <sup>(a)</sup>	\$ 90.7	\$ 100.4
Corporate bonds <sup>(a)</sup>	82.3	
Variable rate municipal securities <sup>(a)</sup>	7.4	14.5
Auction rate securities <sup>(b)</sup>	2.4	2.3
Other securities <sup>(a)</sup>	0.4	0.5
Derivative financial instruments <sup>(b)</sup>	32.5	2.0
 Total	 \$ 215.7	 \$ 119.7
 <i>Financial liabilities carried at fair value:</i>		
Derivative financial instruments <sup>(b)</sup>	\$ 6.0	\$ 17.8
 Total	 \$ 6.0	 \$ 17.8

(a) Based on Level 1 measurements.

(b) Based on Level 2 measurements.

Certain of the Company's municipal bonds, and all of the Company's government bonds, corporate bonds and variable rate municipal securities are classified as available-for-sale securities and recorded at fair value in the Company's consolidated balance sheets based upon quoted market prices in active markets.

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

Derivative financial instruments are recorded at fair value in the Company's consolidated balance sheets and valued using a pricing model, primarily based on market observable external inputs including forward and spot rates for foreign currencies, which considers the impact of the Company's own credit risk, if any. Changes in counterparty credit risk are considered in the valuation of derivative financial instruments.

Cash and cash equivalents, restricted cash, investments classified as held-to-maturity and accounts receivable are recorded at carrying value, which approximates fair value. The Company's short-term debt, Euro Debt (adjusted for foreign currency fluctuations and the loss on the termination of the Company's preexisting interest rate swap, as discussed in Note 12) and investments in equity method investees are also reported at carrying value. However, other than differences in the fair value of the Company's Euro debt, the differences between fair value and carrying value were not significant as of October 1, 2011 or April 2, 2011.

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

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

assessed for impairment and, if applicable, written-down to and recorded at fair value, considering external market participant assumptions.

**12. Financial Instruments***Derivative Financial Instruments*

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

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded on its consolidated balance sheets as of October 1, 2011 and April 2, 2011:

<u>Derivative Instrument</u> <sup>(a)</sup>	Notional Amounts		Derivative Assets				Derivative Liabilities			
	October 1, 2011	April 2, 2011	Balance	Fair	Balance	Fair	Balance	Fair	Balance	Fair
			Sheet Line <sup>(b)</sup>	Value	Sheet Line <sup>(b)</sup>	Value	Sheet Line <sup>(b)</sup>	Value	Sheet Line <sup>(b)</sup>	Value
			October 1, 2011	April 2, 2011	October 1, 2011	April 2, 2011	October 1, 2011	April 2, 2011	October 1, 2011	April 2, 2011
			(millions)							
<u>Designated Hedges:</u>										
Inventory purchases	\$ 583.5	\$ 342.4	(c)	\$ 26.2	PP	\$ 1.1	AE	\$ (2.8)	AE	\$ (9.0)
I/C royalty payments	130.8	46.8	PP	3.7			(d)	(1.6)	AE	(3.0)
Interest payments	13.4	9.3			PP	0.4	AE	(0.8)		
Other	33.9	29.6	PP	0.6	PP	0.5	AE	(0.6)	AE	(0.2)
Euro Debt		295.5							ONCL	(3.0)
Euro Debt	273.7	291.9					LTD	(292.9) <sup>(e)</sup>	LTD	(305.0)
Designated Hedges	\$ 1,035.3	\$ 1,015.5		\$ 30.5		\$ 2.0		\$ (298.7)		\$ (321.0)
<u>Designated Hedges:</u>										
Other	\$ 54.9	\$ 40.0	(f)	\$ 2.0		\$	AE	\$ (0.2)	(g)	\$ (1.0)
Designated Hedges	\$ 1,090.2	\$ 1,055.5		\$ 32.5		\$ 2.0		\$ (298.9)		\$ (322.0)

(a) FC = Forward exchange contracts for the sale or purchase of foreign currencies; IRS = Interest Rate Swap; NI = Net Investment Hedge; Euro Debt = Euro-denominated 4.5% notes due October 4, 2013.

- (b) PP = Prepaid expenses and other; OA = Other assets; AE = Accrued expenses and other; ONCL = Other non-current liabilities; LTD = Long-term debt.
- (c) \$14.4 million included within PP and \$11.8 million included within OA.
- (d) \$1.5 million included within AE and \$0.1 million included within ONCL.
- (e) The Company's Euro Debt is reported at carrying value in the Company's consolidated balance sheets. The carrying value of the Euro Debt was \$273.7 million as of October 1, 2011 and \$291.9 million as of April 2, 2011.
- (f) \$0.3 million included within PP and \$1.7 million included within OA.
- (g) \$0.4 million included within AE and \$1.0 million included within ONCL.

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The following tables summarize the impact of the Company's derivative instruments on its unaudited consolidated financial statements for the three-month and six-month periods ended October 1, 2011 and October 2, 2010:

<u>Derivative Instrument<sup>(a)</sup></u>	<b>Gains (Losses) Recognized in OCI<sup>(b)</sup></b>			
	<b>Three Months</b>		<b>Six Months Ended</b>	
	<b>Ended</b>		<b>October 1, October 2,</b>	
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(millions)</b>			
<u>Designated Cash Flow Hedges:</u>				
FC Inventory purchases	\$ 32.5	\$ (14.5)	\$ 23.8	\$ (1.8)
FC I/C royalty payments	3.2	(5.6)	4.1	(7.5)
FC Interest payments		0.8	(0.4)	
FC Other	(0.6)	0.5	(1.0)	0.6
	\$ 35.1	\$ (18.8)	\$ 26.5	\$ (8.7)
<u>Designated Hedge of Net Investment:</u>				
Euro Debt	\$ 23.7	\$ (23.1)	\$ 15.4	\$ (2.7)
Total Designated Hedges	\$ 58.8	\$ (41.9)	\$ 41.9	\$ (11.4)

<u>Derivative Instrument<sup>(a)</sup></u>	<b>Gains (Losses) Reclassified from AOCI<sup>(b)</sup> to Earnings</b>				<b>Location of Gains (Losses) Reclassified from AOCI<sup>(b)</sup> to Earnings</b>
	<b>Three Months</b>		<b>Six Months</b>		
	<b>Ended</b>		<b>Ended</b>		
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	
	<b>(millions)</b>				
<u>Designated Cash Flow Hedges:</u>					
FC Inventory purchases	\$ (2.3)	\$ 5.8	\$ 0.9	\$ 6.1	Cost of goods sold
FC I/C royalty payments	(1.0)	(1.8)	(3.5)	(1.2)	Foreign currency gains (losses)
FC Interest payments	(1.0)	0.3	(0.4)	0.3	Foreign currency gains (losses)
FC Other	0.6	0.3	0.9	0.1	(c)
Total Designated Hedges	\$ (3.7)	\$ 4.6	\$ (2.1)	\$ 5.3	

<u>Derivative Instrument</u> <sup>(a)</sup>	<b>Gains (Losses) Recognized in Earnings</b>				<b>Location of Gains (Losses) Recognized in Earnings</b>
	<b>Three Months</b>		<b>Six Months Ended</b>		
	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>	
	<b>(millions)</b>				
<u>Undesignated Hedges:</u>					
FC Other	\$ 2.7	\$ 0.3	\$ 2.6	\$ 1.3	Foreign currency gains (losses)
Total Undesignated Hedges	\$ 2.7	\$ 0.3	\$ 2.6	\$ 1.3	

(a) FC = Forward exchange contracts for the sale or purchase of foreign currencies; Euro Debt = Euro-denominated 4.5% notes due October 4, 2013.

(b) AOCI, including the respective fiscal period's OCI, is classified as a component of total equity.

(c) Principally recorded within foreign currency gains (losses).

Over the next twelve months, it is expected that approximately \$13 million of net gains deferred in AOCI related to derivative financial instruments outstanding as of October 1, 2011 will be recognized in earnings. No material gains or losses relating to ineffective hedges were recognized during any of the fiscal periods presented.



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**RALPH LAUREN CORPORATION**

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

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

***Foreign Currency Risk Management***

***Forward Foreign Currency Exchange Contracts***

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of its international operations, intercompany contributions to fund certain marketing efforts of its international operations, interest payments made in connection with outstanding debt 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 Hong Kong Dollar, the Swiss Franc, and the British Pound Sterling, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month to two-year periods. In doing so, the Company uses foreign currency exchange forward contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period.

***Hedge of a Net Investment in Certain European Subsidiaries***

The Company designated the entire principal amount of its outstanding Euro Debt as a hedge of its net investment in certain of its European subsidiaries. To the extent this hedge remains effective, changes in the value of the Euro Debt resulting from fluctuations in the Euro exchange rate will continue to be reported in equity as a component of AOCI.

***Interest Rate Risk Management***

***Interest Rate Swap Contracts***

During the first quarter of Fiscal 2011, the Company entered into a fixed-to-floating interest rate swap with an aggregate notional value of 209.2 million, which was designated as a fair value hedge to mitigate its exposure to changes in the fair value of its Euro Debt due to changes in the benchmark interest rate. The interest rate swap was executed to swap the 4.5% fixed interest rate on the Company's Euro Debt for a variable interest rate. On April 11, 2011, the interest rate swap agreement was terminated by the Company at a loss of \$7.6 million. This loss has been recorded as an adjustment to the carrying value of the Company's Euro Debt and will be recognized within interest expense over the remaining term of the debt, through October 4, 2013. During the three-month and six-month periods ended October 1, 2011, \$0.7 million and \$1.5 million of this loss, respectively, was recognized as interest expense within the Company's unaudited consolidated statements of operations.

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

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

The following table summarizes the Company's short-term and non-current investments recorded in the consolidated balance sheets as of October 1, 2011 and April 2, 2011:

Type of Investment	October 1, 2011			April 2, 2011		
	Short-term < 1 year	Non-current 1 - 3 years	Total	Short-term < 1 year	Non-current 1 - 3 years	Total
	(millions)					
<b>Held-to-Maturity:</b>						
Municipal bonds	\$ 15.0	\$ 1.5	\$ 16.5	\$ 90.8	\$ 12.7	\$ 103.5
Total held-to-maturity investments	\$ 15.0	\$ 1.5	\$ 16.5	\$ 90.8	\$ 12.7	\$ 103.5
<b>Available-for-Sale:</b>						
Government and municipal bonds	\$ 37.3	\$ 53.4	\$ 90.7	\$ 32.3	\$ 68.1	\$ 100.4
Corporate bonds	46.2	36.1	82.3			
Variable rate municipal securities	7.4		7.4	14.5		14.5
Auction rate securities		2.4	2.4		2.3	2.3
Other securities		0.4	0.4		0.5	0.5
Total available-for-sale investments	\$ 90.9	\$ 92.3	\$ 183.2	\$ 46.8	\$ 70.9	\$ 117.7
<b>Other:</b>						
Time deposits and other	\$ 372.0	\$	\$ 372.0	\$ 456.3	\$	\$ 456.3
<b>Total Investments</b>	\$ 477.9	\$ 93.8	\$ 571.7	\$ 593.9	\$ 83.6	\$ 677.5

No significant realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded in any of the fiscal periods presented.

