

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 2, 1999

or

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

COMMISSION FILE NUMBER 001-13057

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

DELAWARE

(State or other jurisdiction of  
incorporation or organization)

13-2622036  
(I.R.S. Employer  
Identification No.)

650 MADISON AVENUE, NEW YORK, NEW YORK  
(Address of principal executive offices)

10022  
(Zip Code)

Registrant's telephone number, including area code 212-318-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

At November 11, 1999, 33,023,776 shares of the registrant's Class A Common Stock, \$.01 par value, were outstanding, 43,280,021 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding and 22,720,979 shares of the registrant's Class C Common Stock, \$.01 par value were outstanding.

POLO RALPH LAUREN CORPORATION

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POLO RALPH LAUREN CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share data)

	October 2, 1999	April 3, 1999
	----- (Unaudited)	-----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 42,353	\$ 44,458
Accounts receivable, net of allowances of \$16,079 and \$13,495 respectively	212,331	157,203
Inventories	420,769	376,860
Deferred tax assets	51,939	51,939
Prepaid expenses and other	33,794	48,994
	-----	-----
Total current assets	761,186	679,454
Property and equipment, net	326,070	261,799
Deferred tax assets	12,737	12,493
Restricted cash	-	44,217
Goodwill, net	76,014	27,464
Other assets, net	88,315	79,157
	-----	-----
	\$ 1,264,322	\$ 1,104,584
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes and acceptances payable - banks	\$ 154,800	\$ 115,500
Accounts payable	107,196	88,898
Income taxes payable	18,943	17,432
Accrued expenses and other	106,623	126,142
	-----	-----
Total current liabilities	387,562	347,972
Long-term debt	80,000	44,217
Other noncurrent liabilities	71,794	53,490
Stockholders' equity		
Common Stock		
Class A, par value \$.01 per share; 500,000,000 shares authorized; 34,381,653 shares issued	344	344
Class B, par value \$.01 per share; 100,000,000 shares authorized; 43,280,021 shares issued and outstanding	433	433
Class C, par value \$.01 per share; 70,000,000 shares authorized; 22,720,979 shares issued and outstanding	227	227
Additional paid-in-capital	450,030	450,030
Retained earnings	306,747	227,288
Treasury Stock, Class A, at cost (1,319,795 and 603,864 shares)	(30,149)	(16,084)
Unearned compensation	(2,666)	(3,333)
	-----	-----
Total stockholders' equity	724,966	658,905
	-----	-----
	\$ 1,264,322	\$ 1,104,584
	=====	=====

See accompanying notes to financial statements.

POLO RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	October 2, 1999	September 26, 1998	October 2, 1999	September 26, 1998
Net sales	\$ 470,509	\$ 409,456	\$ 854,981	\$ 720,611
Licensing revenue	71,328	61,503	119,204	104,787
Other income	2,048	3,847	4,121	8,185
	-----	-----	-----	-----
Net revenues	543,885	474,806	978,306	833,583
Cost of goods sold	274,470	241,095	491,916	417,256
	-----	-----	-----	-----
Gross profit	269,415	233,711	486,390	416,327
Selling, general and administrative expenses	172,311	148,783	339,410	293,747
	-----	-----	-----	-----
Income from operations	97,104	84,928	146,980	122,580
Interest (expense) income	(3,687)	(676)	(6,175)	4
	-----	-----	-----	-----
Income before income taxes and cumulative effect of change in accounting principle	93,417	84,252	140,805	122,584
Provision for income taxes	38,068	34,333	57,379	49,954
	-----	-----	-----	-----
Income before cumulative effect of change in accounting principle	55,349	49,919	83,426	72,630
Cumulative effect of change in accounting principle, net of taxes	-	-	3,967	-
	-----	-----	-----	-----
Net income	\$ 55,349	\$ 49,919	\$ 79,459	\$ 72,630
	=====	=====	=====	=====
Income per share before cumulative effect of change in accounting principle - Basic and Diluted	\$ 0.56	\$ 0.50	\$ 0.84	\$ 0.73
Cumulative effect of change in accounting principle, net of taxes, per share - Basic and Diluted	-	-	0.04	-
	-----	-----	-----	-----
Net income per share - Basic and Diluted	\$ 0.56	\$ 0.50	\$ 0.80	\$ 0.73
	=====	=====	=====	=====
Weighted average common shares outstanding - Basic	99,117,576	99,826,960	99,328,755	100,011,047
	=====	=====	=====	=====
Weighted average common shares outstanding - Diluted	99,250,565	99,878,242	99,510,226	100,151,156
	=====	=====	=====	=====

See accompanying notes to financial statements.

