POLO RALPH LAUREN CORP
Form 10-K
May 30, 2007

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

Form 10-K

(Mark One)

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

For the fiscal year ended March 31, 2007

or

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

Commission File Number: 001-13057

POLO RALPH LAUREN CORPORATION
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**13-2622036** *(IRS Employer Identification No.)*
650 Madison Avenue, New York, New York *(Address of principal executive offices)*	**10022** *(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A common stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ   No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o   No þ

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 þ   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as described in Rule 12b-2 of the Exchange Act).

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o

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

The aggregate market value of the registrant s voting stock held by nonaffiliates of the registrant was approximately $3,908,558,156 as of September 30, 2006, the last business day of the registrant s most recently completed second fiscal quarter.

At May 18, 2007, 60,677,044 shares of the registrant s Class A common stock, $.01 par value and 43,280,021 shares of the registrant s Class B common stock, $.01 par value were outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Various statements in this Form 10-K or incorporated by reference into this Form 10-K, in future filings by us with the Securities and Exchange Commission (the SEC), in our press releases and in oral statements made by or with the approval of authorized personnel 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 and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements include statements regarding, among other items:

- our anticipated growth strategies;
- our plans to expand internationally;
- our plans to open new retail stores;
- our ability to make certain strategic acquisitions of certain selected licenses held by our licensees;
- our intention to introduce new products or enter into new alliances;
- anticipated effective tax rates in future years;
- future expenditures for capital projects;
- our ability to continue to pay dividends and repurchase Class A common stock;
- our ability to continue to maintain our brand image and reputation;
- our ability to continue to initiate cost cutting efforts and improve profitability; and
- our efforts to improve the efficiency of our distribution system.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. Significant factors that have the potential to cause our actual results to differ materially from our expectations are described in this Form 10-K under the heading of Risk Factors. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

WEBSITE ACCESS TO COMPANY REPORTS

Our investor website is http://investor.polo.com. We were incorporated in June 1997 under the laws of the State of Delaware. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 are available on our investor website under the caption SEC Filings promptly after we electronically file such materials with, or furnish such materials to, the SEC. Information relating to corporate governance at Polo, including our Corporate Governance Policies, our Code of Business Conduct and Ethics for all directors, officers, and employees, our Code of Ethics for Principal Executive Officers and Senior Financial Officers,

and information concerning our directors, Committees of the Board, including Committee charters, and transactions in Polo securities by directors and executive officers, is available at our website under the captions Corporate Governance and SEC Filings. Paper copies of these filings and corporate governance documents are available to stockholders without charge by written request to Investor Relations, Polo Ralph Lauren Corporation, 625 Madison Avenue, New York, New York 10022.

In this Form 10-K, references to Polo, ourselves, we, our, us and the Company refer to Polo Ralph Lauren Corporation and its subsidiaries, unless the context requires otherwise. Due to the collaborative and ongoing nature of our relationships with our licensees, such licensees are sometimes referred to in this Form 10-K as licensing alliances. Our fiscal year ends on the Saturday nearest to March 31. All references to Fiscal 2007 represent the 52-week fiscal year ended March 31, 2007. All references to Fiscal 2006 represent the 52-week fiscal year ended April 1, 2006. All references to Fiscal 2005 represent the 52-week fiscal year ended April 2, 2005.

PART I

Item 1. *Business*

General

Polo Ralph Lauren Corporation 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. We believe that our global reach, breadth of product and multi-channel distribution is unique among luxury and apparel companies. We operate in three distinct but integrated segments: Wholesale, Retail and Licensing. During the past five years, we have continued to develop our business model, expand our vertically integrated Retail segment, reposition our Wholesale segment, and maintain a strong Licensing segment despite the strategic acquisition of several of our key licensed businesses. The following tables show our net revenues and operating profit (excluding unallocated corporate expenses and legal and restructuring charges) by segment for the last three fiscal years:

	Fiscal Years Ended		
	March 31, 2007	April 1, 2006	April 2, 2005
		(millions)	
Net revenues:			
Wholesale	$ 2,315.9	$ 1,942.5	$ 1,712.1
Retail	1,743.2	1,558.6	1,348.6
Licensing	236.3	245.2	244.7
Total net revenues	$ 4,295.4	$ 3,746.3	$ 3,305.4

	Fiscal Years Ended		
	March 31, 2007	April 1, 2006	April 2, 2005
		(millions)	
Operating income:			
Wholesale	$ 477.8	$ 398.3	$ 299.7
Retail	224.2	140.0	82.8
Licensing	141.6	153.5	159.5
	843.6	691.8	542.0
Less:			

Unallocated corporate expenses	(183.4)	(159.1)	(133.8)
Unallocated legal and restructuring charges	(7.6)	(16.1)	(108.5)
Total operating income	$ 652.6	$ 516.6	$ 299.7

Our net revenues by geographic region for the last three years are shown in the tables below. Note 20 to our accompanying audited consolidated financial statements included in this Annual Report on Form 10-K contains additional segment and geographic area information.

	Fiscal Years Ended		
	March 31, 2007	April 1, 2006	April 2, 2005
		(millions)	
Net revenues:			
United States and Canada	$ 3,452.2	$ 3,032.3	$ 2,581.2
Europe	767.9	627.7	579.2
Japan	64.6	44.3	45.9
Other regions	10.7	42.0	99.1
Total net revenues	$ 4,295.4	$ 3,746.3	$ 3,305.4

We continue to invest in our business. In the past five years, we have invested approximately $1.6 billion for the acquisition of several key licensed businesses and capital improvements, all fundamentally through strong operating cash flow. We intend to continue to execute our long-term strategy of expanding our accessories and other product offerings, growing our specialty retail store base, and expanding our presence internationally.

Seasonality of Business

Our business is affected by seasonal trends, with greater Wholesale segment sales in our second and fourth quarters and greater Retail segment 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. As a result of the growth in our retail operations and other changes in our business, historical quarterly operating trends and working capital requirements may not be indicative of future performances. In addition, fluctuations in sales and operating income in any fiscal quarter may be affected by, among other things, the timing of seasonal wholesale shipments and other events affecting retail sales.

Recent Developments

Japanese Business Acquisitions

On May 29, 2007, we completed our tender offer which was commenced on April 17, 2007, in an effort to acquire in Yen the approximately 80% of the outstanding shares of Impact 21 Co., Ltd (Impact 21), a Japanese corporation, that we did not previously own (the Tender Offer). Impact 21 is our sub-licensee for men s, women s and jeans apparel and accessories in Japan. The successful completion of the Tender Offer allows us to enhance and expand our market distribution and product assortment in Japan, which is consistent with our overall objectives to grow our business internationally.

As part of the Tender Offer, Onward Kashiyama Co. Ltd (Onward Kashiyama) and its affiliates sold their approximately 41% ownership interest in Impact 21 to us. We also acquired approximately 36% of the issued and outstanding shares of Impact 21 held by the public, resulting in a total ownership level of approximately 97%. Under Japanese law, once we own two-thirds (2/3) or more of the aggregate voting rights of Impact 21, we would effectively control Impact 21 and may determine almost all matters subject to a vote of the shareholders of the Company. We intend to acquire the remaining approximately 3% of Impact 21 s shares not tendered as of May 29, 2007 and held by Impact 21 s remaining shareholders for cash during the second quarter of Fiscal 2008. The total acquisition cost (excluding transaction costs) to acquire the approximately 80% of the outstanding shares of Impact 21 not already

owned by us is expected to be approximately $340 million. Of this amount, we paid approximately $327 million as of May 29, 2007 in conjunction with the completion of the Tender Offer. We will finance the total acquisition cost using cash on hand and an approximate $170 million short-term loan provided to us by several financial institutions (the Term Loan). We expect to repay the borrowings under the Term Loan using cash available at Impact 21 within the next 12 months. See Item 7 *Financial Condition and Liquidity* for further discussion of the Term Loan.

The results of operations for Impact 21 will be consolidated as of April 1, 2007, the beginning of the annual fiscal period in which effective control was obtained for accounting purposes. We will report minority interest for

the amount of Impact 21 s net income allocable to the holders of the approximately 3% of Impact 21 shares not owned by us prior to May 29, 2007. In connection with the Tender Offer, we and Onward Kashiyama entered into a transition services agreement for Onward Kashiyama to provide a variety of operational, distribution and human resource-related services over a period of up to 2 years effective upon consummation of the Tender Offer. In addition, we will lease certain facilities from Onward Kashiyama.

Also on May 29, 2007, we acquired the remaining 50% interest in Polo Ralph Lauren Japan Corporation (PRL Japan), a Japanese corporation, which was held by Onward Kashiyama and The Seibu Department Stores, Ltd. (Seibu). PRL Japan is our Japanese master licensee. We acquired PRL Japan for approximately $22 million in cash, excluding transaction costs, using cash on hand. We previously consolidated the results of PRL Japan as the primary beneficiary. As a result, commencing on May 29, 2007, we will report 100% of the net income of PRL Japan.

Acquisition of Small Leathergoods Business

On April 13, 2007, we acquired from Kellwood Company (Kellwood) substantially all of the assets of New Campaign, Inc., our licensee for men s and women s belts and other small leather goods under the Ralph Lauren, Lauren and Chaps brands in the U.S. The assets acquired from Kellwood will become a division of ours which has been renamed Polo Ralph Lauren Leathergoods. The asset purchase cost was approximately $10 million and is subject to customary closing adjustments. Under a transition services agreement, Kellwood will provide us with various transition services for up to six months after consummation of the asset purchase transaction.

The results of operations for the Polo Ralph Lauren Leathergoods business will be consolidated in our results of operations commencing in Fiscal 2008.

Acquisition of RL Media Minority Interest

On March 28, 2007, we acquired the remaining 50% equity interest in Ralph Lauren Media, LLC (RL Media) held 37.5% by NBC-Lauren Media Holdings, Inc. (a subsidiary wholly-owned by the National Broadcasting Company, Inc.) and 12.5% by Value Vision Media, Inc. (Value Vision), giving us full ownership of RL Media. Commencing in Fiscal 2008, we will report 100% of the net income of RL Media. RL Media was established in 2000 to develop Polo Ralph Lauren branded media projects across multiple platforms. Today, RL Media conducts our e-commerce initiatives through the Polo.com internet site and is consolidated by us as the primary beneficiary. The acquisition was a cash transaction of $175 million.

Formation of Ralph Lauren Watch and Jewelry Joint Venture

On March 5, 2007, we announced that we had agreed to form a joint venture with Financiere Richemont SA (Richemont), the Swiss Luxury Goods Group. The 50-50 joint venture will be a Swiss corporation (or société à responsabilité limitee) named the Ralph Lauren Watch and Jewelry Company, S.A.R.L., (the RL Watch Company) and the joint venture s purpose is to design, develop, manufacture, sell and distribute luxury watches and fine jewelry through Ralph Lauren boutiques, as well as through fine independent jewelry and luxury watch retailers throughout the world. The RL Watch Company is expected to commence operations during the first quarter of Fiscal 2008 and it is expected that the products will be launched in the fall of calendar 2008. We expect to account for our 50% interest in the RL Watch Company under the equity method of accounting. Royalty payments due to us under the related license agreement for use of certain of our trademarks will be reflected as licensing revenue within the consolidated statement of operations.

Global Brand Concepts and Launch of American Living

On January 8, 2007, we announced that we will begin to develop new lifestyle brands for specialty and department stores through our Global Brand Concepts (GBC) group. The GBC group will work in partnership with select department and specialty stores to contribute its expertise in design, operations, marketing, merchandising and advertising in developing exclusive brands for these stores. Consistent with this strategic initiative, on February 1, 2007, we announced plans to launch *American Living*, a new lifestyle brand created exclusively for J.C. Penney Company, Inc. (JCPenney). *American Living* products will be available in JCPenney s stores and catalog beginning in the spring of calendar 2008 and will include a full range of merchandise for women, men and children, as well as intimate apparel, accessories and home products.

Our Brands and Products

Since 1967, our distinctive brand image has been consistently developed across an expanding number of products, price tiers and markets. Our *Polo, Polo by Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Black Label, RLX, Ralph Lauren Blue Label, Lauren, RRL, Rugby, Chaps*, *Club Monaco* and *American Living* brand names are one of the world s most widely recognized families of consumer brands. We have been an innovator in aspirational lifestyle branding and believe that, under the direction of Ralph Lauren, the internationally renowned designer, we have influenced the manner in which people dress and live in contemporary society, reflecting an American perspective and lifestyle uniquely associated with Polo and Ralph Lauren. We combine our consumer insight and design, marketing and imaging skills to offer, along with our licensing alliances, broad lifestyle product collections with a unified vision:

Apparel Products include extensive collections of men s, women s and children s clothing;

*Accessorie*s Accessories encompass a broad range of products such as footwear, eyewear, jewelry and leather goods, including handbags and luggage;

Home Coordinated products for the home include bedding and bath products, furniture, fabric and wallpaper, paints, broadloom, tabletop and giftware; and

Fragrance Fragrance products are sold under our Glamorous, Romance, Polo, Lauren, Safari, Blue Label and Black Label brands, among others.

Domestically, our Rugby, Blue Label for women and Black Label for men brands are sold primarily in our own retail specialty stores. Our lifestyle brand image is reinforced by our Polo.com internet site, which averaged 2.3 million unique visitors to the site each month during Fiscal 2007 and 1.1 million customers during Fiscal 2007.

Polo by Ralph Lauren. Classic and authentic, Polo by Ralph Lauren is the foundation of the world of Ralph Lauren menswear with its comprehensive line of men s sportswear, tailored clothing and accessories. It is generally priced at a range of price points within the men s premium ready-to-wear apparel market. We currently sell this collection worldwide through Ralph Lauren stores, department stores, specialty stores and online at Polo.com.

Blue Label. Classic and authentic with a sexy, youthful spirit, Blue Label embodies the Ralph Lauren sensibility through heritage looks with a fresh modern twist. Inspired by the style and authenticity of Polo, Blue Label offers women the perfect weekend look. Blue Label collection is generally priced at a range of price points within the premium ready-to-wear apparel market. We currently sell the Blue Label collection domestically and internationally through Ralph Lauren stores and select wholesale accounts in Europe and Asia. In Japan, our Blue Label line is sold under the Ralph Lauren brand name.

Polo Golf. Rooted in the design heritage of Ralph Lauren, Polo Golf and Ralph Lauren Golf feature luxury technical performance wear for men and women that travels effortlessly between the course and the clubhouse. Polo Golf and Ralph Lauren Golf compete with the highest-quality providers of men s and women s golf apparel. Price points are similar to those charged for products in the Polo by Ralph Lauren line. We sell the Polo Golf collection in the U.S., Canada and Europe through leading golf clubs, pro shops and resorts, as well as department stores, specialty stores and Ralph Lauren stores.

RLX. Created to answer the demands of dedicated athletes for superior high-performance outfitting, RLX provides gear that unites the highest standards of quality, design and technology. The result is a line of cutting edge athletic

fashion with an unmistakable respect for functionality in winter sports, tennis, golf, sailing and cycling. We currently sell RLX domestically and in Europe only in our Ralph Lauren stores.