See Note 3 to the Company's Fiscal 2011 10-K for further discussion of the Company's accounting policies relating to its investments.

**13. Commitments and Contingencies****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 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 negligence

misrepresentation. The complaint sought, among other relief, injunctive relief, compensatory damages in excess of \$250 million and punitive damages of not less than \$750 million. On September 13, 2005, Wathne withdrew this complaint from the U.S. District Court and filed a complaint in the Supreme Court of the State of New York, New York County, making substantially the same allegations and claims (excluding the federal trademark claims), and seeking similar relief. On February 1, 2006, the court granted 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. Wathne cross-moved for partial summary judgment. In an April 11, 2008 Decision and Order, the court granted Ralph Lauren'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.

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

Discovery on those claims that were not dismissed is ongoing and a trial date has not yet been set. The Company intends to continue to contest the remaining claims in this lawsuit vigorously. Management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's 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, and employee relations. The Company believes that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on its financial statements. However, the Company's assessment of the current litigation or other legal claims could 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.

**14. Equity*****Summary of Changes in Equity***

	<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	<b>(millions)</b>	
Balance at beginning of period	\$ 3,304.7	\$ 3,116.6
Comprehensive income:		
Net income attributable to RLC	417.6	326.0
Foreign currency translation adjustments	(2.7)	45.5
Net realized and unrealized gains (losses) on derivatives	34.8	(8.0)
Net unrealized gains (losses) on available-for-sale investments	(0.1)	
Net unrealized gains (losses) on defined benefit plans	(0.4)	
Total comprehensive income	449.2	363.5
Cash dividends declared	(36.9)	(19.1)
Repurchases of common stock	(417.8)	(347.7)
Shares issued and equity grants made pursuant to stock-based compensation plans	84.7	59.2
Balance at end of period	\$ 3,383.9	\$ 3,172.5

***Common Stock Repurchase Program***

On May 24, 2011, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows it to repurchase up to an additional \$500 million of Class A common stock.

Repurchases of shares of Class A common stock are subject to overall business and market conditions.

During the six months ended October 1, 2011, 3.2 million shares of Class A common stock were repurchased by the Company at a cost of \$393.5 million under its repurchase program. The remaining availability under the Company's common stock repurchase program was approximately \$579 million as of October 1, 2011. In addition, 0.2 million shares of Class A common stock at a cost of \$24.3 million were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the 1997 Incentive Plan) and 2010 Long-Term Stock Incentive Plan (the 2010 Incentive Plan).

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

During the six months ended October 2, 2010, 4.0 million shares of Class A common stock were repurchased by the Company at a cost of \$331.0 million under its repurchase program, including a repurchase of 1.0 million shares of Class A common stock from its principal stockholder, Mr. Ralph Lauren, at a cost of \$81.0 million in connection with the Company's secondary public offerings of 10 million shares of Class A common stock on behalf of Mr. Lauren on June 14, 2010. In addition, 0.2 million shares of Class A common stock at a cost of \$16.7 million were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the 1997 Incentive Plan.

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

***Dividends***

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On February 8, 2011, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.10 per share to \$0.20 per share. The second quarter Fiscal 2012 dividend of \$0.20 per share was declared on September 19, 2011, was payable to stockholders of record at the close of business on September 30, 2011, and was paid on October 14, 2011. Dividends paid amounted to \$37.4 million during the six months ended October 1, 2011 and \$19.4 million during the six months ended October 2, 2010.

**15. Stock-based Compensation*****Long-term Stock Incentive Plans***

On August 5, 2010, the Company's stockholders approved the 2010 Incentive Plan, which replaced the Company's 1997 Incentive Plan. The 2010 Incentive Plan provides for up to 3.0 million of new shares authorized for issuance to participants, in addition to the shares that remained available for issuance under the 1997 Incentive Plan as of August 5, 2010 that are not subject to outstanding awards under the 1997 Incentive Plan. In addition, any outstanding awards under the 1997 Incentive Plan that expire, are forfeited, or are surrendered to the Company in satisfaction of taxes, will be transferred to the 2010 Incentive Plan and be available for issuance. Any new grants are being issued under the 2010 Incentive Plan. However, awards that were outstanding as of August 5, 2010 continue to remain subject to the terms of the 1997 Incentive Plan.

Under both the 2010 Incentive Plan and the 1997 Incentive Plan (the *Plans*), there are limits as to the number of shares available for certain awards and to any one participant. Equity awards that may be made under the Plans include, but are not limited to (a) stock options, (b) restricted stock and (c) restricted stock units (*RSUs*).

***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:

<b>Three Months Ended</b>		<b>Six Months Ended</b>	
<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>

	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
			<b>(millions)</b>	
Compensation expense	\$ 16.1	\$ 15.3	\$ 34.0	\$ 30.8
Income tax benefit	\$ (5.5)	\$ (5.5)	\$ (11.9)	\$ (11.3)

The Company issues its annual grant of stock-based compensation awards in the second quarter of its fiscal year. Due to the timing of the annual grant, stock-based compensation cost recognized during the three-month and six-month periods ended October 1, 2011 is not indicative of the level of compensation cost expected to be incurred for the full Fiscal 2012.

Table of Contents**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 unrestricted Class A common stock on the date of grant. Generally, the options become exercisable ratably (a 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 non-employee directors. The Company's weighted-average assumptions used to estimate the fair value of stock options granted during the six months ended October 1, 2011 and October 2, 2010 were as follows:

	<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>
Expected term (years)	4.7	4.6
Expected volatility	44.7%	44.2%
Expected dividend yield	0.73%	0.51%
Risk-free interest rate	1.3%	1.6%
Weighted-average option grant date fair value	\$ 49.06	\$ 27.86

A summary of the stock option activity under all plans during the six months ended October 1, 2011 is as follows:

	<b>Number of Shares (thousands)</b>
Options outstanding at April 2, 2011	3,804
Granted	539
Exercised	(514)
Cancelled/Forfeited	(74)
Options outstanding at October 1, 2011	3,755

*Restricted Stock and RSUs*

The Company grants restricted shares of Class A common stock and service-based RSUs to certain of its senior executives and non-employee directors. In addition, the Company grants performance-based RSUs to such senior executives and other key executives, as well as certain other employees of the Company. The fair values of restricted



stock shares and RSUs are based on the fair value of unrestricted Class A common stock, as adjusted to reflect the absence of dividends for those restricted securities that are not entitled to dividend equivalents. The Company's weighted average grant date fair values of performance-based RSUs granted during the six months ended October 1, 2011 and October 2, 2010 were \$124.62 and \$74.34, respectively. The Company did not grant any restricted stock or service-based RSUs during the six months ended October 1, 2011 or October 2, 2010.

Restricted stock shares granted to non-employee directors vest over a three-year period of time. Service-based RSUs generally vest over a five-year period of time, subject to the executive's continuing employment. Performance-based RSUs generally vest (a) upon the completion of a three-year period of time (cliff vesting), subject to the employee's continuing employment and the Company's achievement of certain performance goals over the three-year period or (b) ratably, over a three-year period of time (graded vesting), subject to the employee's

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

continuing employment during the applicable vesting period and the achievement by the Company of certain performance goals in the initial year of the three-year vesting period.

A summary of the restricted stock and RSU activity during the six months ended October 1, 2011 is as follows:

	<b>Restricted Stock Number of Shares</b>	<b>Service- based RSUs Number of Shares (thousands)</b>	<b>Performance- based RSUs Number of Shares</b>
Nonvested at April 2, 2011	8	342	1,416
Granted			461
Vested		(120)	(468)
Cancelled			(44)
Nonvested at October 1, 2011	8	222	1,365

**16. Segment Information**

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

The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 to the Company's consolidated financial statements included in the Fiscal 2011 10-K. Sales and transfers between segments generally are recorded at cost and treated as transfers of inventory. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon operating income before restructuring charges and certain other one-time items, such as legal charges, if any. Corporate overhead expenses (exclusive of certain expenses for senior management, overall branding-related expenses and certain other corporate-related expenses) are allocated to the segments based upon specific usage or other allocation methods.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	(millions)			
<b>Net revenues:</b>				
Wholesale	\$ 995.5	\$ 826.8	\$ 1,668.5	\$ 1,349.8
Retail	861.3	658.8	1,674.8	1,251.3
Licensing	47.8	46.5	87.7	84.3
 Total net revenues	 \$ 1,904.6	 \$ 1,532.1	 \$ 3,431.0	 \$ 2,685.4

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(millions)			
<b>Operating income:</b>				
Wholesale	\$ 246.5	\$ 238.0	\$ 397.6	\$ 345.6
Retail	146.0	105.4	319.1	209.1
Licensing	29.7	27.4	54.9	51.1
	422.2	370.8	771.6	605.8
Unallocated corporate expenses	(71.4)	(63.4)	(138.7)	(124.2)
Total operating income	\$ 350.8	\$ 307.4	\$ 632.9	\$ 481.6

Depreciation and amortization expense for each segment is as follows:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(millions)			
<b>Depreciation and amortization:</b>				
Wholesale	\$ 16.3	\$ 13.6	\$ 31.8	\$ 26.1
Retail	28.2	21.1	56.5	42.7
Licensing	0.2	0.3	0.6	0.6
Unallocated corporate expenses	11.3	11.4	22.5	23.0
Total depreciation and amortization	\$ 56.0	\$ 46.4	\$ 111.4	\$ 92.4

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(millions)			

Cash paid for interest	\$ 2.2	\$ 1.9	\$ 7.1	\$ 2.8
Cash paid for income taxes	\$ 13.9	\$ 89.0	\$ 25.3	\$ 123.9

***Non-cash Transactions***

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of \$60.3 million for the six months ended October 1, 2011, largely reflecting amounts capitalized in connection with the launch of our Ralph Lauren Denim & Supply product line, and \$20.3 million for the six months ended October 2, 2010.

Significant non-cash financing activities during the six months ended October 2, 2010 included the conversion of 11.3 million shares of Class B common stock into an equal number of shares of Class A common stock by Mr. Ralph Lauren, pursuant to the terms of the security.