POLO RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Six Months Ended	
	October 2, 1999	September 26, 1998
Cash flows from operating activities		
Net income	\$ 79,459	\$ 72,630
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	32,288	22,142
Cumulative effect of change in accounting principle	3,967	-
Provision for losses on accounts receivable	1,410	435
Other	256	707
Changes in assets and liabilities, net of acquisition		
Accounts receivable	(54,879)	(21,717)
Inventories	(20,721)	(97,696)
Prepaid expenses and other	11,560	(5,884)
Other assets, net	(3,325)	(7,923)
Accounts payable	5,234	30,438
Income taxes payable and accrued expenses and other	(12,832)	12,148
	-----	-----
Net cash provided by operating activities	42,417	5,280
	-----	-----
Cash flows from investing activities		
Purchases of property and equipment, net	(58,682)	(72,407)
Acquisition, net of cash acquired	(50,824)	(6,981)
Proceeds from release of restricted cash held for Club Monaco acquisition	44,217	-
Cash surrender value - officers' life insurance, net	(2,893)	(1,409)
	-----	-----
Net cash used in investing activities	(68,182)	(80,797)
	-----	-----
Cash flows from financing activities		
Proceeds from issuance of common stock, net	-	113
Repurchases of common stock	(14,065)	(16,084)
Proceeds from short-term borrowings, net	39,300	79,600
Repayments of long-term debt	(37,358)	(337)
Proceeds from long-term debt	35,783	-
	-----	-----
Net cash provided by financing activities	23,660	63,292
	-----	-----
Net decrease in cash and cash equivalents	(2,105)	(12,225)
Cash and cash equivalents at beginning of period	44,458	58,755
	-----	-----
Cash and cash equivalents at end of period	\$ 42,353	\$ 46,530
	=====	=====

See accompanying notes to financial statements.

POLO RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Six Months Ended	
	October 2, 1999	September 26, 1998
Supplemental cash flow information		
Cash paid for interest	\$ 6,651	\$ 1
	=====	=====
Cash paid for income taxes	\$ 51,978	\$34,583
	=====	=====
Supplemental schedule of non-cash investing and financing activities		
Fair value of assets acquired, excluding cash	\$110,617	\$14,868
Less:		
Cash paid	51,481	6,981
Promissory notes issued	-	5,000
	-----	-----
Liabilities assumed	\$ 59,136	\$ 2,887
	=====	=====
Fair market value of restricted stock grants	\$ 667	
	=====	

See accompanying notes to financial statements.

POLO RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information for October 2, 1999 and September 26, 1998 is unaudited)

1 Basis of Presentation

(a) Unaudited Interim Financial Statements

The accompanying unaudited consolidated financial statements include the results of operations of Polo Ralph Lauren Corporation and subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in a manner consistent with that used in the preparation of the April 3, 1999 audited consolidated financial statements of the Company. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations and cash flows for the periods presented.

Operating results for the three months and six months ended October 2, 1999 and September 26, 1998 are not necessarily indicative of the results that may be expected for a full year. In addition, the unaudited interim consolidated financial statements do not include all information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. These consolidated financial statements should be read in conjunction with the Company's fiscal 1999 audited consolidated financial statements.

(b) Acquisition

On April 6, 1999, PRL Acquisition Corp., a Nova Scotia unlimited liability corporation and a wholly owned subsidiary of the Company, acquired, through a tender offer, 98.83% of the outstanding shares of Club Monaco Inc. ("Club Monaco"), a corporation organized under the laws of the Province of Ontario, Canada. On May 3, 1999, PRL Acquisition Corp. acquired the remaining outstanding 1.17% shares pursuant to a statutory compulsory acquisition. The total purchase price was approximately \$51.0 million in cash based on the then current foreign exchange rates. The Company used funds from its credit facility to finance this acquisition and to repay in full assumed debt of Club Monaco of approximately \$35.0 million. This acquisition has been accounted for as a purchase and the Company has consolidated the operations of Club Monaco in the accompanying financial statements from the effective date of the transaction. The purchase price has been preliminarily allocated based upon fair values at the date of acquisition, pending final determination of certain acquired balances. This preliminary allocation resulted in an excess of purchase price over the estimated fair value of net assets acquired of approximately \$51.0 million, which has been recorded as goodwill and is being amortized on a straight-line basis over an estimated useful life of 40 years.