Ralph Lauren Childrenswear. Reflecting the timeless spirit of Ralph Lauren, our Childrenswear collections provide classic style for kids of all ages: layette and toddler to girls ages 2 to 13 and boys ages 2 to 15. The collections feature seasonal styles as well as the full range of Ralph Lauren icons, including classic polos, oxford shirts, navy blazers and our unsurpassed cashmere. We offer a comprehensive collection of both Boys and Girls apparel and accessories that are sold worldwide through Ralph Lauren stores as well as to better specialty and department stores.

Lauren by Ralph Lauren. Created to broaden the reach of the Ralph Lauren women s statement, Lauren conveys a spirit of heritage and tradition while recalling the sophisticated luxury of Black Label. Timeless and perfectly polished, Lauren suits, sportswear and outerwear provide ideal combinations for every occasion, while Lauren Active infuses a country club sensibility into practical sports apparel, creating fashionable wardrobe solutions for golf, tennis, yoga or weekend wear. Lauren by Ralph Lauren is generally priced at a range of price points within the women s better ready-to-wear apparel market. Lauren is sold in department stores domestically and in Canada and online at Polo.com.

Women s Ralph Lauren Collection. The crown jewel of Ralph Lauren womenswear, Collection makes its dramatic first appearance each season on the runways of New York, providing the fashion world with the definitive Ralph Lauren style statement for the season. Embodying opulent sophistication, Collection s distinctive couture sensibility is expressed though modern yet timeless silhouettes expertly crafted from the finest luxury fabrics reflecting the epitome of bold femininity and rarefied chic as only Ralph Lauren can express it. Ralph Lauren Collection is sold primarily in Ralph Lauren stores. Select pieces are also available through specialty stores, the finest department stores and online at Polo.com.

Women s Black Label. Sophisticated and classic with a modern edge, Black Label translates the luxurious spirit of Ralph Lauren into a distinctive, timeless collection of icons for town, country, day and evening. Created from the finest materials, the silhouettes of Black Label striking, sexy and elegant are the cornerstones of the Ralph Lauren woman s wardrobe. Black Label is sold among the finest collections sold throughout the world, in designer boutiques, better department stores, fine specialty stores and primarily, in Ralph Lauren stores. Select pieces are also available online at Polo.com.

Men s Purple Label Collection. A contemporary take on traditional bespoke tailoring, Ralph Lauren Purple Label is the ultimate expression of modern elegance for men. From perfectly tailored suits to ultra-sophisticated sportswear, Purple Label reflects an impeccable sense of the dashing and refined, calling for the most luxurious fabrics, precise finishes and expert craftsmanship in the spirit of the finest Savile Row tailoring and European hand workmanship. Ralph Lauren Purple Label is sold primarily in Ralph Lauren stores, but is also available through specialty stores, fine department stores and online at Polo.com. We sell the Purple Label collection through our Ralph Lauren stores and a limited number of premier fashion retailers at price points at the upper end of the luxury range.

Men s Black Label. Reflecting a sharp, modern attitude, Ralph Lauren Black Label is a sophisticated new collection for men. Featuring razor-sharp tailoring and dramatically lean silhouettes, the look is at once modern and timeless. Classic suiting and sportswear is infused with a savvier attitude. Iconic yet fresh, the line represents a new chapter in men s style that is the essence of modern elegance. We sell the Men s Black Label collection through our Ralph Lauren stores and a limited number of premier fashion retailers at price points at the upper end of the luxury range.

Rugby. Rugby is a relatively new store and brand concept by Ralph Lauren created for the next generation of Polo customers. It is a vertical retail division that targets a twenty-something young professional dual gender customer base. The concept has also shown elasticity both younger and older, but varies by store. Rooted in the preppy Ivy League sensibility at the heart of Ralph Lauren heritage, Rugby combines sporty prep-school looks with city savvy to create a youthful, energetic collection of sportswear. From edgy, rebellious, sport-inspired looks for men to sharp, sexy, urban campus styles for women, Rugby embraces a lasting sense of timeless individuality.

Club Monaco. Club Monaco is a dynamic, international retail concept that designs, manufactures and markets its own Club Monaco clothing and accessories. Each season, Club Monaco offers men s and women s updated classics and key fashion pieces that are the foundation of a modern wardrobe. The brand s signature clean and modern style gives classics an update through great design and a current sensibility. Club Monaco is the lifestyle destination for today s urban professional. Currently, Club Monaco operates 64 stores throughout North America and, through licensing

arrangements, has recently opened stores in Hong Kong, Seoul and Dubai.

American Living. American Living will be the first brand launched under the new Global Brand Concepts group. American Living will be exclusive to JCPenney in the U.S. and is expected to be launched in February of

2008 in more than 650 JCPenney stores as well as the catalog and online. American Living will be a full lifestyle offering men s, women s, children s, accessories and home.

Chaps. The Chaps brand does not carry the Ralph Lauren name, but its mission is to deliver the design heritage and advertising images of the Company to a broader consumer base in the mid-tier distribution channel and select independent department stores. Chaps reflects an updated interpretation of classic American styling from the house of Ralph Lauren, in full lifestyle collections in the men s, women s, children s, accessory and home product categories.

Our Wholesale Segment

Our Wholesale segment sells our products to leading upscale and certain mid-tier department stores, specialty stores and golf and pro shops, both domestically and internationally. We have focused on elevating our brand and improving productivity by reducing the number of unproductive doors within department stores in which our products are sold, improving in-store product assortment and presentation, and improving full-price sell-throughs to consumers. As of March 31, 2007, the end of Fiscal 2007, our products were sold through 8,291 domestic doors, and during Fiscal 2007, we invested approximately $32 million in shop-within-shops dedicated to our products in domestic department stores. We have also effected selective price increases on basic products and introduced new fashion offerings at higher price points.

Department stores are our major wholesale customers in North America. In Europe, our wholesale sales are a varying mix of sales to both department stores and specialty shops, depending on the country. Our collection brands Women s Ralph Lauren Collection and Black Label and Men s Purple Label Collection and Black Label are distributed through a limited number of premier fashion retailers. In addition, we sell excess and out-of-season products through secondary distribution channels.

Worldwide Distribution Channels

The following table presents the approximate number of doors by geographic location, in which products distributed by our Wholesale segment were sold to consumers as of March 31, 2007.

Location	**Approximate Number of Doors as of March 31, 2007[(a)]**
United States and Canada	8,291
Europe	2,352
Total	10,643

(a) In Asia/Pacific, our products are distributed by our licensing partners.

The following department store chains were the only wholesale customers whose purchases represented more than 10% of our worldwide wholesale net sales for the year ended March 31, 2007.

Federated Department Stores, Inc., which represented approximately 29%; and

Dillard Department Stores, Inc., which represented approximately 14%.

Our product brands are sold primarily through their own sales forces. Our Wholesale segment maintains their primary showrooms in New York City. In addition, we maintain regional showrooms in Atlanta, Chicago, Dallas, Los Angeles, Milan, Paris, London, Munich, Madrid and Stockholm.

Shop-within-Shops. As a critical element of our distribution to department stores, we and our licensing partners utilize shop-within-shops to enhance brand recognition, to permit more complete merchandising of our lines by the department stores and to differentiate the presentation of products. Shop-within-shops fixed assets primarily include items such as customized freestanding fixtures, moveable wall cases and components, decorative items and flooring.

As of March 31, 2007, we had approximately 10,600 shop-within-shops dedicated to our wholesale products worldwide and our licensing partners had more than 600 shop-within-shops. During Fiscal 2007, we added approximately 1,300 shop-within-shops. Excluding significantly larger shop-within-shops in key department store locations, the size of our shop-within-shops typically ranges from approximately 100 to 4,800 square feet. We share in the cost of these shop-within-shops.

Basic Stock Replenishment Program. Basic products such as knit shirts, chino pants and oxford cloth shirts can be ordered at any time through our basic stock replenishment programs. We generally ship these products within one to five days of order receipt. These products accounted for approximately 6% of our wholesale net sales in Fiscal 2007.

Our Retail Segment

Our Retail segment consists of 147 full-price retail stores and 145 factory stores worldwide as of March 31, 2007. The expansion of our full-price retail store base is a primary long-term strategic goal. We opened 10 new full-price stores in Fiscal 2007 and currently anticipate opening between 10 and 15 full-price stores in Fiscal 2008. Our retail operating profit rate increased from 3.0% of net sales in Fiscal 2001 to 12.9% of net sales in Fiscal 2007, reflecting improvements in productivity, gross margins, and full-margin sell-through rates. Our full-price retail stores reinforce the luxury image and distinct sensibility of our brands and feature exclusive lines that are not sold in domestic department stores: Blue Label for Women, Black Label for Men and Ralph Lauren Home. We operated the following full-price retail stores as of March 31, 2007:

Full-Price Retail Stores

Location	Ralph Lauren	Club Monaco	Rugby	Total
United States and Canada	56	64	9	129
Europe	13			13
Japan	2			2
Latin America	3			3
Total	74	64	9	147

Ralph Lauren stores feature the full-breadth of the Ralph Lauren apparel, accessory and home product assortments in an atmosphere reflecting the distinctive attitude and luxury positioning of the Ralph Lauren brand. Our seven flagship Ralph Lauren stores showcase our upper-end luxury styles and products and demonstrate our most refined merchandising techniques.

Club Monaco stores feature updated fashion apparel and accessories for both men and women. The brand s clean and updated classic signature style forms the foundation of a modern wardrobe.

Rugby is a vertical retail format featuring an aspirational lifestyle collection of apparel and accessories for men and women. The brand is characterized by a youthful, preppy attitude which resonates throughout the line and the store experience.

In addition to generating sales of our products, our worldwide full-price stores set, reinforce and capitalize on the image of our brands. Our stores range in size from approximately 600 to over 37,500 square feet. These full-price stores are situated in upscale regional malls and major upscale street locations, generally in large urban markets. We generally lease our stores for initial periods ranging from 5 to 10 years with renewal options.

We extend our reach to additional consumer groups through our 145 Polo Ralph Lauren factory stores worldwide. During Fiscal 2007, we added 1 new Polo Ralph Lauren factory store, net, and closed our remaining

Club Monaco factory stores. Our factory stores are generally located in outlet malls. We operated the following factory retail stores as of March 31, 2007:

Factory Retail Stores

Location	**Ralph Lauren**
United States and Canada	123
Europe	21
Japan	1
Total	145

Polo Ralph Lauren factory stores offer selections of our menswear, womenswear, children s apparel, accessories, home furnishings and fragrances. Ranging in size from 1,500 to 20,000 square feet, with an average of approximately 9,100 square feet, these stores are principally located in major outlet centers in 36 states and Puerto Rico.

European factory stores offer selections of our menswear, womenswear, children s apparel, accessories, home furnishings and fragrances. Ranging in size from 2,400 to 13,200 square feet, with an average of approximately 6,400 square feet, these stores are located in 6 countries, principally in major outlet centers.

Factory stores obtain products from our retail stores, our product licensing partners and our suppliers.

Polo.com

In addition to our stores, our Retail segment sells Ralph Lauren products on-line through our e-commerce website, Polo.com (http://www.polo.com). Polo.com offers our customers access to the full breadth of Ralph Lauren apparel, accessories and home products, and allows us to reach retail customers on a multi-channel basis and reinforces the luxury image of our brands. In Fiscal 2007, Polo.com averaged 2.3 million unique visitors a month and had 1.1 million customers. Polo.com is owned and operated by RL Media. See *Recent Developments* for a discussion of the acquisition of the remaining 50% equity interest in RL Media.

Our Licensing Segment

Through licensing alliances, we combine our consumer insight, design, and marketing skills with the specific product or geographic competencies of our licensing partners to create and build new businesses. We generally seek out licensing partners who:

- are leaders in their respective markets;
- contribute the majority of the product development costs;
- provide the operational infrastructure required to support the business; and
- own the inventory.

We grant our product licensees the right to manufacture and sell at wholesale specified categories of products under one or more of our trademarks. We grant our international geographic area licensing partners exclusive rights to distribute certain brands or classes of our products and operate retail stores in specific international territories. These geographic area licensees source products from us, our product licensing partners and independent sources. Each licensing partner pays us royalties based upon its sales of our products, subject, generally, to a minimum royalty requirement for the right to use the Polo trademark and design services. In addition, licensing partners may be required to allocate a portion of their sales revenues to advertise our products and share in the creative costs associated with these products. Larger allocations are required in connection with launches of new products or in new territories. Our licenses generally have 3 to 5-year terms and may grant the licensee conditional renewal options. See Item 7 *Recent Developments* for a discussion of our Eyewear Licensing Agreement.

We work closely with our licensing partners to ensure that their products are developed, marketed and distributed so as to reach the intended market opportunity and to present consistently to consumers worldwide the distinctive perspective and lifestyle associated with our brands. Virtually all aspects of the design, production quality, packaging, merchandising, distribution, advertising and promotion of Polo Ralph Lauren products are subject to our prior approval and continuing oversight. The result is a consistent identity for Polo Ralph Lauren products across product categories and international markets.

Approximately 22% of our licensing revenue for Fiscal 2007 was derived from two product licensing partners: Impact 21, one of the sublicensees for Japan, and WestPoint Home, Inc, accounted for 14% and 8%, respectively, of our licensing revenue in Fiscal 2007. See *Recent Developments* for a discussion of the Tender Offer to acquire Impact 21.

Product Licenses

The following table lists our principal product licensing agreements for men s and women s sportswear, men s tailored clothing, intimate apparel, accessories and fragrances as of March 31, 2007. The products offered by these licensing partners are listed below. Except as noted in the table, these product licenses cover the U.S. or North America only.

Licensing Partner	**Licensed Product Category**
L Oreal S.A./Cosmair, Inc. (global)	Men s and Women s Fragrances, Cosmetics, Color and Skin Care Products
Carole Hochman Design	Lauren and Chaps Women s Sleepwear, Loungewear and Robes
Corneliani S.P.A. (includes Europe)	Men s Polo Tailored Clothing
Peerless, Inc	Men s, Chaps, Lauren and Ralph Tailored Clothing
Hanes Brands (formerly Sara Lee Corporation)	Men s Polo Ralph Lauren Intimate Apparel
Wathne Imports, Ltd.	Handbags and Luggage
Renfro Corporation (formerly Hot Sox, Inc. which was acquired by Renfro Corporation in May 2007)	Men s and Boy s Polo Ralph Lauren and Women s Ralph Lauren and Lauren and Boy s Hosiery
New Campaign, Inc.*	Polo, Chaps, Ralph Lauren and Lauren Belts and Other Small Leather Goods
Echo Scarves, Inc.	Men s Polo Ralph Lauren and Women s Ralph Lauren and Lauren Scarves and Gloves
Retail Brand Alliance, Inc. (successor to Carolee, Inc.)	Lauren Women s Jewelry
Luxottica Group, S.p.A	Eyewear
The Warnaco Group, Inc.	Men s Chaps Sportswear
Apparel Ventures, Inc.	Women s Ralph Lauren, Lauren and Chaps Swimwear
Philips Van-Heusen Corporation	Men s Chaps Dress Shirts
Randa Corp	Men s Chaps Ties and Boy s Chaps Ties, Belts and Small Leather Goods
Bandanco Enterprise, Inc. (as of May 24, 2007 owned by Randa Corp.)	Men s Chaps Luggage
Crystal Hosiery, Inc.	Women s Chaps Hosiery
Rosetti Handbags and Accessories, Ltd.	Women s Chaps Handbags and Small Leather Goods
Swank, Inc.	Men s Chaps Jewelry and Giftables

* On April 13, 2007, we acquired substantially all of the assets of New Campaign from Kellwood. See *Recent Developments* for further discussion.