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

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

**Special Note Regarding Forward-Looking Statements**

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

the loss of key personnel, including Mr. Ralph Lauren;

the impact of global economic conditions, including the ongoing sovereign debt crisis in Europe, on our ability, as well as the ability of our customers, suppliers and vendors to access sources of liquidity;

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

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 events;

our efforts to improve the efficiency of our distribution system and to continue to enhance our global information technology systems;

changes to our anticipated growth strategies;

our ability to continue to expand or grow our business internationally;

the impact of fluctuations in the U.S. or global economy on consumer purchases of premium lifestyle products that we offer for sale and our ability to forecast consumer demand;

our ability to open new retail stores and e-commerce websites, and expand our direct-to-consumer presence;

our ability to make certain strategic acquisitions of certain selected licenses held by our licensees and successfully integrate recently acquired businesses, including our recently acquired Asian operations (such as South Korea), and certain of our operations relating to our home products;

our intention to introduce new products or enter into or renew alliances and exclusive relationships;

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;

changes to our anticipated effective tax rates in future years;

our exposure to domestic and foreign currency fluctuations and risks associated with raw materials, transportation and labor costs;

future expenditures for capital projects;

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

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

changes in our relationships with department store customers and licensing partners;

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

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the impact of the downgrade by Standard & Poor's ( S&P ) on the credit ratings of the United States and the risk of further downgrades by S&P or other credit agencies on the credit rating of the United States;

the potential impact on our operations and customers resulting from natural or man-made disasters, such as the recent earthquake, tsunami and infrastructure disasters in Japan;

the impact to our business of events that are currently taking place in the Middle East, as well as from any terrorist action, retaliation and the threat of further action or retaliation; and

a variety of legal, regulatory, political and economic risks, including risks related to the importation and exportation of products, tariffs and other trade barriers, to which our international operations are subject and other risks associated with our international operations, such as violations of laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including trade and labor restrictions and related laws that may reduce the flexibility of our business.

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 April 2, 2011 (the Fiscal 2011 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.

On August 11, 2011, at the Annual Meeting of Stockholders of the Company, our stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to change the Company's name from Polo Ralph Lauren Corporation to Ralph Lauren Corporation. The Company's name change became effective on August 15, 2011. In this Form 10-Q, references to Ralph Lauren, ourselves, we, our, us and the Company refer to Ralph Lauren Corporation and its subsidiaries ( RLC ), unless the context indicates otherwise. Due to the collaborative and ongoing nature of our relationships with our licensees, such licensees are sometimes referred to in this Form 10-Q as licensing alliances. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2012 will end on March 31, 2012 and will be a 52-week period ( Fiscal 2012 ). Fiscal year 2011 ended on April 2, 2011 and also reflected a 52-week period ( Fiscal 2011 ). The second quarter for Fiscal 2012 ended on October 1, 2011 and was a 13-week period. The second quarter of Fiscal 2011 ended on October 2, 2010 and was also a 13-week period.

## **INTRODUCTION**

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

*Overview.* This section provides a general description of our business and a summary of financial performance for the three-month and six-month periods ended October 1, 2011. 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 October 1, 2011 and October 2, 2010.

*Financial condition and liquidity.* This section provides an analysis of our cash flows for the six-month periods ended October 1, 2011 and October 2, 2010, as well as a discussion of our financial condition and liquidity as of October 1, 2011 as compared to the end of Fiscal 2011. The discussion of our financial condition and liquidity includes (i) a discussion of our financial position compared to the end of Fiscal 2011, (ii) the available financial capacity under our credit facilities, (iii) a summary of our key debt compliance

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measures, and (iv) any material changes in our financial condition and contractual obligations since the end of Fiscal 2011.

*Market risk management.* This section discusses any significant changes in our interest rate, foreign currency and investment risk exposures, the types of derivative instruments used to hedge those exposures, and/or underlying market conditions since the end of Fiscal 2011.

*Critical accounting policies.* This section discusses any significant changes in our accounting policies since the end of Fiscal 2011. Significant changes include those considered to be important to our financial condition and results of operations, and which 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 as included in our Fiscal 2011 10-K.

*Recently issued accounting standards.* This section discusses the potential impact to our reported financial statements of 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 men's, women's and children's apparel, accessories, fragrances and home furnishings. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. Our brand names include *Polo Ralph Lauren*, *Purple Label*, *Ralph Lauren Collection*, *Black Label*, *Blue Label*, *Lauren by Ralph Lauren*, *RRL*, *RLX*, *Ralph Lauren Denim & Supply*, *Rugby Ralph Lauren*, *Ralph Lauren Childrenswear*, *American Living*, *Chaps* and *Club Monaco*, among others.

We classify our businesses into three segments: Wholesale, Retail and Licensing. Our Wholesale business (representing approximately 49% of Fiscal 2011 net revenues) consists of wholesale-channel sales made principally to major department stores and specialty stores located throughout the U.S., Canada, Europe, Asia and South America. Our retail business (representing approximately 48% of Fiscal 2011 net revenues) consists of retail-channel sales directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, Asia and South America; through concessions-based shop-within-shops located primarily in Asia; and through our retail e-commerce channel, which includes our domestic sites located at [www.RalphLauren.com](http://www.RalphLauren.com) and [www.Rugby.com](http://www.Rugby.com) and our United Kingdom site located at [www.RalphLauren.co.uk](http://www.RalphLauren.co.uk). In September 2011, we expanded our e-commerce presence by launching a new retail e-commerce site in France located at [www.RalphLauren.fr](http://www.RalphLauren.fr), which also ships products to Belgium, Luxembourg and the Netherlands. Our licensing business (representing approximately 3% of Fiscal 2011 net revenues) consists of royalty-based arrangements under which we license the right to third parties to use our various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods. Approximately 33% of our Fiscal 2011 net revenues were earned in international regions outside of the U.S. and Canada.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth quarters and higher retail sales in our second and third quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school and holiday shopping periods in the Retail segment. Accordingly, our operating results for the three-month and six-month periods ended October 1, 2011, and cash flows for the six-month period ended October 1, 2011 are not necessarily indicative of the results and cash flows that may be expected for the full Fiscal 2012.

***Summary of Financial Performance***

*Global Economic Developments*

The state of the global economy continues to influence the level of consumer spending for discretionary items. This affects our business as it is highly dependent on consumer demand for our products. The current political and

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economic environments in the U.S. and certain countries in Europe have resulted in significant macroeconomic risks, including high rates of unemployment, high fuel prices and continued global economic uncertainty largely precipitated by the European debt crisis. These risks, combined with expectations of slower global economic growth and increased austerity measures, have adversely affected consumer and business sentiment.

Despite the challenging economic environment, we continued to experience reported revenue growth during the first half of Fiscal 2012. However, beginning in September 2011, our Retail segment began to experience weaker comparable store sales growth, particularly in the U.S. and Europe. If the global macroeconomic environment continues to be weak or worsens, the related constrained level of worldwide consumer spending and modified consumption behavior will likely have a negative effect on the Company's sales and operating margin growth rates for at least the remainder of the current fiscal year.

In addition, we continue to experience the cost of goods inflation that began during the second half of Fiscal 2011 as a result of rising raw material, transportation and labor costs, as well as labor shortages in certain regions where our products are manufactured. While the impact of such cost of goods inflation on our reported results was mitigated to some extent by targeted pricing actions and a more favorable channel mix during the second quarter of Fiscal 2012, these sourcing pressures are expected to continue to have a significant negative effect on the cost of most of our products and the related gross profit percentages for the remainder of Fiscal 2012.

We continue to monitor these risks and evaluate our operating strategies in order to adjust to changes in economic conditions, including increases in global labor rates and commodity pricing.

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 2011 10-K.

### *Operating Results*

#### *Three Months Ended October 1, 2011 Compared to Three Months Ended October 2, 2010*

During the second quarter of Fiscal 2012, we reported revenues of \$1.905 billion, net income attributable to RLC of \$233.5 million and net income per diluted share attributable to RLC of \$2.46. This compares to revenues of \$1.532 billion, net income attributable to RLC of \$205.2 million and net income per diluted share attributable to RLC of \$2.09 during the second quarter of Fiscal 2011.

Our operating performance for the three months ended October 1, 2011 was driven by 24.3% revenue growth, primarily due to increased comparable global retail store sales and the inclusion of revenues from our South Korea business acquired on January 1, 2011 (see *Recent Developments* for further discussion), as well as higher revenues from our global wholesale businesses. Our gross margin percentage declined by 140 basis points to 56.6% during the second quarter of Fiscal 2012, primarily due to substantial sourcing cost pressures experienced across our global businesses, particularly in our Wholesale segment. The decrease in gross margin percentage was partially offset by a more favorable channel and geographic mix driven by our retail businesses in Asia, including our recently acquired business in South Korea. Selling, general and administrative (SG&A) expenses increased largely due to higher compensation-related costs and additional expenses to support our growth in sales, as well as our new business initiatives and recent acquisitions.

Net income attributable to RLC increased during the second quarter of Fiscal 2012 as compared to the second quarter of Fiscal 2011, primarily due to a \$43.4 million increase in operating income, partially offset by a \$13.2 million increase in the provision for income taxes. The increase in the provision for income taxes was primarily driven by the overall increase in pretax income, slightly offset by a 10 basis point decline in our effective tax rate. Net income per

diluted share attributable to RLC also increased due to the effect of higher net income coupled with lower weighted-average diluted shares outstanding during the second quarter of Fiscal 2012.

*Six Months Ended October 1, 2011 Compared to Six Months Ended October 2, 2010*

During the six months ended October 1, 2011, we reported revenues of \$3.431 billion, net income attributable to RLC of \$417.6 million and net income per diluted share attributable to RLC of \$4.35. This compares to revenues

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of \$2.685 billion, net income attributable to RLC of \$326.0 million and net income per diluted share attributable to RLC of \$3.30 during the six months ended October 2, 2010.

Our operating performance for the six months ended October 1, 2011 was driven by 27.8% revenue growth, primarily due to increased comparable global retail store sales and the inclusion of revenues from our South Korea business acquired on January 1, 2011, as well as higher revenues from our global wholesale businesses. Our gross margin percentage declined slightly by 10 basis points to 59.5% during the six months ended October 1, 2011, primarily due to lower global Wholesale margins reflecting sourcing cost pressures. The decrease in gross margin percentage was mostly offset by a more favorable channel and geographic mix, as well as stronger full-price sell-throughs driven by our retail businesses in Asia. SG&A expenses increased largely due to higher compensation-related costs and additional expenses to support our growth in sales, as well as our new business initiatives and recent acquisitions.

Net income attributable to RLC increased during the six months ended October 1, 2011 as compared to the six months ended October 2, 2010, primarily due to a \$151.3 million increase in operating income, partially offset by a \$54.9 million increase in the provision for income taxes. The increase in the provision for income taxes was driven by the overall increase in pretax income, along with a 150 basis point increase in our effective tax rate. Net income per diluted share attributable to RLC also increased due to the effect of higher net income coupled with lower weighted-average diluted shares outstanding during the six months ended October 1, 2011.

### *Financial Condition and Liquidity*

Our financial position reflects the overall relative strength of our business results. We ended the second quarter of Fiscal 2012 in a net cash and investments position (cash and cash equivalents plus short-term and non-current investments, less total debt) of \$605.7 million, compared to \$838.6 million as of the end of Fiscal 2011. The decrease in our net cash and investments position was primarily due to our treasury stock repurchases and capital expenditures, partially offset by our operating cash flows during the six months ended October 1, 2011. Our equity increased to \$3.384 billion as of October 1, 2011 compared to \$3.305 billion as of April 2, 2011, primarily due to our net income and equity issuances pursuant to stock-based compensation arrangements, partially offset by our share repurchase activity during the six months ended October 1, 2011.