(a) Net income per share

Basic net income per share was calculated by dividing net income by the weighted average number of shares outstanding during the period and excluded any potential dilution. Diluted net income per share was calculated similarly but included potential dilution from the exercise of stock options and awards.

(b) Comprehensive Income

For the three months and six months ended October 2, 1999 and September 26, 1998, comprehensive income was equal to net income.

(c) Accounting Changes

Effective April 4, 1999, the Company adopted the provisions of Statement of Position No. 98-5 ("SOP 98-5"), Reporting on the Costs of Start-up Activities. SOP 98-5 requires that costs of start-up activities, including store pre-opening costs, be expensed as incurred. Prior to its adoption of SOP 98-5, the Company's accounting policy was to capitalize store pre-opening costs as prepaid expenses and amortize such costs over a twelve-month period following store opening. As a result of adopting SOP 98-5, the Company recorded a charge of \$4.0 million, after taxes, as the cumulative effect of a change in accounting principle in the accompanying financial statements.

Effective April 4, 1999, the Company changed its method of valuing its retail inventories from the retail method to the lower of cost (first-in, first-out) or market. The impact of this change was not material and is included in selling, general and administrative expenses in the accompanying financial statements.

(e) Recently Issued Pronouncements

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative is dependent upon the intended use of the derivative. SFAS No. 133 is effective for the Company's first quarter of fiscal year ending March 30, 2002 and retroactive application is not permitted. The Company has not yet determined whether the application of SFAS No. 133 will have a material impact on the Company's financial position or results of operations.

3 Inventories

	October 2, 1999	April 3, 1999
Raw materials	\$ 17,226	\$ 17,675
Work-in-process	8,246	8,545
Finished goods	395,297	350,640
	-----	-----
	\$420,769	\$376,860
	=====	=====

Merchandise inventories of \$196.1 million at April 3, 1999 were valued utilizing the retail method and are included in finished goods.

4. Restructuring Charge

During the fourth quarter of fiscal 1999, the Company formalized its plans to streamline operations within its wholesale and retail operations and reduce its overall cost structure ("Restructuring Plan"). The major initiatives of the Restructuring Plan included the following: (1) an evaluation of the Company's retail operations and site locations; (2) the realignment and operational integration of the Company's wholesale operating units; and (3) the realignment and consolidation of corporate strategic business functions and internal processes.

In connection with the implementation of the Restructuring Plan, the Company recorded a pre-tax restructuring charge of \$58.6 million in its fourth quarter of fiscal 1999. The major components of the restructuring charge and the activity through October 2, 1999 were as follows:

	Severance and Termination Benefits	Asset Write Downs	Lease and Contract Termination Costs	Other Costs	Total
1999 provision .....	\$15,277	\$17,788	\$ 24,665	\$ 830	\$ 58,560
1999 activity .....	( 3,318)	(17,788)	(1,112)	( 105)	(22,323)
	-----	-----	-----	-----	-----
Balance at April 3, 1999 ....	11,959	-	23,553	725	36,237
2000 activity .....	( 3,252)	-	(13,054)	( 244)	(16,550)
	-----	-----	-----	-----	-----
Balance at October 2, 1999 ..	\$ 8,707	\$ -	\$ 10,499	\$ 481	\$ 19,687
	=====	=====	=====	=====	=====

Total severance and termination benefits as a result of the Restructuring Plan relate to approximately 280 employees, 215 of which have been terminated through October 1999. Total cash outlays related to the Restructuring Plan are expected to be approximately \$39.5 million, \$16.1 million of which was paid in the six months ended October 2, 1999. The Company expects to substantially complete the implementation of the Restructuring Plan in fiscal 2000.



5. Segment Reporting

The Company has three reportable business segments: wholesale, retail and licensing. The Company's reportable segments are individual business units that offer different products and services. They are managed separately because each segment requires different strategic initiatives, promotional campaigns, marketing and advertising, based upon its own individual positioning in the market. Additionally, these segments reflect the reporting basis used internally by senior management to evaluate performance and the allocation of resources.