International Licenses

We believe that international markets offer additional opportunities for our quintessential American designs and lifestyle image. We work with our international licensing partners to facilitate international growth in their respective territories. International expansion/growth opportunities may include:

- the roll out of new products and brands following their launch in the U.S.;
- the introduction of additional product lines;
- the entrance into new international markets;
- the addition of Ralph Lauren or Polo Ralph Lauren stores in these markets; and
- the expansion and upgrade of shop-in-shop networks in these markets.

The following table identifies our largest international area licensing partners (excluding Ralph Lauren Home licensees) for Fiscal 2007:

Licensing Partner	**Territory**
Oroton Group/PRL Australia	Australia and New Zealand
Doosan Corporation	Korea
P.R.L. Enterprises, S.A.	Panama, Aruba, Curacao, The Cayman Islands, Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, Belize, Colombia, Ecuador, Bolivia, Peru, Antigua, Barbados, Bonaire, Dominican Republic, St. Lucia, Trinidad and Tobago
Dickson Concepts/PRL Hong Kong	Hong Kong, China, Philippines, Malaysia, Singapore, Taiwan and Thailand
PRL Japan*	Japan
Commercial Madison/PRL Chile	Chile

* PRL Japan operates principally through sublicensees, including Impact 21, mens and womens apparel and accessories and Polo Jeans, Naigai, childrens and golf apparel and hosiery, and Hitomi casual wear. See *Recent Developments* for a discussion of the Tender Offer to acquire Impact 21 as well as the acquisition of the remaining 50% interest in PRL Japan.

Our international licensing partners acquire the right to distribute, sell, promote, market and/or distribute various categories of our products in a given geographic area. These rights may include the right to own and operate retail stores. The economic arrangements are similar to those of our product licensing partners. We design licensed products either alone or in collaboration with our domestic licensing partners. Our product licensees whose territories do not include the international geographic area licensees territories generally provide our international licensing partners with product or patterns, piece goods, manufacturing locations and other information and assistance necessary to achieve product uniformity, for which they are often compensated.

As of March 31, 2007, our international licensing partners operated 4 Ralph Lauren stores, 35 Polo Ralph Lauren stores, 27 Polo Jeans stores, 3 Children s stores and 11 Polo factory stores.

Ralph Lauren Home

Together with our licensing partners, we offer an extensive collection of home products that draw upon and further the design themes of our other product lines, contributing to our complete lifestyle concept. Products are sold under the Ralph Lauren Home, Lauren Ralph Lauren and Chaps brands in three primary categories: bedding and bath, home décor and home improvement. As of March 31, 2007, we had agreements with 9 domestic and 2 international home product licensing partners and one international home product sublicensing partner.

We perform a broader range of services for our Ralph Lauren Home licensing partners than we do for our other licensing partners. These services include design, operating showrooms, marketing, advertising and, in some cases, sales. In general, the licensing partners manufacture, own the inventory and ship the products. Our Ralph Lauren Home licensing alliances generally have 3 to 5-year terms and may grant the licensee conditional renewal options.

Ralph Lauren Home products are positioned at the upper tiers of their respective markets and are offered at a range of price levels. These products are generally distributed through several channels of distribution, including department stores, specialty home furnishings stores, interior design showrooms, customer direct mail catalogs, home centers and the Internet, as well as our own stores. As with our other products, the use of shop-within-shops is central to our department store distribution strategy.

The Ralph Lauren Home, Lauren Ralph Lauren and Chaps home products offered by us and our product licensing partners are:

Category	Product	Licensing Partner
Bedding and Bath	Sheets, bedding accessories, towels and shower curtains, blankets, down comforters, other decorative bedding and accessories	WestPoint Home, Inc. Fremaux-Delorme, Ichida
	Bath rugs	Bacova Guild, Ltd.
Home Décor	Fabric and wallpaper	P. Kaufmann, Inc. Designers Guild Ltd.
	Furniture	HDM Furniture Industries, Inc.
	Tabletop and giftware, Table linens, placemats, tablecloths and napkins	American Commercial, Inc., Town & Country Linen Corp
Home Improvement	Interior paints and stains, Broadloom carpets and area rugs	The Glidden Company, Karastan, a division of Mohawk Carpet Corporation

WestPoint Home, Inc. offers a basic stock replenishment program that includes bath and bedding products and accounted for approximately 77% of the net sales of Ralph Lauren Home products in Fiscal 2007. WestPoint Home, Inc. accounted for approximately 47% of total Ralph Lauren Home licensing revenue in Fiscal 2007.

Product Design

Our products reflect a timeless and innovative American style associated with and defined by Ralph Lauren and our design team. Our consistent emphasis on innovative and distinctive design has been an important contributor to the prominence, strength and reputation of the Ralph Lauren brands.

All Ralph Lauren products are designed by, or under the direction of, Ralph Lauren and our design staff, which is divided into nine departments: Menswear, Women s Collection, Women s ready to wear, Dresses, Children s, Accessories, Home, Club Monaco and Rugby. We form design teams around our brands and product categories to develop concepts, themes and products for each brand and category. These teams support all three segments of our business Wholesale, Retail and Licensing through close collaboration with merchandising, sales and production staff and licensing partners in order to gain market and other input.

Marketing

Our marketing program communicates the themes and images of our brands and is an integral feature of our product offering. Worldwide marketing is managed on a centralized basis through our advertising and public relations departments in order to ensure consistency of presentation.

We create distinctive image advertising for all of our products, conveying the particular message of each brand within the context of our core themes. Advertisements generally portray a lifestyle rather than a specific item and include a variety of products offered by ourselves and, in some cases, our licensing partners. Our primary advertising medium is print, with multiple page advertisements appearing regularly in a range of fashion, lifestyle and general interest magazines. Major print advertising campaigns are conducted during the fall and spring retail seasons, with additions throughout the year to coincide with product deliveries. In addition to print, some product

categories have utilized television and outdoor media in their marketing programs for certain product categories. Our Polo.com e-commerce website presents the Ralph Lauren lifestyle on the Internet while offering the full breadth of our apparel, accessories and home products.

If our domestic licensing partners are required to spend an amount equal to a percent of their licensed product sales on advertising, we coordinate the advertising placement on their behalf.

We also conduct a variety of public relations activities. Each of our spring and fall womenswear collections are presented at major fashion shows in New York City, which typically generate extensive domestic and international media coverage. We introduce each of the spring and fall menswear collections at major fashion shows in cities such as New York or Milan, Italy. In addition, we organize in-store appearances by our models, professional golfers and sponsors. We are the first exclusive outfitter for all on-court officials at Wimbledon through 2010. We are also the official outfitter of all on-court officials at the U.S. Open tennis tournament through 2009.

Sourcing, Production and Quality

We contract for the manufacture of our products and do not own or operate any production facilities. Over 350 different manufacturers worldwide produce our apparel, footwear and accessories products. We source both finished products and raw materials. Raw materials include fabric, buttons and other trim. Finished products consist of manufactured and fully assembled products ready for shipment to our customers. In Fiscal 2007, less than 1%, by dollar volume, of our products were produced in the U.S., and over 99%, by dollar volume, were produced outside the U.S., primarily in Asia, Europe and South America. See *Import Restrictions and other Government Regulations* and Part 1A *Our business is subject to government regulations and other risks associated with importing products.*

Two manufacturers engaged by us accounted for approximately 12% and 8% of our total production during Fiscal 2007, respectively. The primary production facilities of these two manufacturers are located in China, Hong Kong, Indonesia, Macau, Philippines, Saipan and Sri Lanka.

Our Wholesale segment must commit to manufacture the majority of our garments before we receive customer orders. We also must commit to purchase fabric from mills well in advance of our sales. If we overestimate our primary customers demand for a particular product, we may sell the excess in our factory stores or sell the product through secondary distribution channels. If we overestimate the need for a particular fabric or yarn, that fabric or yarn may be used in garments made for subsequent seasons or made into past seasons styles for distribution in our factory stores.

Suppliers operate under the close supervision of our global manufacturing division and buying agents headquartered in Asia, the Americas and Europe. All garments are produced according to our specifications. Production and quality control staff in the Americas, Asia and Europe monitor manufacturing at supplier facilities in order to correct problems prior to shipment of the final product. Procedures have been implemented under our vendor certification and compliance programs, so that quality assurance is focused upon as early as possible in the production process, allowing merchandise to be received at the distribution facilities and shipped to customers with minimal interruption.

Competition

Competition is very strong in the segments of the fashion and consumer product industries in which we operate. We compete with numerous designers and manufacturers of apparel and accessories, fragrances and home furnishing products, domestic and foreign. Some of our competitors may be significantly larger and have substantially greater resources than us. We compete primarily on the basis of fashion, quality and service, which depend on our ability to:

- anticipate and respond to changing consumer demands in a timely manner;

maintain favorable brand recognition;

develop and produce high quality products that appeal to consumers;

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appropriately price our products;

provide strong and effective marketing support;

ensure product availability; and

obtain sufficient retail floor space and effectively present our products at retail.

See Item 1A *We face intense competition in the worldwide apparel industry.*

Distribution

To facilitate distribution domestically, Ralph Lauren men s and women s products are shipped from manufacturers primarily to our distribution center in Greensboro, North Carolina for inspection, sorting, packing and shipment to retail customers. Ralph Lauren Childrenswear products are shipped from our manufacturers to a leased distribution center in Martinsburg, West Virginia. In addition, we utilize third party logistics providers to manage selected programs for specific customers. These facilities are designed to allow for high density cube storage and utilize bar code technology to provide inventory management and carton controls. Product traffic management is also coordinated from these facilities. European distribution and warehousing has been largely consolidated into one third party facility located in Parma, Italy.

Our full-price store and factory store distribution and warehousing are principally handled through the Greensboro distribution center. Club Monaco products are distributed from facilities in Ontario, Canada, New Jersey and California.

Value Vision currently performs warehousing, order fulfillment and call center functions for RL Media, which operates our Polo.com e-commerce website. Contemporaneous with our acquisition of the remaining 50% equity interest in RL Media, we entered into a transition services agreement with Value Vision to continue to support RL Media over a period of up to seventeen months from the date of the acquisition of the RL Media minority interest. RL Media anticipates performing warehouse, order fulfillment and call center functions on its own in Fiscal 2008. We expect to occupy a 360,000 square foot leased distribution facility in High Point, North Carolina, for our RL Media business during Fiscal 2008. The term of the lease will be 15 years commencing on the date of the substantial completion of the facility.

Management Information Systems

Our management information systems make the marketing, manufacturing, importing and distribution of our products more efficient by providing, among other things:

comprehensive order processing;

production information;

accounting information; and

an enterprise view of information for our marketing, manufacturing, importing and distribution functions.

The point-of-sale registers in our stores enable us to track inventory from store receipt to final sale on a real-time basis. We believe our merchandising and financial systems, coupled with our point-of-sale registers and software programs, allow for rapid stock replenishment, concise merchandise planning and real-time inventory accounting. See Item 1A *Certain legal proceedings could adversely impact our results of operations.*

We also utilize a sophisticated automated replenishment system to facilitate the processing of basic replenishment orders from our wholesale customers, the movement of goods through distribution channels, and the collection of information for planning and forecasting. We have a collaborative relationship with many of our suppliers that enables us to reduce cash to cash cycles in the management of our inventory. In Fiscal 2006, we began implementing a new, global enterprise resource management system for our Wholesale segment. We anticipate completing the implementation of this system across all of our wholesale divisions by the end of Fiscal 2010. See Item 1A *Our business could suffer if our computer systems are disrupted or cease to operate effectively.*

Wholesale Credit Control

We manage our own credit function. We sell our merchandise primarily to major department stores and extend credit based on an evaluation of the customer s financial condition, usually without requiring collateral. We monitor credit levels and the financial condition of our customers on a continuing basis to minimize credit risk. We do not factor our accounts receivables or maintain credit insurance to manage the risks of bad debts. Our bad debt write-offs were $1.2 million in Fiscal 2007, representing less than 1 percent of net revenues. See Item 1A *Our business could be negatively impacted by any financial instability of our customers.*

Wholesale Backlog

We generally receive wholesale orders for apparel products approximately three to five months prior to the time the products are delivered to stores. Such orders are generally subject to broad cancellation rights. As of March 31, 2007, our summer and fall backlog was $324 million and $803 million, respectively, compared to $291 million and $746 million, respectively, as of April 1, 2006. Our backlog depends upon a number of factors, including the timing of the market weeks for our particular lines during which a significant percentage of our orders are received, and the timing of shipments. As a consequence, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual shipments.

Trademarks

We own the Polo, Ralph Lauren and the famous polo player astride a horse trademarks in the U.S. Other trademarks we own include:

Lauren/Ralph Lauren ;

RRL ;

Club Monaco ;

Rugby ;

RLX ;

Chaps ;

American Living ; and

Various trademarks pertaining to fragrances and cosmetics.

Ralph Lauren has the royalty-free right to use as trademarks Ralph Lauren, Double RL and RRL in perpetuity in connection with, among other things, beef and living animals. The trademarks Double RL and RRL are currently used by the Double RL Company, an entity wholly-owned by Mr. Lauren. In addition, Mr. Lauren has the right to engage in personal projects involving film or theatrical productions (not including or relating to our business) through RRL Productions, Inc., a company wholly owned by Mr. Lauren. Any activity by these companies has no impact on us.

Our trademarks are the subjects of registrations and pending applications throughout the world for use on a variety of items of apparel, apparel-related products, home furnishings and beauty products, as well as in connection with retail

services, and we continue to expand our worldwide usage and registration of related trademarks. In general, trademarks remain valid and enforceable as long as the marks are used in connection with the related products and services and the required registration renewals are filed. We regard the license to use the trademarks and our other proprietary rights in and to the trademarks as extremely valuable assets in marketing our products and, on a worldwide basis, vigorously seek to protect them against infringement (see Item 3 *Legal Proceedings* for further discussion). As a result of the appeal of our trademarks, our products have been the object of counterfeiting. We have a broad enforcement program which has been generally effective in controlling the sale of counterfeit products in the U.S. and in major markets abroad.

In markets outside of the U.S., our rights to some or all of our trademarks may not be clearly established. In the course of our international expansion, we have experienced conflicts with various third parties who have acquired ownership rights in certain trademarks, including Polo and/or a representation of a polo player astride a horse, which would impede our use and registration of our principal trademarks. While such conflicts are common and may arise again from time to time as we continue our international expansion, we have generally successfully resolved such conflicts in the past through both legal action and negotiated settlements with third-party owners of the conflicting marks (see Item 1A *Our trademarks and other intellectual property rights may not be adequately protected outside the U.S.* and Item 3 *Legal Proceedings* for further discussion). Although we have not in the past suffered any material restraints or restrictions on doing business in desirable markets, we cannot assure that significant impediments will not arise in the future as we expand product offerings and additional trademarks to new markets.