We generated \$283.5 million of cash from operations during the six months ended October 1, 2011, compared to \$224.0 million during the six months ended October 2, 2010. The increase in operating cash flows primarily relates to the increase in net income before non-cash expenses during the six months ended October 1, 2011, partially offset by changes in working capital. We also borrowed \$100 million in cash under our Global Credit Facility (as defined in Note 10 to our unaudited interim consolidated financial statements) during the six months ended October 1, 2011. We used some of our cash availability to support our common stock repurchase program and to reinvest in our business through capital spending. In particular, we used \$417.8 million to repurchase 3.4 million shares of Class A common stock, including shares surrendered for tax withholdings. We also used \$92.4 million for capital expenditures primarily associated with our global retail store expansion, construction and renovation of department store shop-in-shops, and investments in our facilities and technological infrastructure.

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

The comparability of our operating results for the three-month and six-month periods ended October 1, 2011 and October 2, 2010 has been affected by the South Korea Licensed Operations Acquisition (as defined and discussed under *Recent Developments* ) that occurred on January 1, 2011.

The following discussion highlights, as necessary, the significant changes in operating results arising from the above acquisition. However, unusual items or transactions may occur in any period. Accordingly, investors and other

financial statement users individually should consider the types of events and transactions that have affected operating trends.

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***Recent Developments***

*Greater China Restructuring Plan*

In May 2011, we initiated a restructuring plan to reposition and upgrade our existing distribution network in the Greater China region, which is comprised of mainland China, Macau, Hong Kong, Taiwan, Malaysia and Singapore. This plan includes a reduction in workforce and the closure of certain retail stores and concession shops that do not support the new merchandising strategy. Actions related to the restructuring plan continue to be refined, particularly related to the determination of locations to be exited, and are anticipated to result in pretax charges of approximately \$5 million, primarily in the fourth quarter of Fiscal 2012.

*South Korea Licensed Operations Acquisition*

On January 1, 2011, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in South Korea (the *Ralph Lauren South Korea Business* ) from a licensed to a wholly owned operation, we acquired certain net assets (including inventory) and employees from Doosan Corporation ( *Doosan* ) in exchange for an initial payment of approximately \$25 million plus an additional aggregate payment of approximately \$22 million (the *South Korea Licensed Operations Acquisition* ). Doosan was our licensee for the Ralph Lauren South Korea business. We funded the South Korea Licensed Operations Acquisition with available cash on-hand. In conjunction with the South Korea Licensed Operations Acquisition, we also entered into a transition services agreement with Doosan for the provision of certain financial and information systems services for a period of up to twelve months commencing on January 1, 2011.



**Table of Contents****RESULTS OF OPERATIONS*****Three Months Ended October 1, 2011 Compared to Three Months Ended October 2, 2010***

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

	<b>Three Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(millions, except per share data)</b>			
<b>Net revenues</b>	\$ 1,904.6	\$ 1,532.1	\$ 372.5	24.3%
Cost of goods sold <sup>(a)</sup>	(826.0)	(644.2)	(181.8)	28.2%
<b>Gross profit</b>	1,078.6	887.9	190.7	21.5%
<i>Gross profit as % of net revenues</i>	56.6%	58.0%		
Selling, general and administrative expenses <sup>(a)</sup>	(720.3)	(574.3)	(146.0)	25.4%
<i>SG&amp;A expenses as % of net revenues</i>	37.8%	37.5%		
Amortization of intangible assets	(7.5)	(6.2)	(1.3)	21.0%
<b>Operating income</b>	350.8	307.4	43.4	14.1%
<i>Operating income as % of net revenues</i>	18.4%	20.1%		
Foreign currency gains (losses)	1.8	2.2	(0.4)	(18.2)%
Interest expense	(6.4)	(4.4)	(2.0)	45.5%
Interest and other income, net	2.4	1.6	0.8	50.0%
Equity in income (loss) of equity-method investees	(1.1)	(0.8)	(0.3)	37.5%
<b>Income before provision for income taxes</b>	347.5	306.0	41.5	13.6%
Provision for income taxes	(114.0)	(100.8)	(13.2)	13.1%
<i>Effective tax rate<sup>(b)</sup></i>	32.8%	32.9%		
<b>Net income attributable to RLC</b>	\$ 233.5	\$ 205.2	\$ 28.3	13.8%
<b>Net income per common share attributable to RLC:</b>				
<b>Basic</b>	\$ 2.53	\$ 2.15	\$ 0.38	17.7%
<b>Diluted</b>	\$ 2.46	\$ 2.09	\$ 0.37	17.7%

(a) Includes total depreciation expense of \$48.5 million and \$40.2 million for the three-month periods ended October 1, 2011 and October 2, 2010, respectively.

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

*Net Revenues.* Net revenues increased by \$372.5 million, or 24.3%, to \$1.905 billion in the second quarter of Fiscal 2012 from \$1.532 billion in the second quarter of Fiscal 2011. The increase was primarily due to higher revenues from our global retail and wholesale businesses, which included favorable foreign currency effects. Excluding the effect of foreign currency, net revenues increased by \$322.2 million, or 21.0%.

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Net revenues for our three business segments are provided below:

	<b>Three Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010 (millions)</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Net Revenues:</b>				
Wholesale	\$ 995.5	\$ 826.8	\$ 168.7	20.4%
Retail	861.3	658.8	202.5	30.7%
Licensing	47.8	46.5	1.3	2.8%
Total net revenues	\$ 1,904.6	\$ 1,532.1	\$ 372.5	24.3%

*Wholesale net revenues* The net increase primarily reflects:

a \$112 million net increase in our domestic businesses primarily due to increased menswear revenues, including sales from our newly launched Ralph Lauren Denim & Supply product line, as well as higher childrenswear revenues. The increase also reflected incremental home product revenues related to the assumption of control over the distribution of our previously licensed bedding and bath business as of May 1, 2011;

a \$47 million net increase in our European businesses on a constant currency basis primarily driven by increased revenues from our menswear and womenswear product lines, as well as increased revenues from our accessories product lines (including footwear) reflecting new product offerings and an increased presence at department stores;

a \$26 million net increase in revenues due to favorable foreign currency effects primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the second quarter of Fiscal 2012; and

a \$2 million net increase in our businesses in the Greater China and Southeast Asia region, which is comprised of China, Hong Kong, Indonesia, Malaysia, the Philippines, Singapore, Taiwan and Thailand, on a constant currency basis.

These increases were partially offset by:

a \$19 million net decrease related to our Japanese businesses on a constant currency basis, including the effect of a business model shift to the Retail concessions-based channel.

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

concession-based shop-within-shops and Rugby stores), Club Monaco stores and RalphLauren.com (including Rugby.com).

The net increase in Retail net revenues primarily reflects:

a \$129 million aggregate net increase in non-comparable store sales primarily driven by:

- Ø an increase of approximately \$75 million related to a number of new full-price and factory store openings within the past twelve months, including our flagship store on Madison Avenue in New York, as well as our recently launched retail e-commerce sites in the United Kingdom and France. This increase includes an aggregate favorable foreign currency effect of approximately \$9 million primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the second quarter of Fiscal 2012. Excluding those stores and shops assumed in connection

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with the South Korea Licensed Operations Acquisition, there was a net increase in our average global physical store count of 51 stores and concession shops as compared to the second quarter of Fiscal 2011. Our total physical store count as of October 1, 2011 included 374 freestanding stores and 522 concession shops, including 5 freestanding stores and 175 concession shops in South Korea; and

- Ø the inclusion of approximately \$54 million of revenues from stores and concession-based shop-within-shops assumed in connection with the South Korea Licensed Operations Acquisition.

a \$61 million aggregate net increase in comparable physical store sales primarily driven by our global factory stores and growth from our Club Monaco stores. This increase includes an aggregate favorable foreign currency effect of approximately \$15 million primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the second quarter of Fiscal 2012. The increase in Retail net revenues was also due to a \$13 million increase in RalphLauren.com sales. Comparable store sales are presented below:

**Three Months  
Ended  
October 1, 2011**

Increases in comparable store sales as reported:

Full-price Ralph Lauren store sales	5%
Full-price Club Monaco store sales	24%
Factory store sales	14%
RalphLauren.com sales	25%
<b>Total increase in comparable store sales as reported</b>	<b>13%</b>

Increases in comparable store sales excluding the effect of foreign currency:

Full-price Ralph Lauren store sales	0%
Full-price Club Monaco store sales	24%
Factory store sales	12%
RalphLauren.com sales	25%
<b>Total increase in comparable store sales excluding the effect of foreign currency</b>	<b>11%</b>

*Licensing revenues* The net increase in revenues primarily reflects:

a \$4 million increase in domestic product licensing royalties principally driven by higher apparel-related royalties, partially offset by lower fragrance-related royalties.

The above increase was partially offset by:

a \$2 million decrease in international licensing royalties primarily due to the recent South Korea Licensed Operations Acquisition; and

a \$1 million decrease in home licensing revenues primarily due to the transition of our previously licensed bedding and bath business to directly controlled operations as of May 1, 2011.

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

packing, warehousing and order charges, are included in SG&A expenses.

Gross profit increased by \$190.7 million, or 21.5%, to \$1.079 billion in the second quarter of Fiscal 2012 from \$887.9 million in the second quarter of Fiscal 2011. Gross profit as a percentage of net revenues decreased by 140 basis points to 56.6% in the second quarter of Fiscal 2012 from 58.0% in the second quarter of Fiscal 2011. This decrease was primarily due to substantial sourcing cost pressures experienced across our global businesses, particularly in our Wholesale segment, partially mitigated by targeted pricing actions. The decrease in gross profit as a percentage of net revenues was partially offset by a more favorable channel and geographic mix driven by our retail businesses in Asia, which generally carry higher margins, including our recently acquired business in South Korea.

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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.

We expect that current macroeconomic challenges, including inflationary pressures on raw materials and labor costs and labor shortages in certain regions where our products are manufactured, will continue to negatively affect the cost of most of our products and related gross profit percentages to a significant degree for the remainder of Fiscal 2012. See *Global Economic Developments* for further discussion of the current macroeconomic environment.

*Selling, General and Administrative Expenses.* SG&A expenses primarily include compensation and benefits, marketing, distribution, bad debts, information technology, facilities, legal and other costs associated with finance and administration. SG&A expenses increased by \$146.0 million, or 25.4%, to \$720.3 million in the second quarter of Fiscal 2012 from \$574.3 million in the second quarter of Fiscal 2011. This increase included an unfavorable foreign currency effect of approximately \$20 million, primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the second quarter of Fiscal 2012. SG&A expenses as a percentage of net revenues increased to 37.8% in the second quarter of Fiscal 2012 from 37.5% in the second quarter of Fiscal 2011. The 30 basis point increase was primarily due to the increase in operating expenses attributable to our recent acquisitions and new business initiatives and a shift in channel mix to a greater Retail concentration, partially offset by operating leverage related to the increase in net revenues. The \$146.0 million increase in SG&A expenses was primarily driven by:

higher compensation-related costs of approximately \$52 million primarily related to the global increase in Retail sales and worldwide store expansion, as well as increased incentive and stock-based compensation expenses;

the inclusion of SG&A costs of approximately \$31 million related to our newly acquired business in South Korea (see *Recent Developments* for further discussion);

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

an approximate \$11 million increase in depreciation expense primarily associated with global retail store expansion;

increased shipping, warehousing and distribution expenses of approximately \$11 million to support increased sales;

increased brand-related marketing and advertising costs of approximately \$6 million; and

increased consulting costs of approximately \$6 million, including costs relating to new global information technology systems.