The Company's net revenues and income from operations for the three months and six months ended October 2, 1999 and September 26, 1998 and total assets as of October 2, 1999 and April 3, 1999 by segment were as follows:

	Three Months Ended	
	October 2, 1999	September 26, 1998
Net revenues:		
Wholesale	\$248,643	\$237,698
Retail	223,914	175,605
Licensing	71,328	61,503
	-----	-----
	\$543,885	\$474,806
	=====	=====
Income from operations:		
Wholesale	\$ 25,658	\$ 26,842
Retail	21,647	16,300
Licensing	49,799	41,786
	-----	-----
	\$ 97,104	\$ 84,928
	=====	=====
	Six Months Ended	
	October 2, 1999	September 26, 1998
Net revenues:		
Wholesale	\$445,294	\$411,998
Retail	413,808	316,798
Licensing	119,204	104,787
	-----	-----
	\$978,306	\$833,583
	=====	=====

	Six Months Ended	
	October 2, 1999	September 26, 1998
Income from operations:		
Wholesale	\$ 37,439	\$ 29,293
Retail	29,747	31,600
Licensing	73,098	61,687
	-----	-----
	140,284	122,580
Add: Cumulative effect of change in accounting principle before taxes	6,696	-
	-----	-----
	\$ 146,980	\$ 122,580
	=====	=====
	October 2, 1999	April 3, 1999
Segment assets:		
Wholesale	\$ 403,826	\$ 376,154
Retail	574,430	424,203
Licensing	80,873	73,389
Corporate	205,193	230,838
	-----	-----
	\$1,264,322	\$1,104,584
	=====	=====

A substantial portion of the Company's net revenues and income from operations are derived from, and identifiable assets are located in, the United States.

#### 6 Subsequent Events

In September 1999, the Company reached an agreement in principle to acquire the stock and certain assets of Poloco S.A. and certain affiliates which hold licenses to sell men's and boy's Polo apparel, the men's and women's Polo Jeans business and certain Polo accessories in Europe. The purchase price will approximate \$200.0 million, plus the assumption of short-term debt outstanding at closing. The Company will fund this acquisition and repayment of debt with the proceeds from the issuance of e275.0 million Notes with a seven-year maturity and 6.125% coupon rate (the "Eurobond Offering"). The net proceeds from the Eurobond Offering, not including proceeds from the exercise by the underwriters of their overallotment option, will approximate \$280.0 million based on current exchange rates. The Eurobond Offering is expected to be completed during the Company's third fiscal quarter. The acquisition is expected to close in January 2000 and will be accounted for as a purchase from the effective date of the transaction.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and related notes thereto which are included herein. The Company utilizes a 52-53 week fiscal year ending on the Saturday nearest March 31. Fiscal years 2000 and 1999 end on April 1, 2000 and April 3, 1999, respectively. Due to the collaborative and ongoing nature of the Company's relationships with its licensees, such licensees are referred to herein as "licensing partners" and the relationships between the Company and such licensees are referred to herein as "licensing alliances." Notwithstanding these references, however, the legal relationship between the Company and its licensees is one of licensor and licensee, and not one of partnership.

Certain statements contained in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. See Part II. Other Information. Item 5. - "Statement Regarding Forward-Looking Disclosure."

Overview

The Company began operations in 1968 as a designer and marketer of premium quality men's clothing and sportswear. Since inception, the Company, through internal operations and in conjunction with its licensing partners, has grown through increased sales of existing product lines, the introduction of new brands and products, expansion into international markets and development of its retail operations. The Company's net revenues are generated from its three integrated operations: wholesale, retail and licensing alliances. Licensing revenue includes royalties received from home collection licensing partners.

Results of Operations

The following discussion provides information and analysis of the Company's results of operations for the three months and six months ended October 2, 1999 compared to September 26, 1998. The table below sets forth the percentage relationship to net revenues of certain items in the Company's statements of income for the three months and six months ended October 2, 1999 and September 26, 1998:

	Oct. 2, 1999		Sept. 26, 1998	
	Three Months	Six Months	Three Months	Six Months
Net sales .....	86.5%	87.4%	86.2%	86.4%
Licensing revenue .....	13.1	12.2	13.0	12.6
Other income .....	0.4	0.4	0.8	1.0
	-----	-----	-----	-----
Net revenues .....	100.0	100.0	100.0	100.0
	-----	-----	-----	-----
Gross profit .....	49.5	49.7	49.2	49.9
Selling, general and administrative expenses	31.7	34.7	31.3	35.2
	-----	-----	-----	-----
Income from operations .....	17.8	15.0	17.9	14.7
Interest (expense) income .....	(0.7)	(0.6)	(0.1)	0.0
	-----	-----	-----	-----
Income before income taxes and change in accounting .....	17.1%	14.4%	17.8%	14.7%
	=====	=====	=====	=====