We currently have an agreement with a third party which owned conflicting registrations of the trademarks Polo and a polo player astride a horse in the United Kingdom, Hong Kong and South Africa. Under the agreement, the third party retains the right to use the Polo and polo player symbol marks in South Africa and all other countries that comprise Sub-Saharan Africa, and we agreed to restrict use of those Polo marks in those countries to fragrances and cosmetics solely as part of the composite trademark Ralph Lauren and the polo player symbol, as to which our use is unlimited, and to the use of the polo player symbol mark on women s and girls apparel and accessories and women s and girls handkerchiefs. By agreeing to those restrictions, we secured the unlimited right to use our trademarks in the United Kingdom and Hong Kong without payment of any kind, and the third party is prohibited from distributing products under those trademarks in those countries.

Import Restrictions and Other Government Regulations

Virtually all of our merchandise imported into the U.S., Canada, and Europe is subject to duties. Until January 1, 2005, our apparel merchandise was also subject to quotas. Quotas represent the right, pursuant to bilateral or other international trade arrangements, to export amounts of certain categories of merchandise into a country or territory pursuant to a visa or license. Pursuant to the Agreement on Textiles and Clothing, quotas on textile and apparel products were eliminated for World Trade Organization (WTO) member countries, including the U.S., Canada and European countries, on January 1, 2005. Notwithstanding quota elimination, China s accession agreement for membership in the WTO provides that WTO member countries (including the U.S., Canada and European countries) may reimpose quotas on specific categories of products in the event it is determined that imports from China have surged and are threatening to create a market disruption for such categories of products (so called safeguard quota provisions). In response to surging imports, in November 2005 the U.S. and China agreed to a new quota arrangement which will impose quotas on certain textile products through the end of calendar 2008. In addition, the European Union also agreed with China on a new textile arrangement which imposed quotas through the end of calendar 2007. The U.S. and other countries may also unilaterally impose additional duties in response to a particular product being imported (from China or other countries) at unfairly traded prices that in such increased quantities as to cause (or threaten) injury to the relevant domestic industry (generally known as anti-dumping actions). The European Union has imposed anti-dumping duties on imports from China and Vietnam in certain footwear categories. On January 11, 2007, the Bush Administration imposed a Vietnam Import Monitoring Program on five broad product groups shirts, trousers, sweaters, underwear, and swimwear to determine whether any of those imports might be unfairly traded, due to dumping. The review period will last for the remainder of the Bush Administration with six-month reviews of data collected. If dumping is suspected, the U.S. Government will self-initiate a dumping case on behalf of the U.S. textile industry which could significantly affect our costs. Furthermore, additional duties, generally known as countervailing duties, can also be imposed by the U.S. Government to offset subsidies provided by a foreign government to foreign manufactures if the importation of such subsidized merchandise injures or threatens to injure a U.S. industry. Recent developments have now made it possible to impose countervailing duties on products from non-market economies, such as China, which would significantly affect our costs.

We are also subject to other international trade agreements and regulations, such as the North American Free Trade Agreement, the Central American Free Trade Agreement and the Caribbean Basin Initiative. In addition, each of the countries in which our products are sold has laws and regulations covering imports. Because the U.S. and the

other countries in which our products are manufactured and sold may, from time to time, impose new duties, tariffs, surcharges or other import controls or restrictions, including the imposition of safeguard quota, or adjust presently prevailing duty or tariff rates or levels, we maintain a program of intensive monitoring of import restrictions and opportunities. We seek to minimize our potential exposure to import related risks through, among other measures, adjustments in product design and fabrication, shifts of production among countries and manufacturers, as well as through geographical diversification of our sources of supply.

As almost all our products are manufactured by foreign suppliers, the enactment of new legislation or the administration of current international trade regulations, executive action affecting textile agreements, or changes in sourcing patterns resulting from the elimination of quota could adversely affect our operations. Although we generally expect that the 2005 elimination of quotas will result, over the long term, in an overall reduction in the cost of apparel produced abroad, the implementation of any safeguard quota provisions or any anti-dumping or countervailing duty actions may result, over the near term, in cost increases for certain categories of products and in disruption of the supply chain for certain products categories. See Item 1A *Risk Factors* below for further discussion.

Apparel and other products sold by us are also subject to regulation in the U.S. and other countries by other governmental agencies, including, in the U.S., the Federal Trade Commission, U.S. Fish and Wildlife Service and the Consumer Products Safety Commission. These regulations relate principally to product labeling, licensing requirements and flammability testing. We believe that we are in substantial compliance with those regulations, as well as applicable federal, state, local, and foreign rules and regulations governing the discharge of materials hazardous to the environment. We do not estimate any significant capital expenditures for environmental control matters either in the current year or in the near future. Our licensed products and licensing partners are also subject to regulation. Our agreements require our licensing partners to operate in compliance with all laws and regulations, and we are not aware of any violations which could reasonably be expected to have a material adverse effect on our business or results of operations.

Although we have not suffered any material inhibition from doing business in desirable markets in the past, we cannot assure that significant impediments will not arise in the future as we expand product offerings and introduce additional trademarks to new markets.

Employees

As of March 31, 2007, we had approximately 14,000 employees, consisting of approximately 11,000 in the U.S. and approximately 3,000 in foreign countries. 38 of our U.S. production and distribution employees in the womenswear business are members of the Union of Needletrades, Industrial & Textile Employees under an industry association collective bargaining agreement, which our womenswear subsidiary has adopted. We consider our relations with both our union and non-union employees to be good.

Executive Officers

The following are our current executive officers and their principal business experience for the past five years:

Ralph Lauren	Age 67	Mr. Lauren has been Chairman, Chief Executive Officer and a director of the Company since prior to the Company s initial public offering in 1997, and was a member of the Advisory Board of the Board of Directors of the Company s predecessors since their organization. He founded Polo in 1967 and has provided leadership in the design, marketing, advertising and operational areas since such time.
Roger N. Farah	Age 54	Mr. Farah has been President, Chief Operating Officer and a director of the Company since April 2000. He was Chairman of the Board of Venator Group, Inc. from December 1994 to April 2000, and was Chief Executive Officer of Venator Group, Inc. from December 1994 to August 1999.
Jackwyn Nemerov	Age 55	Ms. Nemerov has been Executive Vice President of the Company since September 2004 and a director of the Company since February 2007. From 1998 to 2002, she was President and Chief Operating Officer of Jones Apparel Group, Inc.
Tracey T. Travis	Age 44	Ms. Travis has been Senior Vice President of Finance and Chief Financial Officer of the Company since January 2005. Ms. Travis served as Senior Vice President, Finance of Limited Brands, Inc., an apparel and personal care products retailer, from April 2002 until August 2004, and Chief Financial Officer of Intimate Brands, Inc., a women s intimate apparel and personal care products retailer, from April 2001 to April 2002. Prior to that time, Ms. Travis was Chief Financial Officer of the Beverage Can Americas group at American National Can, a manufacturer of beverage cans, from 1999 to 2001, and held various finance and operations positions at Pepsi Bottling Group from 1989-1999. Ms. Travis is a member of the boards of directors of Jo-Ann Stores, Inc., a specialty retailer of fabrics and crafts, and the Lincoln Center Theater.
Mitchell A. Kosh	Age 57	Mr. Kosh has served as Senior Vice President of Human Resources and Legal of the Company since July 2000. He was Senior Vice President of

Human Resources of Conseco, Inc., from February 2000 to July 2000. Prior to that time, Mr. Kosh held executive human resource positions with the Venator Group, Inc. starting in 1996.

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

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this report.

Risks Related to Our Business

The loss of the services of Mr. Ralph Lauren or other key personnel could have a material adverse effect on our business.

Mr. Ralph Lauren s leadership in the design, marketing and operational areas of our business has been a critical element of our success since the inception of our Company. The death or disability of Mr. Lauren or other extended or permanent loss of his services, or any negative market or industry perception with respect to him or arising from his loss, could have a material adverse effect on our business. Our other executive officers and other members of senior management have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also adversely affect us. We are not protected by a material amount of key-man or similar life insurance covering Mr. Lauren, our other executive officers and certain other members of senior management. We have entered into employment agreements with Mr. Lauren and our other executive officers. We have entered into employment agreements with Mr. Lauren and our other executive officers, but the noncompete period with respect to Mr. Lauren and certain other executive officers could, in some circumstances in the event of their termination of employment with the Company, end prior to the employment term set forth in their employment agreements.

We cannot assure the successful implementation of our growth strategy.

As part of our growth strategy, we seek to extend our brands, expand our geographic coverage and increase direct management of our brands by opening more of our own stores, strategically acquiring or integrating select licenses previously held by our licensees and enhancing our operations. Implementation of our strategy involves the continued expansion of our business in Europe, Asia and other international areas. As discussed in Item 1 *Recent Developments,* on May 29, 2007, we acquired a controlling interest in Impact 21, as part of the Tender Offer, and the remaining 50% interest in PRL Japan. We also acquired in April 2007 our previously licensed belts and leather goods business and the remaining 50% interest in RL Media on March 28, 2007. In Fiscal 2006 we acquired our previously licensed men s and women s casual apparel and sportswear in the U.S. and Canada from Jones Apparel Group, Inc. and its subsidiaries (Polo Jeans Business). In addition, in Fiscal 2006, we acquired our previously licensed men s, women s and children s footwear from Reebok International Ltd. (Footwear Business).

We may have difficulty integrating acquired businesses into our operations, hiring and retaining qualified key employees, or otherwise successfully managing such expansion. Furthermore, we may not be able to successfully integrate the business of any licensee that we acquire into our own business or achieve any expected cost savings or synergies from such integration.

Implementation of our strategy involves the continuation, and expansion of our distribution network, both in the U.S. and abroad. We may not be able to procure, purchase or lease desirable free-standing, or department store locations, or renew and maintain existing free-standing store leases and department store locations on acceptable terms.

In Europe we lack the large wholesale distribution channels we have in the U.S., and we may have difficulty developing successful distribution strategies and alliances in each of the major European countries. In Japan, our primary mode of distribution is via a network of shops located within the leading department stores. We may have difficulty in successfully retaining this network, and expanding into alternate distribution channels. Additionally, macroeconomic trends may not be favorable, and could limit our ability to implement our growth strategies in select geographies where we have foreign operations, such as Europe and Asia.

Our business could suffer as a result of consolidations, restructurings and other ownership changes in the retail industry.

Several of our department store customers, including some under common ownership, account for significant portions of our wholesale net sales. We believe that a substantial portion of sales of our licensed products by our domestic licensing partners, including sales made by our sales force of Ralph Lauren Home products, are also made to our largest department store customers. In Fiscal 2007, sales to Federated Department Stores, Inc. represented 29% of our wholesale net sales and sales to Dillard Department Stores, Inc. represented 14% of our wholesale net sales. In the aggregate, our ten largest customers accounted for approximately 67% of our wholesale net sales during Fiscal 2007. There can be no assurance that consolidations in the department store sector will not have a material adverse effect on our wholesale business.

We do not enter into long-term agreements with any of our customers. Instead, we enter into a number of purchase order commitments with our customers for each of our lines every season. A decision by the controlling owner of a group of stores or any other significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease or eliminate the amount of merchandise purchased from us or our licensing partners or to change their manner of doing business with us or our licensing partners could have a material adverse effect on our business or financial condition.

Our business could be negatively impacted by any financial instability of our customers.

We sell our wholesale merchandise primarily to major department stores across the U.S. and Europe and extend credit based on an evaluation of each customer s financial condition, usually without requiring collateral. However, the financial difficulties of a customer could cause us to curtail or eliminate business with that customer. We may also assume more credit risk relating to that customer s receivables. Two of our customers, Dillard Department Stores, Inc. and Federated Department Stores, Inc. in the aggregate constituted 37% of trade accounts receivable outstanding as of March 31, 2007. Our inability to collect on our trade accounts receivable from any one of these customers could have a material adverse effect on our business or financial condition. See Item 1 *Credit Control.*

Certain legal proceedings and regulatory matters could adversely impact our results of operations.

We are involved in certain legal proceedings and are subject to various claims involving alleged breach of contract claims, credit card fraud, security breaches in certain of our retail store information systems, employment issues, consumer matters and other litigations. Certain of these lawsuits and claims, if decided adversely to us or settled by us, could result in material liability to the Company or have a negative impact on the Company s reputation or relations with its employees, customers, licensees or other third parties. Further, changes in governmental regulations both in the U.S. and in other countries where we conduct business operations could have an adverse impact on our results of operations. See Item 3 *Legal Proceedings* for further discussion of the Company s legal matters.

Our business could suffer if our computer systems are disrupted or cease to operate effectively.

The Company relies heavily on its computer systems to record and process transactions and manage and operate our business. We also utilize a sophisticated automated replenishment system to facilitate the processing of basic replenishment orders from our wholesale customers, the movement of goods through distribution channels, and the collection of information for planning and forecasting. Given the complexity of our business and the significant number of transactions that we engage in on an annual basis, it is imperative that we maintain constant operation of our computer hardware and software systems. Despite our efforts to prevent, our systems are vulnerable from time to time to damage or interruption from, among other things, security breaches, computer viruses or power outages. In

addition, we are currently undergoing a system conversion that is intended to establish a common platform across our various wholesale businesses, which is expected to be completed by the end of Fiscal 2010 across all of our wholesale divisions. The risk of disruption is increased when complex systems changes of this type are undertaken. If our systems are damaged or fail to function effectively, the Company will likely have to make a significant monetary investment to fix or replace them and the Company could endure interruptions or

delays in its operations. Any material interruption in our computer operations could have a material adverse effect on our business or results of operations.

Our business is subject to risks associated with importing products.

As of March 31, 2007, we source a significant portion of our products outside the U.S. through arrangements with over 350 foreign vendors in various countries. In Fiscal 2007, over 99%, by dollar value, of our products were produced outside the U.S., primarily in Asia, Europe and South America. Risks inherent in importing our products include:

- quotas imposed by bilateral textile agreements with China and non-WTO countries. These agreements limit the amount and type of goods that may be imported annually from these countries;
- changes in social, political and economic conditions or terrorist acts that could result in the disruption of trade from the countries in which our manufacturers or suppliers are located;
- the imposition of additional regulations relating to imports or exports;
- the imposition of additional duties, taxes and other charges on imports or exports;
- significant fluctuations of the cost of raw materials;
- significant delays in the delivery of cargo due to security considerations;
- the imposition of antidumping or countervailing duty proceedings resulting in the potential assessment of special antidumping or countervailing duties; and
- the imposition of sanctions in the form of additional duties either by the U.S. or its trading partners to remedy perceived illegal actions by national governments.

Any one of these factors could have a material adverse effect on our financial condition and results of operations.

Our ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks.

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is subject to risks associated with international operations. These include:

- the burdens of complying with a variety of foreign laws and regulations;
- unexpected changes in regulatory requirements; and
- new tariffs or other barriers in some international markets.