*Amortization of Intangible Assets.* Amortization of intangible assets increased by \$1.3 million, or 21.0%, to \$7.5 million in the second quarter of Fiscal 2012 from \$6.2 million in the second quarter of Fiscal 2011. This increase was primarily due to the amortization of the intangible assets acquired in connection with the South Korea Licensed Operations Acquisition at the end of the third quarter of Fiscal 2011.

*Operating Income.* Operating income increased by \$43.4 million, or 14.1%, to \$350.8 million in the second quarter of Fiscal 2012 from \$307.4 million in the second quarter of Fiscal 2011. Operating income as a percentage of net revenues declined 170 basis points, to 18.4% in the second quarter of Fiscal 2012 from 20.1% in the second quarter of Fiscal 2011. The decrease in operating income as a percentage of net revenues primarily reflected the decline in gross profit margin and the increase in SG&A expenses as a percentage of net revenues, both as previously discussed.



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Operating income and margin for our three business segments is provided below:

	Three Months Ended				\$	Margin
	October 1, 2011	October 2, 2010	Operating	Operating		
Segment:	Operating	Operating	Income	Margin	Change	Change
	Income	Margin	Income	Margin	(millions)	
	(millions)		(millions)			
Wholesale	\$ 246.5	24.8%	\$ 238.0	28.8%	\$ 8.5	(400) bps
Retail	146.0	17.0%	105.4	16.0%	40.6	100 bps
Licensing	29.7	62.1%	27.4	58.9%	2.3	320 bps
	422.2		370.8		51.4	
Unallocated corporate expenses	(71.4)		(63.4)		(8.0)	
Total operating income	\$ 350.8	18.4%	\$ 307.4	20.1%	\$ 43.4	(170) bps

*Wholesale operating margin* decreased by 400 basis points, primarily due to lower global gross profit margins reflecting significant sourcing cost pressures during the second quarter of Fiscal 2012, as well as an increase in SG&A expenses as a percentage of net revenues largely driven by additional costs to support our new business initiatives, including the assumption of our previously licensed bedding and bath business during the six months ended October 1, 2011.

*Retail operating margin* increased by 100 basis points, primarily as a result of higher gross profit margins driven by our retail businesses in Asia due to a more favorable product mix and the inclusion of our recently acquired business in South Korea, which more than offset the substantial sourcing cost pressures experienced during the second quarter of Fiscal 2012. The increase in retail operating margin was also partially offset by an increase in SG&A expenses as a percentage of revenues, primarily driven by increased compensation-related costs and other operating expenses to support the ongoing growth of our global retail businesses.

*Licensing operating margin* increased by 320 basis points, primarily as a result of increased revenues, as well as lower net costs associated with the transition of our licensed businesses to wholly owned operations, including our recently acquired business in South Korea.

*Unallocated corporate expenses* increased by \$8.0 million, primarily as a result of higher compensation-related expenses.

*Foreign Currency Gains (Losses).* The effect of foreign currency exchange rate fluctuations resulted in a gain of \$1.8 million in the second quarter of Fiscal 2012, compared to a gain of \$2.2 million in the second quarter of Fiscal 2011. The lower foreign currency gains were primarily due to the timing of the settlement of foreign currency-denominated third party and intercompany receivables and payables (that were not of a long-term investment nature), partially offset by \$2.2 million of higher gains relating to foreign currency hedge contracts. Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

*Interest Expense.* Interest expense includes the borrowing costs of our outstanding debt, including amortization of debt issuance costs, and interest related to our capital lease obligations. Interest expense increased by \$2.0 million, or 45.5%, to \$6.4 million in the second quarter of Fiscal 2012 from \$4.4 million in the second quarter of Fiscal 2011. The increase in interest expense was primarily due to amortization of the loss associated with the termination of an interest rate swap during the first quarter of Fiscal 2012 (see Note 12 to the accompanying unaudited interim consolidated financial statements) and unfavorable foreign currency effects due to the strengthening of the Euro during the second quarter of Fiscal 2012.

*Interest and Other Income, net.* Interest and other income, net, increased by \$0.8 million, or 50.0%, to \$2.4 million in the second quarter of Fiscal 2012 from \$1.6 million in the second quarter of Fiscal 2011. The increase was primarily due to higher yields, particularly related to our European investment portfolio, during the second quarter of Fiscal 2012.

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*Equity in Income (Loss) of Equity-Method Investees.* The equity in losses of equity-method investees of \$1.1 million and \$0.8 million during the second quarter of Fiscal 2012 and Fiscal 2011, respectively, related to our share of losses from our joint venture, the Ralph Lauren Watch and Jewelry Company, S.A.R.L. (the RL Watch Company ), which is accounted for under the equity method of accounting.

*Provision for Income Taxes.* The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by \$13.2 million, or 13.1%, to \$114.0 million in the second quarter of Fiscal 2012 from \$100.8 million in the second quarter of Fiscal 2011. The increase in provision for income taxes was primarily due to the overall increase in our pretax income, partially offset by a slight decrease in our reported effective tax rate of 10 basis points, to 32.8% for the second quarter of Fiscal 2012 from 32.9% for the second quarter of Fiscal 2011. The effective tax rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from period to period based on non-recurring factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies.

*Net Income Attributable to RLC.* Net income increased by \$28.3 million, or 13.8%, to \$233.5 million in the second quarter of Fiscal 2012 from \$205.2 million in the second quarter of Fiscal 2011. The increase in net income primarily related to the \$43.4 million increase in operating income, partially offset by the \$13.2 million increase in the provision for income taxes, both as previously discussed.

*Net Income per Diluted Share Attributable to RLC.* Net income per diluted share increased by \$0.37, or 17.7%, to \$2.46 per share in the second quarter of Fiscal 2012 from \$2.09 per share in the second quarter of Fiscal 2011. The increase in diluted per share results was due to the higher level of net income, as previously discussed, and the lower weighted-average diluted shares outstanding during the second quarter of Fiscal 2012 driven by our share repurchases.

**Table of Contents****Six Months Ended October 1, 2011 Compared to Six Months Ended October 2, 2010**

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

	<b>Six Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>\$ Change</b>	<b>% Change</b>
	<b>(millions, except per share data)</b>			
<b>Net revenues</b>	\$ 3,431.0	\$ 2,685.4	\$ 745.6	27.8%
Cost of goods sold <sup>(a)</sup>	(1,390.9)	(1,085.3)	(305.6)	28.2%
<b>Gross profit</b>	2,040.1	1,600.1	440.0	27.5%
<i>Gross profit as % of net revenues</i>	59.5%	59.6%		
Selling, general and administrative expenses <sup>(a)</sup>	(1,392.6)	(1,106.3)	(286.3)	25.9%
<i>SG&amp;A expenses as % of net revenues</i>	40.6%	41.2%		
Amortization of intangible assets	(14.6)	(12.2)	(2.4)	19.7%
<b>Operating income</b>	632.9	481.6	151.3	31.4%
<i>Operating income as % of net revenues</i>	18.4%	17.9%		
Foreign currency gains (losses)	(2.0)	1.4	(3.4)	NM
Interest expense	(12.5)	(8.9)	(3.6)	40.4%
Interest and other income, net	6.6	3.4	3.2	94.1%
Equity in income (loss) of equity-method investees	(3.0)	(2.0)	(1.0)	50.0%
<b>Income before provision for income taxes</b>	622.0	475.5	146.5	30.8%
Provision for income taxes	(204.4)	(149.5)	(54.9)	36.7%
<i>Effective tax rate<sup>(b)</sup></i>	32.9%	31.4%		
<b>Net income attributable to RLC</b>	\$ 417.6	\$ 326.0	\$ 91.6	28.1%
<b>Net income per common share attributable to RLC:</b>				
<b>Basic</b>	\$ 4.49	\$ 3.38	\$ 1.11	32.8%
<b>Diluted</b>	\$ 4.35	\$ 3.30	\$ 1.05	31.8%

(a) Includes total depreciation expense of \$96.8 million and \$80.2 million for the six-month periods ended October 1, 2011 and October 2, 2010, respectively.

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

NM Not meaningful.

*Net Revenues.* Net revenues increased by \$745.6 million, or 27.8%, to \$3.431 billion for the six months ended October 1, 2011 from \$2.685 billion for the six months ended October 2, 2010. The increase was primarily due to higher revenues from our global retail and wholesale businesses, which included favorable foreign currency effects. Excluding the effect of foreign currency, net revenues increased by \$646.1 million, or 24.1%.

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Net revenues for our three business segments are provided below:

	<b>Six Months Ended</b>			
	<b>October 1, 2011</b>	<b>October 2, 2010 (millions)</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Net Revenues:</b>				
Wholesale	\$ 1,668.5	\$ 1,349.8	\$ 318.7	23.6%
Retail	1,674.8	1,251.3	423.5	33.8%
Licensing	87.7	84.3	3.4	4.0%
Total net revenues	\$ 3,431.0	\$ 2,685.4	\$ 745.6	27.8%

*Wholesale net revenues* The net increase primarily reflects:

a \$202 million net increase in our domestic businesses primarily due to increased revenues from our menswear and childrenswear product lines, as well as incremental home product revenues related to the assumption of control over the distribution of our previously licensed bedding and bath business;

a \$79 million net increase in our European businesses on a constant currency basis primarily driven by increased revenues from our menswear and womenswear product lines, reflecting new product offerings and an increased presence at department stores;

a \$46 million net increase in revenues due to favorable foreign currency effects primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the second quarter of Fiscal 2012; and

a \$5 million net increase in our businesses in the Greater China and Southeast Asia region on a constant currency basis.

These increases were partially offset by:

a \$14 million net decrease related to our Japanese businesses on a constant currency basis, including the effect of a business model shift to the Retail concessions-based channel.