We are also subject to general political and economic risks in connection with our international operations, including:

- political instability and terrorist attacks;
- changes in diplomatic and trade relationships; and

general economic fluctuations in specific countries or markets.

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S., the European Union, Japan, or other countries upon the import or export of our products in the future, or what effect any of these actions would have on our business, financial condition or results of operations. Changes in regulatory, geopolitical, social or economic policies and other factors may have a material adverse effect on our business in the future or may require us to significantly modify our current business practices.

Our trademarks and other intellectual property rights may not be adequately protected outside the U.S.

We believe that our trademarks and other proprietary rights are extremely important to our success and our competitive position. We devote substantial resources to the establishment and protection of our trademarks and anti-counterfeiting activities worldwide. Significant counterfeiting of our products continues, however, and in the course of our international expansion we have experienced conflicts with various third parties that have acquired or claimed ownership rights in some trademarks that include Polo and/or a representation of a polo player astride a horse, or otherwise have contested our rights to our trademarks. We have in the past resolved certain of these conflicts through both legal action and negotiated settlements, none of which, we believe, has had a material impact on our financial condition and results of operations. We cannot guarantee that the actions we have taken to establish and protect our trademarks and other proprietary rights will be adequate to prevent counterfeiting or a material adverse effect on our business or brands arising from imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. Also, there can be no assurance that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction or at all. In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent as do the laws of the U.S. See Item 1 *Trademarks,* and Item 3 *Legal Proceedings.*

Our business could suffer as a result of a manufacturer s inability to produce our goods on time and to our specifications.

We do not own or operate any manufacturing facilities and depend exclusively on independent third parties for the manufacture of all of our products. Our products are manufactured to our specifications primarily by international manufacturers. During Fiscal 2007, less than 1%, by dollar value, of our men s and women s products were manufactured in the U.S. and over 99%, by dollar value, of these products were manufactured in other countries. Two of the manufacturers engaged by us accounted for approximately 12% and 8% of our total production during Fiscal 2007. The primary production facilities of these two manufacturers are located in Asia. The inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a substantial reduction in purchase prices, any of which could have a material adverse effect on our financial condition and results of operations.

Our business could suffer if one of our manufacturers fails to use acceptable labor practices.

We require our licensing partners and independent manufacturers to operate in compliance with applicable laws and regulations. While our internal and vendor operating guidelines promote ethical business practices and our staff periodically visits and monitors the operations of our independent manufacturers, we do not control these manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer used by us or one of our licensing partners, or the divergence of an independent manufacturer s or licensing partner s labor practices from those generally accepted as ethical in the U.S., could interrupt, or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations.

Our business could suffer if we need to replace manufacturers.

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an

existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot guarantee that this additional capacity will be available when required on terms that are acceptable to us. See Item 1 *Sourcing, Production and Quality.* We enter into a number of purchase order commitments each season specifying a time for delivery, method of payment, design and quality specifications and other standard industry provisions, but do not have long-term contracts with any manufacturer. None of the manufacturers we use produce our products exclusively.

Our business is exposed to domestic and foreign currency fluctuations.

We generally purchase our products in U.S. dollars. However, we source most of our products overseas. As a result, the cost of these products may be affected by changes in the value of the relevant currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated prices at which our international businesses sell products. Furthermore, our international sales and licensing revenue generally is derived from sales in foreign currencies. These foreign currencies include the Japanese Yen, the Euro and the Pound Sterling, and this revenue could be materially affected by currency fluctuations. Although we hedge some exposures to changes in foreign currency exchange rates arising in the ordinary course of business, we cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations. See Item 7 *Market Risk Management.*

We rely on our licensing partners to preserve the value of our licenses.

The risks associated with our own products also apply to our licensed products in addition to any number of possible risks specific to a licensing partner s business, including, for example, risks associated with a particular licensing partner s ability to:

- obtain capital;
- manage its labor relations;
- maintain relationships with its suppliers;
- manage its credit risk effectively; and
- maintain relationships with its customers.

Although some of our license agreements prohibit licensing partners from entering into licensing arrangements with our competitors, our licensing partners generally are not precluded from offering, under other brands, the types of products covered by their license agreements with us. A substantial portion of sales of our products by our domestic licensing partners are also made to our largest customers. While we have significant control over our licensing partners products and advertising, we rely on our licensing partners for, among other things, operational and financial control over their businesses. Changes in management, reduced sales of licensed products, poor execution or financial difficulties with respect to any of our licensing partners could adversely affect our revenues, both directly from reduced licensing revenue received and indirectly from reduced sales of our other products. See Item 1 *Our Licensing Segment.*

Failure to maintain licensing partners could harm our business.

Although we believe in most circumstances we could replace existing licensing partners if necessary, our inability to do so for any period of time could adversely affect our revenues, both directly from reduced licensing revenue received and indirectly from reduced sales of our other products. See Item 1 *Our Licensing Segment.*

Risks Relating to the Industry in Which We Compete

We face intense competition in the worldwide apparel industry.

We face a variety of intense competitive challenges from other domestic and foreign fashion-oriented apparel and casual apparel producers, some of which may be significantly larger and more diversified and have greater financial and marketing resources than we have. We compete with these companies primarily on the basis of:

- anticipating and responding to changing consumer demands in a timely manner;
- maintaining favorable brand recognition;
- developing innovative, high-quality products in sizes, colors and styles that appeal to consumers;
- appropriately pricing products;

providing strong and effective marketing support;

creating an acceptable value proposition for retail customers;

ensuring product availability and optimizing supply chain efficiencies with manufacturers and retailers; and

obtaining sufficient retail floor space and effective presentation of our products at retail stores.

We also face increasing competition from companies selling apparel and home products through the Internet. Although RL Media sells our products domestically through the Internet, increased competition in the worldwide apparel, accessories and home product industries from Internet-based competitors could reduce our sales, prices and margins and adversely affect our results of operations.

The success of our business depends on our ability to respond to constantly changing fashion trends and consumer demands.

Our success depends in large part on our ability to originate and define fashion product and home product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We cannot assure you that we will be able to continue to develop appealing styles or successfully meet constantly changing consumer demands in the future. In addition, we cannot assure you that any new products or brands that we introduce will be successfully received by consumers. Any failure on our part to anticipate, identify and respond effectively to changing consumer demands and fashion trends could adversely affect retail and consumer acceptance of our products and leave us with a substantial amount of unsold inventory or missed opportunities. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow-moving inventory, which may harm our business. At the same time, our focus on tight management of inventory may result, from time to time, in our not having an adequate supply of products to meet consumer demand and cause us to lose sales. See Item 1 *Sourcing, Production and Quality.*

A downturn in the economy may affect consumer purchases of discretionary items and luxury retail products, which could adversely affect our sales.

The industries in which we operate are cyclical. Many economic factors outside of our control affect the level of consumer spending in the apparel, cosmetic, fragrance and home products industries, including, among others:

general business conditions;

economic downturns;

employment levels;

downturns in the stock market;

interest rates;

the housing market;

consumer debt levels;

- the availability of consumer credit;
- increases in fuel prices;
- taxation; and
- consumer confidence in future economic conditions.

Consumer purchases of discretionary items and luxury retail products, including our products, may decline during recessionary periods and at other times when disposable income is lower. A downturn or an uncertain outlook in the economies in which we, or our licensing partners, sell our products may materially adversely affect our businesses and our revenues and profits.

The domestic and international political situation also affects consumer confidence. The threat, outbreak or escalation of terrorism, military conflicts or other hostilities could lead to a decrease in consumer spending.

Item 2. ***Properties***

We lease space for our retail and factory showrooms, and warehouse and office space in various domestic and international locations. We do not own any real property except for our distribution facility in Greensboro, North Carolina and a parcel of land adjacent to the facility, and retail stores in Southampton, New York and Nantucket, Massachusetts. Contemporaneous with our acquisition of the remaining 50% equity interest in RL Media, we entered into a transition services agreement with Value Vision to continue to provide all warehousing, order fulfillment and call center functions for RL Media through August 2008. RL Media anticipates performing warehousing, order fulfillment and call center functions on its own in Fiscal 2008.

We believe that our existing facilities are well maintained, in good operating condition and are adequate for our present level of operations. The following table sets forth information with respect to our key properties:

The following table sets forth information with respect to our key properties:

Location	Use	Approximate Sq. Ft.	Current Lease Term Expiration
Greensboro, N.C.	Distribution Facility	1,500,000	Owned
Martinsburg, W.V	Distribution Facility	187,000	December 31, 2010
650 Madison Avenue, NYC	Executive, corporate office and design studio, Men s showrooms	207,000	December 31, 2009
Lyndhurst, N.J.	Corporate and retail administrative offices	170,000	December 31, 2019
550 7th Avenue, NYC	Corporate office, design studio and Women s showrooms	102,000	December 31, 2018
625 Madison Avenue, NYC	Corporate offices and home showroom	270,000	December 31, 2019
Geneva, Switzerland	European corporate offices	50,000	March 31, 2013
867 Madison Avenue, NYC	Flagship Store	27,700	December 31, 2013
Beverly Hills, CA	Flagship Store	21,600	September 30, 2023
Chicago, IL	Flagship Store	37,600	November 14, 2017
Milan, Italy	Flagship Store	18,000	June 30, 2015
Tokyo, Japan	Flagship Store	25,000	December 31, 2020

We expect to occupy a 360,000 square foot leased distribution facility in High Point, North Carolina, for our RL Media business during Fiscal 2008. The term of the lease will be 15 years commencing on the date of the substantial completion of the facility.

We paid aggregate rent in Fiscal 2007 of approximately $54 million for our non-retail facilities. We anticipate that we will be able to extend those leases which expire in the near future on terms satisfactory to us or relocate to facilities timely and on acceptable terms.

As of March 31, 2007, we operated 292 retail stores, totaling approximately 2.3 million square feet. Aggregate annual rentals for retail space in Fiscal 2007 totaled approximately $118 million. We anticipate that we will be able to extend

those leases which expire in the near future on satisfactory terms or relocate to desirable locations.

Item 3. ***Legal Proceedings***

The Company is indirectly subject to various claims relating to allegations of security breaches in certain of its retail store information systems. These claims have been made by various credit card associations, issuing banks and credit card processors with respect to cards issued by them pursuant to the rules imposed by certain credit card

issuers, particularly Visa® and MasterCard®. The allegations include fraudulent credit card charges, the cost of replacing credit cards, related monitoring expenses and other related claims.

In Fiscal 2005, the Company was subject to various claims relating to an alleged security breach of its point-of-sale systems that occurred at certain Polo retail stores in the U.S. The Company has previously recorded a reserve in an aggregate amount of $13 million to provide for its best estimate of losses related to these claims. $6.2 million was recorded during Fiscal 2005 and the remaining $6.8 million of this reserve was recorded during Fiscal 2006. The Company has paid $11.4 million through March 31, 2007 in settlement of these various claims. The eligibility period for filing any new claims with respect to this matter expired at the end of January 2007.

In addition, in the third quarter of Fiscal 2007, the Company was notified of an alleged compromise of its retail store information systems that process its credit card data for certain Club Monaco stores in Canada. While the investigation of the alleged Club Monaco compromise is ongoing, the evidence to date indicates that only numerical credit card data may have been accessed and not customer names or contact information. The Company s Canadian credit card processor has thus far required the Company to create a reserve of $2 million to cover potential claims relating to this alleged compromise and has deducted funds from Club Monaco credit card transactions to establish this reserve. Since the Company has been advised by its credit card processor that potential claims related to this matter are likely to exceed $2 million in the aggregate, the Company has also recorded an additional $3 million charge during Fiscal 2007 to increase the total reserve for this matter to $5 million based on its best estimate of exposure. Although claims brought against the Company could exceed the amount of the $5 million reserve, in any event the ultimate resolution of these claims is not expected to have a material adverse effect on the Company s liquidity or financial position.

The Company is cooperating with law enforcement authorities in both the U.S. and Canada in their investigations of these matters.

On August 19, 2005, Wathne Imports, Ltd., our domestic licensee for luggage and handbags (Wathne), filed a complaint in the U.S. District Court for the Southern District of New York against us 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 the breach of contract claims, and denied Wathne s motion for a preliminary injunction. A trial date is not yet set for this lawsuit on the breach of contract claims but the Company does not currently anticipate that a trial will occur prior to calendar 2008. We believe this lawsuit to be without merit, we have recently moved for summary judgment and we intend to continue to contest this lawsuit vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company s liquidity or financial position.

On October 1, 1999, we filed a lawsuit against the U.S. Polo Association Inc. (USPA), Jordache, Ltd. (Jordache) and certain other entities affiliated with them, alleging that the defendants were infringing on our trademarks. In connection with this lawsuit, on July 19, 2001, the USPA and Jordache filed a lawsuit against us in the U.S. District Court for the Southern District of New York. This suit, which was effectively a counterclaim by them in connection with the original trademark action, asserted claims related to our actions in our pursuit of claims against the U.S. Polo Association and Jordache for trademark infringement and other unlawful conduct. Their claims stemmed from our contacts with the USPA s and Jordache s retailers in which we informed these retailers of our position in the original

trademark action. All claims and counterclaims, except for our claims that the defendants violated our trademark rights, were settled in September 2003. We did not pay any damages in this settlement.

On July 30, 2004, the Court denied all motions for summary judgment, and trial began on October 3, 2005 with respect to four double horseman symbols that the defendants sought to use. On October 20, 2005, the jury rendered a verdict, finding that one of the defendants marks violated our world famous Polo Player Symbol trademark and enjoining its further use, but allowing the defendants to use the remaining three marks. On

November 16, 2005, we filed a motion before the trial court to overturn the jury s decision and hold a new trial with respect to the three marks that the jury found not to be infringing. The USPA and Jordache opposed our motion, but did not move to overturn the jury s decision that the fourth double horseman logo did infringe on our trademarks. On July 7, 2006, the judge denied our motion to overturn the jury s decision. On August 4, 2006, we filed an appeal of the judge s decision to deny our motion for a new trial to the U.S. Court of Appeals for the Second Circuit. We are awaiting a decision from the Court with respect to this appeal.

On September 18, 2002, an employee at one of our stores filed a lawsuit against us in the U.S. District Court for the District of Northern California alleging violations of California antitrust and labor laws. The plaintiff purported to represent a class of employees who had allegedly been injured by a requirement that certain retail employees purchase and wear our apparel as a condition of their employment. The complaint, as amended, seeks an unspecified amount of actual and punitive damages, disgorgement of profits and injunctive and declaratory relief. We answered the amended complaint on November 4, 2002. A hearing on cross motions for summary judgment on the issue of whether our policies violated California law occurred on August 14, 2003. The Court granted partial summary judgment with respect to certain of the plaintiff s claims, but concluded that more discovery was necessary before it could decide the key issue as to whether we had maintained for a period of time a dress code policy that violated California law. On January 12, 2006, a proposed settlement of the purported class action was submitted to the court for approval. A hearing on the settlement was held before the Court on June 29, 2006. On October 26, 2006, the Court granted preliminary approval of the settlement and agreed to begin the process of sending out claim forms to members of the class. On March 28, 2007, the Court granted final approval of the settlement and awarded approximately $1.1 million to members of the class and their attorneys. We had previously established a reserve of $1.5 million for this matter in Fiscal 2005. The Court s approval of the settlement also resulted in the dismissal of the similar purported class action filed in San Francisco Superior Court, as described below.