*Retail net revenues* The net increase primarily reflects:

a \$254 million aggregate net increase in non-comparable store sales primarily driven by:

- Ø an increase of approximately \$154 million related to a number of new full-price and factory store openings within the past twelve months, including our flagship store on Madison Avenue in New York, as well as our recently launched retail e-commerce sites in the United Kingdom and France. This increase includes an aggregate favorable foreign currency effect of approximately \$17 million primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the six months ended October 1, 2011. Excluding those stores and shops assumed in connection with the South Korea Licensed Operations Acquisition, there was a net increase in our average global physical store

count of 56 stores and concession shops as compared to the six months ended October 2, 2010. Our total physical store count as of October 1, 2011 included 374 freestanding stores and 522 concession shops, including 5 freestanding stores and 175 concession shops in South Korea; and

- Ø the inclusion of approximately \$100 million of revenues from stores and concession-based shop-within-shops assumed in connection with the South Korea Licensed Operations Acquisition.

a \$142 million aggregate net increase in comparable physical store sales primarily driven by our global factory stores. This increase includes an aggregate favorable foreign currency effect of approximately \$35 million primarily related to the strengthening of the Euro and the Yen, both in comparison to the

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U.S. dollar during the six months ended October 1, 2011. The increase in Retail net revenues was also due to a \$28 million increase in RalphLauren.com sales. Comparable store sales are presented below:

**Six Months Ended  
October 1, 2011**

Increases in comparable store sales as reported:	
Full-price Ralph Lauren store sales	9%
Full-price Club Monaco store sales	20%
Factory store sales	17%
RalphLauren.com sales	26%
<b>Total increase in comparable store sales as reported</b>	<b>16%</b>
Increases in comparable store sales excluding the effect of foreign currency:	
Full-price Ralph Lauren store sales	3%
Full-price Club Monaco store sales	20%
Factory store sales	14%
RalphLauren.com sales	26%
<b>Total increase in comparable store sales excluding the effect of foreign currency</b>	<b>13%</b>

*Licensing revenues* The net increase in revenues primarily reflects:

an \$8 million increase in domestic product licensing royalties, including higher apparel-related and fragrance-related royalties.

The above increase was partially offset by:

a \$4 million decrease in international licensing royalties primarily due to the recent South Korea Licensed Operations Acquisition; and

a \$1 million decrease in home licensing revenues primarily due to the transition of our previously licensed bedding and bath business to directly controlled operations.

*Gross Profit.* Gross profit increased by \$440.0 million, or 27.5%, to \$2.040 billion for the six months ended October 1, 2011 from \$1.600 billion for the six months ended October 2, 2010. Gross profit as a percentage of net revenues declined slightly by 10 basis points to 59.5% for the six months ended October 1, 2011 from 59.6% for the six months ended October 2, 2010. This decrease was primarily due to lower global Wholesale margins reflecting sourcing cost pressures, mostly offset by a more favorable channel and geographic mix and stronger full-price sell-throughs driven by our retail businesses in Asia.

*Selling, General and Administrative Expenses.* SG&A expenses increased by \$286.3 million, or 25.9%, to \$1.393 billion for the six months ended October 1, 2011 from \$1.106 billion for the six months ended October 2, 2010. This increase included an unfavorable foreign currency effect of approximately \$43 million, primarily related to the strengthening of the Euro and the Yen, both in comparison to the U.S. dollar during the six months ended October 1, 2011. SG&A expenses as a percentage of net revenues decreased to 40.6% in the six months ended October 1, 2011 from 41.2% in the six months ended October 2, 2010. The 60 basis point decrease was primarily due to operating leverage related to the increase in net revenues, which more than offset the increase in operating expenses attributable to our recent acquisitions and new business initiatives. The \$286.3 million increase in SG&A expenses was primarily driven by:



higher compensation-related costs of approximately \$100 million primarily due to increased incentive-based compensation expenses;

the inclusion of SG&A costs of approximately \$60 million related to our newly acquired business in South Korea (see [Recent Developments](#) for further discussion);

an approximate \$36 million increase in rent and occupancy costs primarily to support the ongoing growth of our international businesses;

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increased shipping, warehousing and distribution expenses of approximately \$21 million to support increased sales;

an approximate \$19 million increase in depreciation expense primarily associated with global retail store expansion; and

increased consulting costs of approximately \$16 million, including costs relating to new global information technology systems.

*Amortization of Intangible Assets.* Amortization of intangible assets increased by \$2.4 million, or 19.7%, to \$14.6 million for the six months ended October 1, 2011 from \$12.2 million for the six months ended October 2, 2010. This increase was primarily due to the amortization of the intangible assets acquired in connection with the South Korea Licensed Operations Acquisition at the end of the third quarter of Fiscal 2011.

*Operating Income.* Operating income increased by \$151.3 million, or 31.4%, to \$632.9 million for the six months ended October 1, 2011 from \$481.6 million for the six months ended October 2, 2010. Operating income as a percentage of net revenues increased 50 basis points, to 18.4% for the six months ended October 1, 2011 from 17.9% for the six months ended October 2, 2010. The increase in operating income as a percentage of net revenues primarily reflected the decrease in SG&A expenses as a percentage of net revenues, partially offset by the slight decrease in gross profit margin, both as previously discussed.

Operating income and margin for our three business segments is provided below:

	Six Months Ended				\$ Change (millions)	Margin Change
	October 1, 2011 Operating Income (millions)	Operating Margin	October 2, 2010 Operating Income (millions)	Operating Margin		
<b>Segment:</b>						
Wholesale	\$ 397.6	23.8%	\$ 345.6	25.6%	\$ 52.0	(180) bps
Retail	319.1	19.1%	209.1	16.7%	110.0	240 bps
Licensing	54.9	62.6%	51.1	60.6%	3.8	200 bps
	771.6		605.8		165.8	
Unallocated corporate expenses	(138.7)		(124.2)		(14.5)	
Total operating income	\$ 632.9	18.4%	\$ 481.6	17.9%	\$ 151.3	50 bps

*Wholesale operating margin* decreased by 180 basis points, primarily due to lower global gross profit margins reflecting sourcing cost pressures and additional costs to support our new business initiatives, including the assumption of our previously licensed bedding and bath business during the six months ended October 1, 2011. This decrease in Wholesale operating margin was partially offset by a decrease in SG&A expenses as a percentage of net revenues due to improved operating leverage.

*Retail operating margin* increased by 240 basis points, primarily as a result of higher gross profit margins due to stronger full-price sell-throughs and a more favorable product mix driven by our retail businesses in Asia, which more than offset the sourcing cost pressures experienced during the six months ended October 1, 2011. The increase in Retail operating margin was also offset by a net increase in SG&A expenses as a percentage of revenues, primarily driven by an increase in operating expenses to support the ongoing growth of our international retail businesses, including our recently acquired business in South Korea.

*Licensing operating margin* increased by 200 basis points, primarily as a result of increased revenues, as well as lower net costs associated with the transition of our licensed businesses to wholly owned operations, including our recently acquired business in South Korea.

*Unallocated corporate expenses* increased by \$14.5 million, primarily as a result of higher compensation-related expenses.

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*Foreign Currency Gains (Losses).* The effect of foreign currency exchange rate fluctuations resulted in a loss of \$2.0 million for the six months ended October 1, 2011, compared to a gain of \$1.4 million for the six months ended October 2, 2010. The higher foreign currency losses were primarily attributable to higher losses of \$0.9 million relating to foreign currency hedge contracts, as well as the timing of the settlement of foreign currency-denominated third party and intercompany receivables and payables (that were not of a long-term investment nature). Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

*Interest Expense.* Interest expense increased by \$3.6 million, or 40.4%, to \$12.5 million for the six months ended October 1, 2011 from \$8.9 million for the six months ended October 2, 2010. The increase in interest expense was primarily due to amortization of the loss associated with the termination of an interest rate swap during the first quarter of Fiscal 2012 (see Note 12 to the accompanying unaudited interim consolidated financial statements) and unfavorable foreign currency effects due to the strengthening of the Euro during the six months ended October 1, 2011 compared to the same prior year period.

*Interest and Other Income, net.* Interest and other income, net, increased by \$3.2 million, or 94.1%, to \$6.6 million for the six months ended October 1, 2011 from \$3.4 million for the six months ended October 2, 2010. This increase was primarily due to higher yields, particularly related to our European investment portfolio, during the six months ended October 1, 2011, as well as the inclusion of pretax income of approximately \$1.0 million related to the change in fiscal year of the Company's Japanese subsidiary, Ralph Lauren Corporation Japan (formerly Polo Ralph Lauren Kabushiki Kaisha), to conform to our consolidated fiscal-year basis during the first quarter of Fiscal 2012 (see Note 2 to the accompanying interim unaudited consolidated financial statements).

*Equity in Income (Loss) of Equity-Method Investees.* The equity in losses of equity-method investees of \$3.0 million and \$2.0 million for the six months ended October 1, 2011 and October 2, 2010, respectively, related to our share of losses from our joint venture, the RL Watch Company, which is accounted for under the equity method of accounting.

*Provision for Income Taxes.* The provision for income taxes increased by \$54.9 million, or 36.7%, to \$204.4 million for the six months ended October 1, 2011 from \$149.5 million for the six months ended October 2, 2010. The increase in provision for income taxes was primarily due to the overall increase in our pretax income, as well as the increase in our reported effective tax rate of 150 basis points, to 32.9% for the six months ended October 1, 2011 from 31.4% for the six months ended October 2, 2010. The higher effective tax rate was primarily due to the absence of certain favorable adjustments related to intercompany charges and tax reserve reductions associated with the conclusion of a tax examination during the six months ended October 2, 2010. The effective tax rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from period to period based on non-recurring factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies.

*Net Income Attributable to RLC.* Net income increased by \$91.6 million, or 28.1%, to \$417.6 million for the six months ended October 1, 2011 from \$326.0 million for the six months ended October 2, 2010. The increase in net income primarily related to the \$151.3 million increase in operating income, partially offset by the \$54.9 million increase in the provision for income taxes, both as previously discussed.

*Net Income per Diluted Share Attributable to RLC.* Net income per diluted share increased by \$1.05, or 31.8%, to \$4.35 per share for the six months ended October 1, 2011 from \$3.30 per share for the six months ended October 2, 2010. The increase in diluted per share results was due to the higher level of net income, as previously discussed, and the lower weighted-average diluted shares outstanding during the six months ended October 1, 2011 driven by our share repurchases.



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	<b>October 1, 2011</b>	<b>April 2, 2011 (millions)</b>	<b>\$ Change</b>
Cash and cash equivalents	\$ 407.7	\$ 453.0	\$ (45.3)
Short-term investments	477.9	593.9	(116.0)
Non-current investments	93.8	83.6	10.2
Short-term debt	(100.0)		(100.0)
Long-term debt	(273.7)	(291.9)	18.2
Net cash and investments <sup>(a)</sup>	\$ 605.7	\$ 838.6	\$ (232.9)
Equity	\$ 3,383.9	\$ 3,304.7	\$ 79.2

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

The decrease in our net cash and investments position at October 1, 2011 as compared to April 2, 2011 was primarily due to our use of cash to support treasury stock repurchases and capital expenditures, partially offset by our operating cash flows. We used \$417.8 million to repurchase 3.4 million shares of Class A common stock, including shares surrendered for tax withholdings, and spent \$92.4 million for capital expenditures.

The increase in equity was primarily attributable to our net income and equity issuances pursuant to stock-based compensation arrangements during the six months ended October 1, 2011, partially offset by an increase in treasury stock as a result of our common stock repurchase program.