On April 14, 2003, a second putative class action was filed in the San Francisco Superior Court. This suit, brought by the same attorneys, alleged near identical claims to those in the federal class action. The class representatives consisted of former employees and the plaintiff in the federal class action. Defendants in this class action included us and our Polo Retail, LLC, Fashions Outlet of America, Inc., Polo Retail, Inc. and San Francisco Polo, Ltd. subsidiaries as well as a non-affiliated corporate defendant and two current managers. As in the federal class action, the complaint sought an unspecified amount of actual and punitive restitution of monies spent, and declaratory relief. As noted above, on March 28, 2007, the Court granted final approval of the settlement in the federal class action, which resulted in the dismissal of this lawsuit.

We are otherwise involved from time to time in legal claims and proceedings involving credit card fraud, trademark and intellectual property, licensing, employee relations and other matters incidental to our business. We believe that the resolution of these other matters currently pending will not individually or in aggregate have a material adverse effect on our financial condition or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2007.

PART II

Item 5. ***Market for Registrants Common Equity and Related Stockholders Matters and Issuer Purchases of Equity Securities***

Our Class A common stock is traded on the New York Stock Exchange (NYSE) under the symbol RL. The following table sets forth the high and low sales prices per share of the Class A common stock for each quarterly period in our two most recent fiscal years, as reported on the NYSE Composite Tape.

	Market Price of Class A Common Stock	
	High	**Low**
Fiscal 2007:		
First Quarter	$ 62.87	$ 52.02
Second Quarter	66.20	45.65
Third Quarter	83.15	64.77
Fourth Quarter	90.12	77.90
Fiscal 2006:		
First Quarter	$ 44.70	$ 34.19
Second Quarter	53.25	43.29
Third Quarter	56.84	47.83
Fourth Quarter	61.74	52.91

On May 20, 2003, our Board of Directors initiated a regular quarterly cash dividend program of $0.05 per share, or $0.20 per share on an annual basis, on our Class A common stock. Approximately $21 million was recorded as a reduction to retained earnings during Fiscal 2007 in connection with these dividends.

As of May 18, 2007, there were 1,508 holders of record of our Class A common stock and 11 holders of record of our Class B common stock. All of our outstanding shares of Class B common stock are owned by Mr. Ralph Lauren and related entities and are convertible at any time into shares of Class A common stock on a one-for-one basis.

The following table sets forth the repurchases of our common stock during the Fiscal quarter ended March 31, 2007:

	Total Number of Shares	Average Price	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the

	Purchased[1]		Paid Per Share	or Programs		Plans or Programs (millions)
December 31, 2006 to January 27, 2007	403,300	$	80.61	403,300	$	376
January 28, 2007 to February 24, 2007	93,273		80.41	93,273		368
February 25, 2007 to March 31, 2007						368
	496,573			496,573		

(1) These purchases were made on the open market under the Company s Class A common stock repurchase program. In November 2006, the Company s Board of Directors approved an expansion of the Company s existing common stock repurchase program that allows the Company to repurchase, at its discretion from time to time, up to $500 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions. This program does not have a fixed termination date.

The following graph compares the cumulative total stockholder return (stock price appreciation plus dividends) on our Class A common stock with the cumulative total return of the Standard & Poor s 500 Index, our peer group for the preceding fiscal year the Standard & Poor s Composite 1500 Apparel, Accessories & Luxury Goods Index (Old Peer Group) and a peer group index of companies that we believe are similar to ours (New Peer Group) for the period from March 28, 2002, the last trading day in the Company s 2002 fiscal year, through March 31, 2007, the last trading day in the Company s 2007 fiscal year. Our New Peer Group consists of Coach, Estee Lauder, Jones Apparel, Kellwood, Kenneth Cole, Liz Claiborne, Phillips Van Heusen, Tiffany & Co., VF Corp., Warnaco, LVMH, Burberry, Christian Dior, PPR SA, Hermes International, Richemont, Luxottica and Tod s Group. We believe that the companies in our New Peer Group index, taken together, are more comparable to our businesses. The returns are calculated by assuming an investment in the Class A common stock and each index of $100 on March 29, 2002, with all dividends reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Polo Ralph Lauren Corporation, The S & P 500 Index,
The S & P Composite 1500 Apparel, Accessories & Luxury Goods Index
And A Peer Group

* $100 invested on 3/29/02 in stock or on 3/31/02 in index-including reinvestment of dividends. Index calculated on month-end basis.

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www.researchdatagroup.com/S&P.htm

Item 6. ***Selected Financial Data***

See the Index to Consolidated Financial Statements and Supplementary Information and specifically Selected Financial Information appearing at the end of this Annual Report on Form 10-K.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of financial condition and results of operations should be read together with our audited consolidated financial statements and the accompanying notes, which are included elsewhere in this Annual Report on Form 10-K for Fiscal 2007 (Fiscal 2007 10-K). We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, Fiscal year 2007 ended on March 31, 2007 and reflected a 52-week period (Fiscal 2007); Fiscal year 2006 ended on April 1, 2006 and reflected a 52-week period (Fiscal 2006); and Fiscal year 2005 ended on April 2, 2005 and reflected a 52-week period (Fiscal 2005).

INTRODUCTION

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

Overview. This section provides a general description of our business, including our objectives and risks, and a summary of financial performance for Fiscal 2007. 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 Fiscal 2007, Fiscal 2006 and Fiscal 2005.

Financial condition and liquidity. This section provides an analysis of our cash flows for Fiscal 2007, Fiscal 2006 and Fiscal 2005, as well as a discussion of our financial condition and liquidity as of March 31, 2007. The discussion of our financial condition and liquidity includes (i) our available financial capacity under our credit facility, (ii) a summary of our key debt compliance measures and (iii) a summary of our outstanding debt and commitments as of March 31, 2007.

Market risk management. This section discusses how we manage exposure to potential losses arising from adverse changes in interest rates, foreign currency exchange rates and fluctuations in the reported net assets of certain of our international operations.

Critical accounting policies. This section discusses accounting policies considered to be important to our financial condition and results of operations and which require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Notes 3 and 4 to our accompanying audited consolidated financial statements.

Recently issued accounting standards. This section discusses the potential impact to our reported financial condition and results of operations of accounting standards that have been issued, but which we have not yet adopted.

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*, *Polo by Ralph Lauren, Ralph Lauren Purple Label, Ralph Lauren Black Label, RLX, Ralph Lauren Blue Label, Lauren, RRL, Rugby, Chaps, Club Monaco* and *American Living*, among others.

We classify our businesses into three segments: Wholesale, Retail and Licensing. Our wholesale business (representing 54% of Fiscal 2007 net revenues) consists of wholesale-channel sales made principally to major department stores, specialty stores and golf and pro shops located throughout the U.S. and Europe. Our retail business (representing 41% of Fiscal 2007 net revenues) consists of retail-channel sales directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, South America and Asia, and through our retail internet site located at www.Polo.com. In addition, our licensing business (representing 5% of

Fiscal 2007 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 20% of our Fiscal 2007 net revenues was earned in the international regions outside of the U.S. and Canada. See Note 20 to the accompanying audited consolidated financial statements for a summary of net revenues by geographic location.

Our business is 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 periods in the Retail segment.

Our Objectives and Risks

We believe our core strengths, including a global luxury lifestyle brand, a strong and experienced management team, a proven ability to develop and extend our brands distributed through multiple retail channels in global markets, a disciplined investment philosophy and a solid balance sheet, have collectively enabled us to significantly increase stockholder value in recent years. Further, we believe those core strengths will continue to allow us to execute our strategy for long-term sustainable growth in revenue, net income and operating cash flow.

Our operating success has been driven by the Company s focus on six key objectives:

- Creating unique businesses primarily centered around one core and heritage-driven brand;
- Diversifying and expanding our products and prices, distribution channels and geographic regions;
- Improving brand control and positioning;
- Focusing on selective strategic partnerships;
- Implementing infrastructure improvements that support a worldwide business; and
- Funding our expansion through strong operating cash flow.

In connection with these objectives, we intend to continue to pursue opportunities for growth globally to expand our retail presence in various formats designed to meet consumer needs, to further develop a wide array of luxury accessories product offerings, and to create new lifestyle brands in partnership with select department and specialty stores.

Significant challenges and risks accompany our opportunities for long-term growth and our ability to increase stockholder value. See Item 1A *Risk Factors* included elsewhere in this Fiscal 2007 10-K for further discussion.

Summary of Financial Performance

Operating Results

During Fiscal 2007, we reported revenues of $4.295 billion, net income of $400.9 million and net income per diluted share of $3.73. This compares to revenues of $3.746 billion, net income of $308.0 million and net income per diluted share of $2.87 during Fiscal 2006. Our strong Fiscal 2007 operating performance was primarily driven by 14.7% revenue growth led by our Wholesale and Retail segments (including the effect of certain acquisitions that occurred in Fiscal 2006) and gross profit percentage expansion of 40 basis points to 54.4%. Excluding the effect of acquisitions,

revenues increased by 10.0%. Operating income as a percentage of revenue increased 140 basis points to 15.2% during Fiscal 2007, reflecting our revenue growth, gross profit percentage expansion and improved leveraging of selling, general and administrative (SG&A) expenses. SG&A expenses included stock-based compensation costs reflecting the adoption of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (FAS 123R). Such costs were $43.6 million on a pre-tax basis ($26.1 million after-tax) in Fiscal 2007, compared to $26.6 million on a pre-tax basis ($16.2 million after-tax) in Fiscal 2006. In turn, net income per diluted share was reduced by stock-based compensation costs in the amount of $0.24 per share during Fiscal 2007, compared to $0.15 per share during Fiscal 2006. Offsetting the higher stock-based compensation costs and contributing to the growth in net income and net income per diluted share was a net reduction in Fiscal 2007 of $19.0 million of pre-tax charges related to restructurings, asset impairments and credit card contingencies as compared to Fiscal 2006. See *Transactions Affecting Comparability of Results of Operations and Financial Condition* described below for further discussion of these transactions.

See Note 18 to the accompanying audited consolidated financial statements for further discussion of the impact of adopting FAS 123R.

Financial Condition and Liquidity

Our financial position continues to reflect the strength of our business results. We ended Fiscal 2007 with a net cash position (total cash and cash equivalents less total debt) of $165.1 million, compared to $5.3 million at the end of Fiscal 2006. In addition, our stockholders equity increased to $2.335 billion as of March 31, 2007, compared to $2.050 billion as of April 1, 2006. During Fiscal 2007, we successfully completed the issuance of 300 million principal amount of 4.50% notes due October 4, 2013 (the 2006 Euro Debt). We used the net proceeds from this issuance to repay approximately 227 million principal amount of Euro debt obligations that matured on November 22, 2006 (the 1999 Euro Debt) and for general corporate and working capital purposes. Also, during Fiscal 2007, we took advantage of our recent credit rating upgrades and amended our credit facility to increase our borrowing capacity, lower our financing costs and eliminate certain financial covenants (see Note 13 to the accompanying audited consolidated financial statements for further discussion).

We generated $796.1 million of cash from operations during Fiscal 2007, compared to $449.1 million in the prior fiscal year. Included in our cash from operations was approximately $180 million (net of certain refundable tax withholdings) of prepaid royalty and design-service fees from Luxottica Group, S.p.A. and affiliates (Luxottica) in connection with the start of our ten-year eyewear licensing agreement with Luxottica (see Note 22 to the accompanying audited consolidated financial statements for further discussion). We used our higher cash availability to reinvest in our business through capital spending and acquisitions, as well as in connection with the expansion of our common stock repurchase program. In particular, we had $184 million of capital expenditures primarily associated with retail store expansion, construction and renovation of shop-in-shops in department stores and investments in our technological infrastructure. We used $175 million to acquire the remaining 50% equity interest in RL Media, our e-commerce subsidiary, that we did not previously own (see *Recent Developments* for further discussion). We also acquired 3.5 million shares of Class A common stock at an aggregate cost of $231.3 million.

Transactions Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results has been affected by certain acquisitions that occurred in Fiscal 2006 and Fiscal 2005. In particular, we acquired the Polo Jeans Business on February 3, 2006, the Footwear Business on July 15, 2005, and the Childrenswear Business on July 2, 2004 (each as defined in Note 5 to the accompanying audited consolidated financial statements). In addition, as noted above, the comparability of our operating results also has been affected by the change in accounting for stock-based compensation effective as of the beginning of Fiscal 2007, and by certain pre-tax charges related to restructurings, asset impairments, and credit card and other litigation-related contingencies during the fiscal years presented. A summary of the effect of these items on pre-tax income for each period presented is noted below:

	Fiscal Years Ended		
	March 31, 2007	**April 1, 2006**	**April 2, 2005**
		(millions)	
Stock-based compensation costs (see Note 18)	$ (43.6)	$ (26.6)	$ (12.9)
Restructuring charges (see Note 11)	(4.6)	(9.0)	(2.3)
Impairments of retail assets (see Note 7)		(10.8)	(1.5)

Credit card contingency charge (see Note 15)	(3.0)	(6.8)	(6.2)
Jones-related litigation charge (see Note 5)			(100.0)
	$ (51.2)	$ (53.2)	$ (122.9)

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

Recent Developments

Japanese Business Acquisitions

On May 29, 2007, the Company completed its previously announced transactions to acquire control of certain of its Japanese businesses that were formerly conducted under licensed arrangements. In particular, the Company acquired approximately 77% of the outstanding shares of Impact 21 that it did not previously own in a cash tender offer (the Impact 21 Acquisition), thereby increasing its ownership in Impact 21 from approximately 20% to 97%. Impact 21 conducts the Company s men s, women s and jeans apparel and accessories business in Japan under a sub-license arrangement. In addition, the Company acquired the remaining 50% interest in Polo Ralph Lauren Japan Corporation (PRL Japan), which holds the master license to conduct Polo s business in Japan, from Onward Kashiyama Co. Ltd and its subsidiaries (Onward Kashiyama) and The Seibu Department Stores, Ltd (the PRL Japan Minority Interest Acquisition). Collectively, the Impact 21 Acquisition and the PRL Japan Minority Interest Acquisition are hereafter referred to as the Japanese Business Acquisitions.

The purchase price initially paid in connection with the Impact 21 Acquisition was approximately $327 million. However, the Company intends to acquire, over the next several months, the remaining approximately 3% of the outstanding shares not exchanged as of the close of the tender offer period at an estimated aggregate cost of approximately $12 million. In addition, the purchase price paid in connection with the PRL Japan Minority Interest Acquisition was approximately $22 million.

The Company funded the Japanese Business Acquisitions with available cash on-hand and approximately $170 million of Yen-based borrowings under a one-year term loan agreement on terms substantially similar to the Company s existing credit facility. The Company expects to repay the borrowing by its maturity date using a portion of the approximate $200 million of Impact 21 s cash on-hand acquired as part of the acquisition.