***Cash Flows***

	<b>Six Months Ended</b>		
	<b>October 1, 2011</b>	<b>October 2, 2010 (millions)</b>	<b>\$ Change</b>
Net cash provided by operating activities	\$ 283.5	\$ 224.0	\$ 59.5
Net cash used in investing activities	(12.6)	(18.4)	5.8
Net cash used in financing activities	(316.1)	(342.6)	26.5
Effect of exchange rate changes on cash and cash equivalents	(0.1)	9.8	(9.9)
Net decrease in cash and cash equivalents	\$ (45.3)	\$ (127.2)	\$ 81.9

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities increased to \$283.5 million during the six months ended October 1, 2011, as compared to \$224.0 million during the six months ended October 2, 2010. This net increase in operating cash flow was primarily driven by:

an increase in net income before depreciation, amortization, stock-based compensation and other non-cash expenses; and

an increase related to income taxes due to the timing of income tax payments.

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

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

a decrease related to inventories primarily attributable to an increase in inventory levels to support our sales growth and product expansion, new store openings and recently acquired businesses, as well as the timing of inventory receipts. The higher inventory levels also reflect increased sourcing costs during the six months ended October 1, 2011; and

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a decrease related to accounts receivable primarily due to lower cash collections during the six months ended October 1, 2011, which resulted in an increase in days sales outstanding compared to the prior year period.

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

*Net Cash Used in Investing Activities.* Net cash used in investing activities was \$12.6 million during the six months ended October 1, 2011, as compared to \$18.4 million of net cash used in investing activities during the six months ended October 2, 2010. The net decrease in cash used in investing activities was primarily driven by:

a decrease in net cash used to fund our acquisitions and ventures from \$21.4 million during the six months ended October 2, 2010 to \$7.9 million during the six months ended October 1, 2011. During the six months ended October 2, 2010, we used \$17.0 million to fund the acquisition of certain finite-lived intellectual property rights; and

a \$3.5 million net decrease related to cash deposits restricted in connection with taxes.

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

a decrease in proceeds from sales and maturities of investments, less cash used to purchase investments. During the six months ended October 1, 2011, we received \$880.3 million of proceeds from sales and maturities of investments and used \$792.9 million to purchase investments. On a comparative basis, during the six months ended October 2, 2010, we received \$667.7 million of proceeds from sales and maturities of investments and used \$567.7 million to purchase investments.

*Net Cash Used in Financing Activities.* Net cash used in financing activities was \$316.1 million during the six months ended October 1, 2011, as compared to \$342.6 million during the six months ended October 2, 2010. The increase in net cash from financing activities was primarily driven by:

an increase in net proceeds from credit facilities. During the six months ended October 1, 2011, we borrowed \$100.0 million under our Global Credit Facility. We also borrowed \$7.7 million under our Chinese Credit Facility during the six months ended October 1, 2011, which was repaid in full during the same period; and

increase in excess tax benefits from stock-based compensation arrangements of \$14.2 million during the six months ended October 1, 2011, as compared to the related prior year period.

These increases in cash from financing activities were partially offset by:

an increase in cash used in connection with repurchases of our Class A common stock. During the six months ended October 1, 2011, 3.2 million shares of Class A common stock at a cost of \$393.5 million were repurchased pursuant to our common stock repurchase program and 0.2 million shares of Class A common stock at a cost of \$24.3 million were surrendered or withheld in satisfaction of withholding taxes in connection with the vesting of awards under our 1997 Long-Term Stock Incentive Plan, as amended (the 1997 Incentive Plan ), and our 2010 Long-Term Stock Incentive Plan (the 2010 Incentive Plan ). On a comparative basis, during the six months ended October 2, 2010, 4.0 million shares of Class A common stock at a cost of \$331.0 million were repurchased pursuant to our common stock repurchase program and 0.2 million shares of Class A common stock at a cost of \$16.7 million were surrendered or withheld for taxes; and



an increase in cash used to pay dividends. During the six months ended October 1, 2011, we used \$37.4 million to pay dividends as compared to \$19.4 million during the six months ended October 2, 2010, largely due to an increase in the quarterly cash dividend on our common stock from \$0.10 per share to \$0.20 per share in February 2011.

***Liquidity***

Our primary sources of liquidity are the cash flows generated from our operations, the availability under our Global Credit Facility (as defined below), our available cash and cash equivalents (most of which is considered permanently reinvested outside the U.S.) and investments, and our other available financing options. These sources

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of liquidity are used to fund our ongoing cash requirements, including working capital requirements, global retail store expansion and renovation, construction and renovation of shop-in-shops, investment in technological infrastructure, acquisitions, joint ventures, dividends, debt repayment/repurchase, stock repurchases, contingent liabilities (including uncertain tax positions) and other corporate activities. Management believes that our existing sources of cash will be sufficient to support our operating, capital and debt service requirements for the foreseeable future, including the ongoing development of our recently acquired businesses and our plans for further business expansion.

As discussed in the *Debt and Covenant Compliance* section below, we had revolving credit borrowings of \$100 million outstanding under our Global Credit Facility as of October 1, 2011. As discussed further below, we may elect to further draw on our Global Credit Facility or other potential sources of financing for, among other things, a material acquisition, settlement of a material contingency (including uncertain tax positions) or a material adverse business or macroeconomic development, as well as for other general corporate business purposes. We believe that our Global Credit Facility is adequately diversified with no undue concentrations in any one financial institution. In particular, as of October 1, 2011, there were nine financial institutions participating in the Global Credit Facility, with no one participant maintaining a maximum commitment percentage in excess of approximately 16%. Management has no reason at this time to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the Global Credit Facility in the event of our election to draw funds in the foreseeable future.

### ***Common Stock Repurchase Program***

On May 24, 2011, our Board of Directors approved an expansion of our existing common stock repurchase program that allows us to repurchase up to an additional \$500 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

During the six months ended October 1, 2011, we repurchased 3.2 million shares of Class A common stock at a cost of \$393.5 million under our share repurchase program. The remaining availability under our common stock repurchase program was approximately \$579 million as of October 1, 2011.

In addition, during the six months ended October 1, 2011, 0.2 million shares of Class A common stock at a cost of \$24.3 million were surrendered to, or withheld by, us in satisfaction of taxes in connection with the vesting of awards under the 1997 Incentive Plan and the 2010 Incentive Plan.

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

### ***Dividends***

Since 2003, we have maintained a regular quarterly cash dividend program on our common stock. On February 8, 2011, our Board of Directors approved an increase to our quarterly cash dividend on our common stock from \$0.10 per share to \$0.20 per share. The second quarter Fiscal 2012 dividend of \$0.20 per share was declared on September 19, 2011, was payable to stockholders of record at the close of business on September 30, 2011, and was paid on October 14, 2011. Dividends paid amounted to \$37.4 million during the six months ended October 1, 2011 and \$19.4 million during the six months ended October 2, 2010.

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

***Debt and Covenant Compliance***

*Euro Debt*

As of October 1, 2011, we had outstanding 209.2 million principal amount of 4.5% notes due October 4, 2013 (the Euro Debt ). We have the option to redeem all of the outstanding Euro Debt at any time at a redemption price

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equal to the principal amount plus a premium. We also have the option to redeem all of the outstanding Euro Debt at any time at par plus accrued interest in the event of certain developments involving U.S. tax law. Partial redemption of the Euro Debt is not permitted in either instance. In the event of a change of control, each holder of the Euro Debt has the option to require us to redeem the Euro Debt at its principal amount plus accrued interest. The indenture governing the Euro Debt (the Indenture) contains certain limited covenants that restrict our ability, subject to specified exceptions, to incur liens or enter into a sale and leaseback transaction for any principal property. The Indenture does not contain any financial covenants.

As of October 1, 2011, the carrying value of our Euro Debt was \$273.7 million, compared to \$291.9 million as of April 2, 2011.

*Revolving Credit Facilities**Global Credit Facility*

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

In August 2011, we borrowed \$100.0 million under the Global Credit Facility to be used for general corporate purposes. These borrowings have been classified as short-term debt in our unaudited consolidated balance sheet as of October 1, 2011. We were also contingently liable for \$15.4 million of outstanding letters of credit, and our remaining availability under the Global Credit Facility was \$384.6 million as of October 1, 2011.

Subsequent to the end of the second quarter of Fiscal 2012, in November 2011, we repaid the \$100.0 million in borrowings outstanding under the Global Credit Facility.

The Global Credit Facility contains a number of covenants that, among other things, restrict our 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; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make investments. The Global Credit Facility also requires us 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 8 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 October 1, 2011, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under our Global Credit Facility.

*Chinese Credit Facility*

We also have an uncommitted credit facility in China that provides for a revolving line of credit of up to 70 million Chinese Renminbi (approximately \$11 million as of October 1, 2011) through February 9, 2012 (the Chinese Credit Facility). The Chinese Credit Facility is used to fund general working capital needs of our operations in China. The borrowing availability under the Chinese Credit Facility is at the sole discretion of JPMorgan Chase Bank (China) Company Limited, Shanghai Branch (the Bank) and is subject to availability of the Bank's funds and satisfaction of

certain regulatory requirements. Borrowings under the Chinese Credit Facility are guaranteed by RLC and bear interest at either (i) at least 90% of the short-term interest rate published by the People's Bank of China or (ii) a rate determined by the Bank at its discretion based on prevailing market conditions. The Chinese Credit Facility does not contain any financial covenants.

During the second quarter of Fiscal 2012, we repaid our previously outstanding borrowings under the Chinese Credit Facility, and there were no borrowings outstanding as of October 1, 2011.

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Refer to Note 14 of the Fiscal 2011 10-K for detailed disclosure of the terms and conditions of our debt and our credit facilities.

## **MARKET RISK MANAGEMENT**

As discussed in Note 16 to our audited consolidated financial statements included in our Fiscal 2011 10-K and Note 12 to the accompanying unaudited interim consolidated financial statements, we are exposed to a variety of risks, including changes in foreign currency exchange rates relating to certain anticipated cash flows from our international operations and possible declines in the value of reported net assets of certain of our foreign operations, as well as changes in the fair value of our fixed-rate debt relating to changes in interest rates. Consequently, in the normal course of business we employ established policies and procedures, including the use of derivative financial instruments, to manage such risks. We do not enter into derivative transactions for speculative or trading purposes.

As a result of the use of derivative instruments, we are exposed to the risk that counterparties to our derivative contracts will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we have a policy of only entering into contracts with carefully selected financial institutions based upon their credit ratings and other financial factors. Our established policies and procedures for mitigating credit risk on derivative transactions include reviewing and assessing the creditworthiness of counterparties. As a result of the above considerations, we do not believe that we are exposed to any undue concentration of counterparty risk with respect to our derivative contracts as of October 1, 2011.

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

We manage our exposure to changes in foreign currency exchange rates through the use of foreign currency exchange contracts. Refer to Note 12 to the accompanying unaudited interim consolidated financial statements for a summarization of the notional amounts and fair values of our foreign currency exchange contracts outstanding as of October 1, 2011.

From time to time, we may enter into forward foreign currency exchange contracts as hedges to reduce our risk from exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of our international operations, intercompany contributions made to fund certain marketing efforts of our international operations, interest payments made in connection with outstanding debt, and other foreign currency-denominated operational cash flows. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the Hong Kong Dollar, the Swiss Franc and the British Pound Sterling, we hedge a portion of our foreign currency exposures anticipated over the ensuing twelve-month to two-year periods. In doing so, we use foreign currency exchange contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period.

Our foreign exchange risk management activities are governed by policies and procedures approved by our Audit Committee. Our policies and procedures provide a framework that allows for the management of currency exposures while ensuring the activities are conducted within our established guidelines. Our policies include guidelines for the organizational structure of our risk management function and for internal controls over foreign exchange risk management activities, including but not limited to authorization levels, transactional limits, and credit quality controls, as well as various measurements for monitoring compliance. We monitor foreign exchange risk using different techniques, including a periodic review of market value and sensitivity analyses.

### ***Interest Rate Risk Management***

During the first quarter of Fiscal 2011, we entered into a fixed-to-floating interest rate swap with an aggregate notional value of 209.2 million, which was designated as a fair value hedge to mitigate our exposure to changes in the fair value of our Euro Debt due to changes in the benchmark interest rate. The interest rate swap was executed to swap the 4.5% fixed interest rate on our Euro Debt for a variable interest rate. On April 11, 2011, we terminated the interest rate swap agreement at a loss of \$7.6 million. This loss has been recorded as an adjustment to the carrying value of our Euro Debt and is being recognized within interest expense over the remaining term of the debt, through October 4, 2013. During the three-month and six-month periods ended October 1, 2011, \$0.7 million and

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\$1.5 million of this loss, respectively, was recognized as interest expense within our consolidated statement of operations.

As of October 1, 2011, there have been no other significant changes in our interest rate and foreign currency exposures or in the types of derivative instruments used to hedge those exposures.

See Note 3 to the accompanying unaudited interim consolidated financial statements for further discussion of our interest rate and foreign currency exposures and the types of derivative instruments used to hedge those exposures.

## ***Investment Risk Management***

As of October 1, 2011, we had cash and cash equivalents on-hand of \$407.7 million, primarily invested in money market funds, time deposits and treasury bills with original maturities of 90 days or less. Our other significant investments included \$477.9 million of short-term investments, primarily in time deposits, municipal bonds and corporate bonds with original maturities greater than 90 days; \$50.2 million of restricted cash placed in escrow with certain banks as collateral primarily to secure guarantees in connection with certain international tax matters; \$91.0 million of investments with maturities greater than one year in municipal bonds and corporate bonds; \$2.4 million of auction rate securities issued through a municipality; and \$0.4 million of other securities.

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

## **CRITICAL ACCOUNTING POLICIES**

Our significant accounting policies are described in Note 3 to the audited consolidated financial statements included in our Fiscal 2011 10-K. Our estimates are often based on complex judgments, probabilities and assumptions that our management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the *Critical Accounting Policies* section of the MD&A in our Fiscal 2011 10-K. The following discussion only is intended to update our critical accounting policies for any significant changes in policy implemented during the six months ended October 1, 2011.

There have been no significant changes in the application of our critical accounting policies since April 2, 2011.

## ***Goodwill Impairment Assessment***

We performed our annual impairment assessment of goodwill as of the beginning of the second quarter of Fiscal 2012. Based on the results of the impairment assessment as of July 3, 2011, we confirmed that the fair value of our reporting units exceeded their respective carrying values and there are no reporting units at risk of impairment.

## **RECENTLY ISSUED ACCOUNTING STANDARDS**



See Note 4 to the accompanying unaudited interim consolidated financial statements for a description of certain recently issued or proposed accounting standards which may impact our financial statements in future reporting periods.

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

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

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

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

The Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13(a)-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as of October 1, 2011. Except as discussed below, there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended October 1, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

*South Korea Licensed Operations Acquisition*

On January 1, 2011, the Company acquired control of the Ralph Lauren-branded apparel business in South Korea from Doosan that was formerly conducted under a licensed arrangement (the "South Korea Licensed Operations Acquisition", as discussed in Note 5 to the accompanying unaudited interim consolidated financial statements). In connection with the South Korea Licensed Operations Acquisition, the Company has continued to develop supporting infrastructure covering all critical operations, including but not limited to, merchandising, sales, inventory management, customer service, distribution, store operations, real estate management, finance and other administrative areas. As part of the continued development of this infrastructure, the Company has implemented and enhanced various processes, systems, and internal controls to support this business during the second quarter of Fiscal 2012.

*Global Financial and Reporting System Implementation*

We are in the process of implementing a new global financial and reporting system as part of a multi-year plan to integrate and upgrade our operational and financial systems and processes. The implementation of this global system is scheduled to occur in phases over the next several years. During the second quarter of Fiscal 2012, we continued to develop and enhance those domestic operational and financial systems transitioned to the new global financial and reporting system in the beginning of Fiscal 2012. As the phased implementation of this system occurs, we are experiencing certain changes to our processes and procedures which in turn result in changes in internal control over financial reporting. While we expect this new system to strengthen our internal financial controls by automating manual processes and standardizing business processes across our organization, management will continue to evaluate and monitor our internal controls as processes and procedures in each of the affected areas evolve. For a discussion of risks related to the implementation of new systems, see Item 1A "Risk Factors" "Risks Related to Our Business" "Our business could suffer if our computer systems and websites are disrupted or cease to operate effectively" in our Annual Report on Form 10-K for the fiscal year ended April 2, 2011.



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**PART II. OTHER INFORMATION**

**Item 1. *Legal Proceedings.***

Reference is made to the information disclosed under Item 3 LEGAL PROCEEDINGS in our Annual Report on Form 10-K for the fiscal year ended April 2, 2011. The following is a summary of recent litigation developments.

*Wathne Imports Litigation*

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

*Other Matters*

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

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

The Company s Annual Report on Form 10-K for the fiscal year ended April 2, 2011 contains a detailed discussion of certain risk factors that could materially adversely affect the Company s business, operating results, and/or financial condition. There are no material changes to the risk factors previously disclosed, nor has the Company identified any previously undisclosed risks that could materially adversely affect the Company s business, operating results and/or financial condition.

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

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

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

The following table sets forth the repurchases of shares of the Company's Class A common stock during the fiscal quarter ended October 1, 2011:

	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (millions)
July 3, 2011 to July 30, 2011				\$ 670
July 31, 2011 to August 27, 2011				670
August 28, 2011 to October 1, 2011	784,305 <sup>(2)</sup>	\$ 119.02	773,200	579
	784,305		773,200	

- (1) Except as noted below, these repurchases were made on the open market under the Company's Class A common stock repurchase program.
- (2) Includes 11,105 shares surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards issued under the 2010 Long-Term Stock Incentive Plan and the 1997 Long-Term Stock Incentive Plan.

**Item 5. Other Information.****(a) Submission of Matters to a Vote of Security Holders**

On August 11, 2011, at the Annual Meeting of Stockholders, in a non-binding vote of the Company's stockholders regarding the frequency of holding future advisory votes on executive compensation, the proposed frequency that received the highest number of votes was every one year. In light of this result and the other factors considered by the Company's Board of Directors in making its original recommendation to the stockholders, the Company will hold a non-binding advisory vote on executive compensation every year until the Company's Board of Directors determines that a different frequency for such advisory vote is in the Company's best interest or the next required vote in six years on the frequency of such vote.

**(b) Director Compensation**

At its August 11, 2011 meeting, the Board of Directors of the Company determined to change the Company's policy with respect to the compensation of non-employee directors. Effective August 12, 2011, the compensation for non-employee directors is as follows:

an annual retainer fee for each non-employee director of \$60,000;

an annual retainer fee for the Chair of the Compensation & Organizational Development Committee of \$20,000;

an annual retainer fee for the Chair of Audit Committee of \$20,000;

an annual retainer fee for the Chair of the Nominating & Governance Committee of \$15,000; and

an annual equity award for each non-employee director with a target equity value of \$100,000. One-half of the target equity value will be delivered in the form of options to purchase shares of the Company's Class A common stock and one-half will be delivered in the form of restricted shares of Class A common stock. The options and the restricted shares of Class A common stock will vest over three years in equal annual installments. The exercise term for the stock options is seven years. The annual equity award to a non-employee director is awarded on April 1st of each year to a non-employee director who has served as a director for at least half of the preceding fiscal year.

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The fee paid to a non-employee director for each meeting of a committee of the Board of Directors that such director attends remains unchanged at \$2,000 per committee meeting. The annual retainer and attendance fees are paid to the non-employee directors in quarterly installments in arrears.

A new non-employee director also receives a grant of options to purchase 7,500 shares of the Company's Class A common stock at the time that such director joins the Board of Directors of the Company. These options will vest over three years in equal annual installments and the exercise term is seven years.

**Item 6. Exhibits.**

- 3.1 Certificate of Amendment to the Amended and Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Form 8-K filed on August 16, 2011 (Commission File No. 001-13057)).
- 3.2 Restated Bylaws of Ralph Lauren Corporation (filed as Exhibit 3.2 to the Form 8-K filed on August 16, 2011 (Commission File No. 001-13057)).
- 10.1 Credit Agreement, dated March 10, 2011, among Polo Ralph Lauren Corporation, Polo JP Acqui C.V., Polo Ralph Lauren Kabushiki Kaisha and Polo Ralph Lauren Asia Pacific Limited, as the borrowers, the lenders party thereto, and JP Morgan Chase Bank, N.A., as administrative agent (replaces Exhibit 10.27 to the Form 10-K for the fiscal year ended April 2, 2011).
- 10.2 Employment Agreement, effective as of October 14, 2009, between Polo Ralph Lauren Corporation and Jackwyn Nemerov (replaces Exhibit 10.28 to the Form 10-K for the fiscal year ended April 2, 2011).\*
- 10.3 Employment Agreement, effective as of September 28, 2009, between Polo Ralph Lauren Corporation and Tracey T. Travis (replaces Exhibit 10.29 to the Form 10-K for the fiscal year ended April 2, 2011).\*
- 10.4 Employment Agreement, effective as of October 14, 2009, between Polo Ralph Lauren Corporation and Mitchell A. Kosh (replaces Exhibit 10.30 to the Form 10-K for the fiscal year ended April 2, 2011).\*
- 31.1 Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 17 CFR 240.13a-14(a).
- 31.2 Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 17 CFR 240.13a-14(a).
- 32.1 Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at October 1, 2011 and April 2, 2011, (ii) the Consolidated Statements of Operations for the three-month and six-month periods ended October 1, 2011 and October 2, 2010, (iii) the Consolidated Statements of Cash Flows for the six months ended October 1, 2011 and October 2, 2010 and (iv) the Notes to Consolidated Financial Statements.

\* Portions of this exhibit have been omitted and are the subject of a request for confidential treatment filed separately with the SEC.

Exhibits 32.1, 32.2 and 101 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibits shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934.



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**SIGNATURES**

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

RALPH LAUREN CORPORATION

By: */s/ TRACEY T. TRAVIS*  
Tracey T. Travis  
*Senior Vice President and Chief Financial Officer*  
*(Principal Financial and Accounting Officer)*

Date: November 9, 2011