The results of operations for Impact 21 will be consolidated effective as of the beginning of Fiscal 2008. The results of operations for PRL Japan already are consolidated by the Company as described further in Note 2 to the accompanying audited consolidated financial statements.

The Company is in the process of preparing its assessment of the fair value of assets acquired and liabilities assumed for the allocation of the purchase price. The Company also has entered into a transition services agreement with Onward Kashiyama which, along with its affiliates, was a former approximate 41% shareholder of Impact 21, to provide a variety of operational, human resources and information systems-related services over a period of up to two years.

The Company does not expect the results of the Japanese Business Acquisitions to contribute to its profitability until Fiscal 2009 primarily due to the dilutive effect of the anticipated non-cash costs to be recognized in connection with the allocation of a portion of the purchase price to inventory and certain intangible assets.

Acquisition of Small Leathergoods Business

On April 13, 2007, the Company acquired from Kellwood Company (Kellwood) substantially all of the assets of New Campaign, Inc., the Company s licensee for men s and women s belts and other small leather goods under the Ralph Lauren, Lauren and Chaps brands in the U.S. The assets acquired from Kellwood will be operated under the name of Polo Ralph Lauren Leathergoods and will allow the Company to further expand its accessories business. The acquisition cost was approximately $10 million and is subject to customary closing adjustments. Kellwood will provide various transition services for up to six months after the closing.

The results of operations for the Polo Ralph Lauren Leathergoods business will be consolidated in the Company s results of operations commencing in Fiscal 2008.

Acquisition of RL Media Minority Interest

On March 28, 2007, the Company acquired the remaining 50% equity interest in Ralph Lauren Media, LLC (RL Media) held by NBC Universal, Inc. and its related entities (37.5%) and Value Vision International, Inc. and its related entities (12.5%). RL Media conducts the Company s e-commerce initiatives through the Polo.com internet site and is consolidated by the Company as the primary beneficiary pursuant to the provisions of FIN 46R.

The acquisition cost was $175 million. In addition, Value Vision International, Inc. entered into a transition services agreement with the Company to provide order fulfillment and related services over a period of up to seventeen months from the date of the acquisition of the RL Media minority interest.

The Company expects the acquisition of the RL Media minority interest to have a dilutive effect on profitability in Fiscal 2008 due primarily to the non-cash costs to be recognized in connection with the allocation of a portion of the purchase price to inventory and certain intangible assets.

Formation of Ralph Lauren Watch and Jewelry Joint Venture

On March 5, 2007, the Company announced that it had agreed to form a joint venture with Financiere Richemont SA (Richemont), the Swiss Luxury Goods Group. The 50-50 joint venture will be a Swiss corporation named the Ralph Lauren Watch and Jewelry Company, S.A.R.L. (the RL Watch Company), whose purpose is to design, develop, manufacture, sell and distribute luxury watches and fine jewelry through Ralph Lauren boutiques, as well as through fine independent jewelry and luxury watch retailers throughout the world. The Company expects to account for its 50% interest in the RL Watch Company under the equity method of accounting. Royalty payments due to the Company under the related license agreement for use of certain of the Company s trademarks will be reflected as licensing revenue within the consolidated statement of operations. The RL Watch Company is expected to commence operations during the first quarter of Fiscal 2008.

The Company expects to incur certain start-up costs in Fiscal 2008 to support the launch of this business. However, the business is not expected to generate any sales until Fiscal 2009 as products are scheduled to be launched in the fall of calendar 2008.

Global Brand Concepts and Launch of American Living

On January 8, 2007, the Company announced it will begin to develop new lifestyle brands for specialty and department stores through its Global Brand Concepts (GBC) group. The GBC group will work in partnership with select department and specialty stores and contribute its expertise in design, operations, marketing, merchandising and advertising in developing exclusive brands for those stores. Consistent with this strategic initiative, on February 1, 2007, the Company announced plans to launch *American Living*, a new lifestyle brand created exclusively for J.C. Penney Company, Inc. (JCPenney). *American Living* will include a full range of merchandise for women, men and children, as well as intimate apparel, accessories and home products.

The Company expects to incur certain start-up costs in Fiscal 2008 to support the launch of this new product line. However, the Company is not expected to generate any significant sales in Fiscal 2008 as the *American Living* product line is not scheduled to be available at JCPenney stores until the spring of calendar 2008.

Eyewear Licensing Agreement

In February 2006, the Company announced that it had entered into a ten-year exclusive licensing agreement with Luxottica Group, S.p.A. and affiliates (Luxottica) for the design, production, sale and distribution of prescription frames and sunglasses under the Polo Ralph Lauren brand (the Eyewear Licensing Agreement).

The Eyewear Licensing Agreement took effect on January 1, 2007 after the Company s pre-existing licensing agreement with another licensee expired. In early January, the Company received a prepayment of approximately $180 million, net of certain tax withholdings, in consideration of the annual minimum royalty and design-services fees to be earned over the life of the contract. The prepayment is non-refundable, except with respect to certain breaches of the agreement by the Company, in which case only the unearned portion of the prepayment as determined based on

the specific terms of the agreement would be required to be repaid (see Note 22 to the accompanying audited consolidated financial statements for further discussion).

See Note 5 to the accompanying audited consolidated financial statements for further discussion of the Company s acquisitions and joint venture formed during the fiscal years presented.

RESULTS OF OPERATIONS

Fiscal 2007 Compared to Fiscal 2006

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

	Fiscal Years Ended March 31, 2007	April 1, 2006	Increase/ (Decrease)	% Change
	(millions)			
Net revenues	$ 4,295.4	$ 3,746.3	$ 549.1	14.7%
Cost of goods sold[a]	(1,959.2)	(1,723.9)	(235.3)	13.7%
Gross profit	2,336.2	2,022.4	313.8	15.5%
Gross profit as % of net revenues	54.4%	54.0%		
Selling, general and administrative expenses[a]	(1,663.4)	(1,476.9)	(186.5)	12.6%
SG&A as % of net revenues	38.7%	39.4%		
Amortization of intangible assets	(15.6)	(9.1)	(6.5)	71.4%
Impairments of retail assets		(10.8)	10.8	(100.0)%
Restructuring charges	(4.6)	(9.0)	4.4	(48.9)%
Operating income	652.6	516.6	136.0	26.3%
Operating income as % of net revenues	15.2%	13.8%		
Foreign currency gains (losses)	(1.5)	(5.7)	4.2	(73.7)%
Interest expense	(21.6)	(12.5)	(9.1)	72.8%
Interest income	26.1	13.7	12.4	90.5%
Equity in income of equity-method investees	3.0	4.3	(1.3)	(30.2)%
Minority interest expense	(15.3)	(13.5)	(1.8)	13.3%
Income before provision for income taxes	643.3	502.9	140.4	27.9%
Provision for income taxes	(242.4)	(194.9)	(47.5)	24.4%
Effective tax rate[b]	37.7%	38.8%		
Net income	$ 400.9	$ 308.0	$ 92.9	30.2%
Net income per share Basic	$ 3.84	$ 2.96	$ 0.88	29.8%
Net income per share Diluted	$ 3.73	$ 2.87	$ 0.86	30.0%

[a] Includes total depreciation expense of $129.1 million and $117.9 million for Fiscal 2007 and Fiscal 2006, 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 $549.1 million, or 14.7%, to $4.295 billion in Fiscal 2007 from $3.746 billion in Fiscal 2006. The increase was experienced in all geographic regions and was due to a combination of organic growth and acquisitions. Wholesale revenues increased by $373.4 million, primarily as a result of revenues from the newly acquired Polo Jeans Business, the successful launch of the new Chaps for women and children product lines, and increased sales in our global menswear and womenswear product lines. The increase in net revenues also was driven by a revenue increase of $184.6 million in our Retail segment as a result of improved comparable global retail store sales, continued store expansion (including our new Tokyo flagship store) and growth in Polo.com sales. Licensing revenue decreased by $8.9 million primarily due to the loss of product licensing

revenue related to the Polo Jeans and Footwear Businesses (now included as part of the Wholesale segment). Net revenues for our three business segments are provided below:

	Fiscal Years Ended March 31, 2007	April 1, 2006	Increase/ (Decrease)	% Change
		(millions)		
Net Revenues:				
Wholesale	$ 2,315.9	$ 1,942.5	$ 373.4	19.2%
Retail	1,743.2	1,558.6	184.6	11.8%
Licensing	236.3	245.2	(8.9)	(3.6)%
Total net revenues	$ 4,295.4	$ 3,746.3	$ 549.1	14.7%

Wholesale net sales the net increase primarily reflects:

the inclusion of $190 million of revenues from our newly acquired Footwear and Polo Jeans Businesses;

a $156 million aggregate net increase led by our global menswear, womenswear and childrenswear businesses, primarily driven by strong growth in our Lauren product line, increased full-price sell-through performance in our menswear business and the effects from the successful domestic launch of our new Chaps for women and children product lines. These increases were partially offset by a decline in footwear sales (excluding the impact from acquisition) due to our planned integration efforts as we repositioned the related product line; and

a $27 million increase in revenues due to a favorable foreign currency effect, primarily related to the strengthening of the Euro in comparison to the U.S. dollar in Fiscal 2007.

Retail net sales 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 closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until stores have been in their location for at least a full fiscal year. Comparable store sales information includes both Ralph Lauren stores and Club Monaco stores.

The increase in retail net sales primarily reflects:

an aggregate $104 million increase in comparable full-price and factory store sales on a global basis. This increase was driven by a 6.6% increase in comparable full-price Ralph Lauren store sales, a 10.9% increase in comparable full-price Club Monaco store sales, and an 8.1% increase in comparable factory store sales. Excluding a net aggregate favorable $9 million effect on revenues from foreign currency exchange rates, comparable full-price Ralph Lauren store sales increased 5.7%, comparable full-price Club Monaco store sales increased 10.9%, and comparable factory store sales increased 7.5%;

an increase in sales from non-comparable stores, primarily relating to new store openings within the past fiscal year. There was a net increase in global store count of 3 stores compared to the prior fiscal year, to a total of 292 stores. The net increase in store count was primarily due to several new openings of full-price stores, partially offset by the closure of certain Club Monaco Caban Concept and factory stores and Polo Jeans factory stores; and

a $26 million increase in sales at Polo.com.

Licensing revenue the net decrease primarily reflects:

the loss of licensing revenues from our Polo Jeans and Footwear Businesses now included as part of the Wholesale segment;

a decline in eyewear-related royalties due to the wind-down of the Company s pre-existing licensing agreement prior to the commencement of the new Eyewear Licensing Agreement which took effect on January 1, 2007;

a decline in Home licensing royalties; and

a partially offsetting increase in international licensing royalties and the accelerated receipt and recognition of approximately $8 million of minimum royalty and design-service fees in connection with the termination of a domestic license agreement during Fiscal 2007.

Cost of Goods Sold. Cost of goods sold increased by $235.3 million, or 13.7%, to $1.959 billion in Fiscal 2007 from $1.724 billion in Fiscal 2006. Cost of goods sold expressed as a percentage of net revenues decreased to 45.6% in Fiscal 2007 from 46.0% in Fiscal 2006. The net reduction in cost of goods sold as a percentage of net revenues primarily reflects the ongoing focus on improved inventory management, including sourcing efficiencies and reduced markdown activity as a result of better full-price sell-through of our products.

Gross Profit. Gross profit increased by $313.8 million, or 15.5%, to $2.336 billion in Fiscal 2007 from $2.022 billion in Fiscal 2006. Gross profit as a percentage of net revenues also increased to 54.4% in Fiscal 2007 from 54.0% in Fiscal 2006. The increase in gross profit reflected higher net sales and improved merchandise margins in our wholesale and retail businesses, including the continued emphasis on shifting the mix from off-price to full-price sales across our wholesale product lines, as well as the focus on improved inventory management discussed above. However, the overall improvement in gross profit margins was partially offset by the lower gross profit performance of our newly acquired Polo Jeans Business associated with the liquidation of existing inventory in anticipation of the redesign and launch of our new denim and casual sportswear product lines during spring of calendar 2007. Gross profit margins related to our Footwear Business have also been negatively impacted during Fiscal 2007, primarily by integration efforts as we repositioned the related product line.

Selling, General and Administrative Expenses. SG&A expenses primarily include compensation and benefits, marketing, distribution, information technology, facilities, legal and other costs associated with finance and administration. SG&A expenses increased by $186.5 million, or 12.6%, to $1.663 billion in Fiscal 2007 from $1.477 billion in Fiscal 2006. SG&A expenses as a percent of net revenues decreased to 38.7% in Fiscal 2007 from 39.4% in Fiscal 2006. The 70 basis point improvement is primarily indicative of our ability to successfully leverage our global infrastructure as we acquire businesses and grow product lines organically. The $186.5 million net increase in SG&A expenses was primarily driven by:

higher compensation-related expenses (excluding stock-based compensation) of approximately $69 million, principally relating to increased selling costs associated with higher retail sales and our ongoing worldwide retail store and product line expansion, and higher investment in infrastructure to support the ongoing growth of our businesses;

the inclusion of SG&A costs for our newly acquired Footwear and Polo Jeans Businesses, including costs incurred pursuant to transition service arrangements;

a $38 million increase in brand-related marketing and facilities costs to support the ongoing growth of our businesses;

an approximate $10 million increase in depreciation costs in connection with our increased capital expenditures and global expansion;

incremental stock-based compensation expense of approximately $17 million as a result of the adoption of FAS 123R as of April 2, 2006 (see Note 18 to the accompanying audited consolidated financial statements for further discussion); and

a net reduction in credit card contingency charges of approximately $4 million.

The Company expects to incur significantly greater stock-based compensation expense in Fiscal 2008 as compared to the related expense recognized in Fiscal 2007 primarily due to the approximate 45% increase in the Company s share price during Fiscal 2007.

Amortization of Intangible Assets. Amortization of intangible assets increased by $6.5 million, to $15.6 million in Fiscal 2007 from $9.1 million in Fiscal 2006. The increase was due to the amortization of intangible assets related to the Polo Jeans Business acquired in February 2006 and the Footwear Business acquired in July 2005.

Impairments of Retail Assets. A non-cash impairment charge of $10.8 million was recognized during Fiscal 2006 to reduce the carrying value of fixed assets largely relating to our Club Monaco brand. No impairment charges were recognized in Fiscal 2007.

Restructuring Charges. Restructuring charges decreased by $4.4 million, to $4.6 million in Fiscal 2007 from $9.0 million in Fiscal 2006. Restructuring charges recognized in both periods were principally associated with the Club Monaco retail business. See Note 11 to the accompanying audited consolidated financial statements for further discussion.

Operating Income. Operating income increased by $136.0 million, or 26.3%, to $652.6 million in Fiscal 2007 from $516.6 million in Fiscal 2006. Operating income as a percentage of revenue increased 140 basis points, to 15.2% in Fiscal 2007 from 13.8% in Fiscal 2006, reflecting our revenue growth, gross profit percentage expansion and improved SG&A expense leveraging. Operating income for our three business segments is provided below:

	Fiscal Years Ended			
	March 31, 2007	**April 1, 2006**	**Increase/ (Decrease)**	**% Change**
	(millions)			
Operating Income:				
Wholesale	$ 477.8	$ 398.3	$ 79.5	20.0%
Retail	224.2	140.0	84.2	60.1%
Licensing	141.6	153.5	(11.9)	(7.8)%
	843.6	691.8	151.8	21.9%
Less:				
Unallocated corporate expenses	(183.4)	(159.1)	(24.3)	15.3%
Unallocated legal and restructuring charges	(7.6)	(16.1)	8.5	(52.8)%
Total operating income	$ 652.6	$ 516.6	$ 136.0	26.3%

Wholesale operating income increased by $79.5 million, primarily as a result of higher net sales and improved gross margin rates in most product lines, as well as the incremental contribution from the newly acquired Polo Jeans Business and the new Chaps product lines. These increases were partially offset by increases in SG&A expenses in support of new product lines across all geographic territories and higher amortization expenses associated with intangible assets recognized in acquisitions.

Retail operating income increased by $84.2 million, primarily as a result of increased net sales and improved gross margin rates, as well as the absence of a non-cash impairment charge of $10.8 million recognized in Fiscal 2006. These increases were partially offset by an increase in selling related salaries and associated costs in connection with the increase in retail sales, including Polo.com, and worldwide store expansion, including the new Tokyo flagship

store.

Licensing operating income decreased by $11.9 million primarily due to the loss of royalty income formerly collected in connection with the Footwear and Polo Jeans Businesses, which have now been acquired. The decline in Home royalties also contributed to the decrease along with the decline in eyewear royalties, due to the wind-down of the Company s pre-existing licensing agreement. These decreases were partially offset by an increase in international royalties, as well as the accelerated receipt and recognition of approximately $8 million of minimum royalty and design-service fees in connection with the termination of a domestic license agreement during Fiscal 2007.

Unallocated corporate expenses increased by $24.3 million, primarily as a result of increases in brand-related marketing, payroll-related and facilities costs to support the ongoing growth of our businesses. The increase in

compensation-related costs includes higher stock-based compensation expense due to the adoption of FAS 123R (as further discussed in Note 18 to the accompanying audited consolidated financial statements).

Unallocated legal and restructuring charges were $7.6 million during Fiscal 2007, compared to $16.1 million during Fiscal 2006. Fiscal 2007 charges were principally associated with the Club Monaco Restructuring Plan charges of $4.0 million (as defined in Note 11 to the accompanying audited consolidated financial statements) and costs of $3.0 million related to the Credit Card Matters (as defined in Note 15 to the accompanying audited consolidated financial statements). Fiscal 2006 charges also primarily included the Club Monaco Restructuring Plan charges of $9.0 million and legal costs of $6.8 million associated with the Credit Card Matters.

Foreign Currency Gains (Losses). The effect of foreign currency exchange rate fluctuations resulted in a loss of $1.5 million in Fiscal 2007, compared to a loss of $5.7 million in Fiscal 2006. The decrease in foreign currency losses compared to the prior fiscal year is due to the timing of the settlement of intercompany receivables and payables (that were not of a long-term investment nature) between certain of our international and domestic subsidiaries. Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

Interest Expense. Interest expense includes the borrowing cost of our outstanding debt, including amortization of debt issuance costs and the loss (gain) on interest rate swap hedging contracts. Interest expense increased by $9.1 million to $21.6 million in Fiscal 2007 from $12.5 million in Fiscal 2006. The increase is primarily due to an increase in interest on capitalized leases due to additional obligations in Fiscal 2007 compared to the prior fiscal year and overlapping interest on debt during the period between the issuance of the 2006 Euro Debt and the repayment of the 1999 Euro Debt. In addition, prior year interest expense was favorably impacted by the interest rate swap agreements which were terminated at the end of Fiscal 2006.

Interest Income. Interest income increased by $12.4 million, to $26.1 million in Fiscal 2007 from $13.7 million in Fiscal 2006. This increase is primarily driven by higher average interest rates and higher balances on our invested excess cash.

Equity in Income of Equity-Method Investees. Equity in the income of equity-method investees decreased by $1.3 million, to $3.0 million in Fiscal 2007 from $4.3 million in Fiscal 2006. This income relates to our 20% investment in Impact 21, a company that holds the sublicense with PRL Japan for our men s, women s and jeans businesses in Japan. See *Recent Developments* for further discussion of the Company s Japanese Business Acquisitions that occurred in May 2007.

Minority Interest Expense. Minority interest expense increased by $1.8 million, to $15.3 million in Fiscal 2007 from $13.5 million in Fiscal 2006. The net increase is primarily related to the improved operating performance of RL Media compared to the prior period and the associated allocation of income to the minority partners. As of March 28, 2007, the Company acquired the remaining 50% interest in RL Media held by the minority partners (see *Recent Developments* for further discussion).

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by $47.5 million, or 24.4%, to $242.4 million in Fiscal 2007 from $194.9 million in Fiscal 2006. This increase is a result of the increase in our pre-tax income, partially offset by a decrease in our reported effective tax rate, to 37.7% in Fiscal 2007 from 38.8% in Fiscal 2006. The lower effective tax rate is primarily due to a change in the mix of earnings, which resulted in more income being taxed at lower rates than in the previous fiscal year. 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 year-to-year based on non-recurring and 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. See Critical Accounting Policies for a discussion on the accounting for uncertain tax positions and the Company s adoption of FIN 48 in Fiscal 2008.

Net Income. Net income increased by $92.9 million, or 30.2%, to $400.9 million in Fiscal 2007 from $308.0 million in Fiscal 2006. The increase in net income principally related to our $136.0 million increase in operating income, as previously discussed, offset in part by an increase of $47.5 million in our provision for income taxes.

Net Income Per Diluted Share. Net income per diluted share increased by $0.86, or 30.0%, to $3.73 per share in Fiscal 2007 from $2.87 per share in Fiscal 2006. The increase in diluted per share results was primarily due to the higher level of net income, partially offset by higher weighted-average diluted shares outstanding for Fiscal 2007.

Fiscal 2006 Compared to Fiscal 2005

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

	Fiscal Years Ended April 1, 2006	April 2, 2005 (millions)	Increase/ (Decrease)	% Change
Net revenues	$ 3,746.3	$ 3,305.4	$ 440.9	13.3%
Cost of goods sold[a]	(1,723.9)	(1,620.9)	(103.0)	6.4%
Gross profit	2,022.4	1,684.5	337.9	20.1%
Gross profit as % of net revenues	54.0%	51.0%		
Selling, general and administrative expenses[a]	(1,476.9)	(1,377.6)	(99.3)	7.2%
SG&A as % of net revenues	39.4%	41.7%		
Amortization of intangible assets	(9.1)	(3.4)	(5.7)	167.6%
Impairments of retail assets	(10.8)	(1.5)	(9.3)	620.0%
Restructuring charges	(9.0)	(2.3)	(6.7)	291.3%
Operating income	516.6	299.7	216.9	72.4%
Operating income as % of net revenues	13.8%	9.1%		
Foreign currency gains (losses)	(5.7)	6.1	(11.8)	(193.4)%
Interest expense	(12.5)	(11.0)	(1.5)	13.6%
Interest income	13.7	4.6	9.1	197.8%
Equity in income of equity-method investees	4.3	6.4	(2.1)	(32.8)%
Minority interest expense	(13.5)	(8.0)	(5.5)	68.8%
Income before provision for income taxes	502.9	297.8	205.1	68.9%
Provision for income taxes	(194.9)	(107.4)	(87.5)	81.5%
Effective tax rate[b]	38.8%	36.1%		
Net income	$ 308.0	$ 190.4	$ 117.6	61.8%
Net income per share Basic	$ 2.96	$ 1.88	$ 1.08	57.4%
Net income per share Diluted	$ 2.87	$ 1.83	$ 1.04	56.8%

(a)

Includes total depreciation expense of $117.9 million and $98.7 million for Fiscal 2006 and Fiscal 2005, 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 $440.9 million, or 13.3%, to $3.746 billion in Fiscal 2006 from $3.305 billion in Fiscal 2005. Wholesale revenues increased by $230.4 million, primarily as a result of revenues from the sale of newly acquired Footwear and Polo Jeans products, the inclusion of a full year of sales for our childrenswear business, which was acquired in July 2004 (the Childrenswear Business), the successful launch of the Chaps for women and boys product lines, and increased sales in our global menswear and womenswear product lines. The increase in net revenues also was due to a $210.0 million revenue increase in our Retail segment as a

result of improved comparable retail store sales, continued store expansion and growth in Polo.com sales. Net revenues for our three business segments are provided below:

	Fiscal Years Ended			
	April 1, 2006	April 2, 2005	Increase/ (Decrease)	% Change
	(millions)			
Net Revenues:				
Wholesale	$ 1,942.5	$ 1,712.1	$ 230.4	13.5%
Retail	1,558.6	1,348.6	210.0	15.6%
Licensing	245.2	244.7	0.5	0.2%
Total net revenues	$ 3,746.3	$ 3,305.4	$ 440.9	13.3%

Wholesale net sales the net increase primarily reflects:

the inclusion of $58 million of revenue from the newly acquired Footwear Business;

the inclusion of $35 million of revenues from the newly acquired Polo Jeans Business;

a $74 million increase in revenues from our childrenswear product line that was acquired in July 2004, including the effects from the successful launch of our Chaps for boys product line and a one-time benefit of $59 million due to the inclusion of a full year of sales in Fiscal 2006;

a $73 million aggregate constant-dollar increase in our global menswear and womenswear businesses, primarily driven by strong growth in our Lauren product line and the effects from the successful domestic launch of our Chaps for women product line; and

a $14 million decrease in revenues due to an unfavorable foreign currency effect relating to the strengthening of the U.S. dollar in comparison to the Euro during Fiscal 2006.

Retail net sales the net increase primarily reflects:

an aggregate $74 million increase in comparable full-price and factory store sales. This increase was driven by a 6.0% increase in comparable full-price Ralph Lauren store sales, a 8.1% increase in comparable full-price Club Monaco store sales, and a 6.3% increase in comparable factory store sales. Excluding an unfavorable aggregate $4 million effect on revenues from foreign currency exchange rates, comparable full-price Ralph Lauren store sales increased 6.6%, comparable full-price Club Monaco store sales increased 8.1%, and comparable factory store sales increased 6.6%;

a net increase in global store count of 11 stores compared to the prior year, to a total of 289 stores, as several new openings were offset by the closure of certain Club Monaco stores in the fourth quarter of Fiscal 2006; and

a $29 million increase in sales at Polo.com.

Licensing revenues Licensing revenues were essentially flat in Fiscal 2006 compared to Fiscal 2005, as increased revenue from our international licensing business and the domestic launch of the Chaps brand extensions for the menswear and accessories businesses offset the decreases in product licensing revenue resulting from our Fiscal 2006 purchase of the Footwear and Polo Jeans Businesses (now included as part of the Wholesale segment).

Cost of Goods Sold. Cost of goods sold increased by $103.0 million, or 6.4%, to $1.724 billion in Fiscal 2006 from $1.621 billion in Fiscal 2005. Cost of goods sold expressed as a percentage of net revenues decreased to 46.0% in Fiscal 2006 from 49.0% in Fiscal 2005. The net reduction in cost of goods sold as a percentage of net revenues primarily reflected a continued focus on sourcing efficiencies and reduced markdown activity as a result of better full-price sell-through of our products.

Gross Profit. Gross profit increased by $337.9 million, or 20.1%, to $2.022 billion in Fiscal 2006 from $1.685 billion in Fiscal 2005. This increase reflected higher net sales, improved merchandise margins and sourcing efficiencies, generally across our wholesale and retail businesses. Gross profit as a percentage of net revenues also

increased to 54.0% in Fiscal 2006 from 51.0% in Fiscal 2005. This 300 basis point increase resulted primarily from the factors discussed above and a shift in mix away from off-price sales towards more full-price sales in our Wholesale segment.

Selling, General and Administrative Expenses. SG&A expenses increased by $99.3 million, or 7.2%, to $1.477 billion in Fiscal 2006 from $1.378 billion in Fiscal 2005. SG&A expenses in Fiscal 2005 included a $100 million charge in connection with the Jones-related Litigation. On a reported basis, SG&A as a percent of net revenues decreased by 2.2%, to 39.4% in Fiscal 2006 from 41.7% in Fiscal 2005. However, excluding the effect from the Jones-related Litigation charge, SG&A as a percentage of net revenues increased by 0.8%, to 39.4% in Fiscal 2006 from 38.7% in Fiscal 2005. Excluding the Jones-related Litigation charge, the $199.3 million net increase in SG&A was primarily driven by:

- higher payroll-related expenses of approximately $89 million, principally related to increased selling costs associated with higher retail sales and our worldwide retail store expansion, higher stock-based compensation charges associated with our strong operating performance and increasing stock price, and higher investment in infrastructure to support the ongoing growth of our businesses;

- an increase in brand-related marketing and facilities costs of approximately $69 million to support the ongoing growth of our businesses;

- higher depreciation costs of approximately $19 million in connection with our increased capital expenditures and global expansion; and

- the inclusion of SG&A costs for our newly acquired Footwear and Polo Jeans Businesses, and the costs for the Childrenswear Business for a full year.

Amortization of Intangible Assets. Amortization of intangible assets increased by $5.7 million, to $9.1 million in Fiscal 2006 from $3.4 million in Fiscal 2005. The increase related to the addition of intangible assets acquired as part of the Childrenswear Business in July 2004, the Footwear Business in July 2005 and the Polo Jeans Business in February 2006.

Impairments of Retail Assets. A non-cash impairment charge of $10.8 million was recognized during Fiscal 2006 to reduce the carrying value of fixed assets used in certain of our retail stores, largely related to our Club Monaco retail business that includes our Caban Concept and Club Monaco factory stores. This impairment charge primarily related to lower-than-expected store performance and preceded the implementation of a plan to restructure these operations in February 2006. A $1.5 million impairment charge also was recognized in Fiscal 2005 related to Club Monaco retail stores.

Restructuring Charges. Restructuring charges increased by $6.7 million, to $9.0 million in Fiscal 2006 from $2.3 million in Fiscal 2005. The Fiscal 2006 restructuring charge related to the Club Monaco retail business and included the intended closure of all five Club Monaco factory stores and the intended disposal of all eight of Club Monaco s Caban Concept stores. The Fiscal 2005 restructuring charge principally related to severance obligations incurred in connection with a consolidation of our European operations.

Operating Income. Operating income increased by $216.9 million, or 72.4%, to $516.6 million in Fiscal 2006 from $299.7 million in Fiscal 2005. Operating income for Fiscal 2005 was reduced by the $100 million Jones-related Litigation charge. Operating income for our three business segments is provided below:

	Fiscal Years Ended			
	April 1, 2006	**April 2, 2005**	**Increase/ (Decrease)**	**% Change**
		(millions)		
Operating Income:				
Wholesale	$ 398.3	$ 299.7	$ 98.6	32.9%
Retail	140.0	82.8	57.2	69.1%
Licensing				