Three Months Ended October 2, 1999 Compared to Three Months Ended September 26, 1998

Net Sales. Net sales increased 14.9% to \$470.5 million in the three months ended October 2, 1999 from \$409.5 million in the three months ended September 26, 1998. Wholesale net sales increased 5.4% to \$246.6 million in the three months ended October 2, 1999 from \$233.9 million in the corresponding period of fiscal 1999. Wholesale growth primarily reflects increased volume-driven sales of existing Polo and Collection brand products and the timing of shipments to retailers. These unit increases were partially offset by a decline in average selling prices resulting from changes in product mix. Retail sales increased by 27.5% to \$223.9 million in the three months ended October 2, 1999 from \$175.6 million in the corresponding period in fiscal 1999. This increase is primarily attributable to the \$54.2 million benefit from new store openings in fiscal 2000 (three Polo full-price and six outlet stores, net of store closures) and fiscal 1999 (six Polo full-price and 30 outlet stores) and the benefit of three months of operations for 70 Club Monaco stores acquired in the quarter ended July 3, 1999. Comparable store sales, which represent net sales of stores open in both reporting periods for the full portion of such periods, decreased by 3.95%. At October 2, 1999, the Company operated 36 Polo full-price stores, 105 outlet stores and 68 Club Monaco stores.

Licensing Revenue. Licensing revenue increased 16.0% to \$71.3 million in the three months ended October 2, 1999 from \$61.5 million in the corresponding period of fiscal 1999. This increase is primarily attributable to overall general increases in sales of existing licensed products, particularly Lauren, Polo Jeans and Home Collection.

Gross Profit. Gross profit as a percentage of net revenues increased to 49.5% in the three months ended October 2, 1999 from 49.2% in the corresponding period of fiscal 1999. This increase was mainly attributable to an increase in retail gross margins due to an improved initial mark-up and increased licensing revenue which has no associated cost of goods sold. These improvements were offset by lower wholesale gross margins as a result of higher off-price sales to reduce inventory levels.

Selling, General and Administrative Expenses. Selling, general and administrative ("SG&A") expenses as a percentage of net revenues increased to 31.7% in the three months ended October 2, 1999 from 31.3% of net revenues in the corresponding period of fiscal 1999. This increase in SG&A expenses as a percentage of net revenues was primarily due to the acquisition of Club Monaco which was partially offset by expense leveraging achieved with the Company's revenue growth.

Interest Expense. Interest expense increased to \$3.7 million in the quarter ended October 2, 1999 from \$0.7 million in the comparable period in fiscal 1999. This increase was primarily due to a higher level of borrowings during the second quarter, primarily as a result of the acquisition of Club Monaco.

Six Months Ended October 2, 1999 Compared to Six Months Ended September 26, 1998

Net Sales. Net sales increased 18.6% to \$855.0 million in the six months ended October 2, 1999 from \$720.6 million in the six months ended September 26, 1998. Wholesale net sales increased 9.3% to \$441.2 million in the six months ended October 2, 1999 from \$403.8 million in the corresponding period of fiscal 1999. Wholesale growth primarily reflects increased volume-driven sales of existing Polo and Collection brand products and the timing of shipments to retailers. These unit increases were partially offset by a decline in average selling prices resulting from changes in product mix. Retail sales increased by 30.6% to \$413.8 million in the six months ended October 2, 1999 from \$316.8 million in the corresponding period in fiscal 1999. This increase is primarily attributable to the \$106.2 million benefit from new store openings in fiscal 2000 (three Polo full-price and six outlet stores, net of store closures) and fiscal 1999 (six Polo full-price and 30 outlet stores) and the benefit of six months of operations for 70 Club Monaco stores acquired in the quarter ended July 3, 1999. Comparable store sales decreased by 3.2%.

Licensing Revenue. Licensing revenue increased 13.8% to \$119.2 million in the six months ended October 2, 1999 from \$104.8 million in the corresponding period of fiscal 1999. This increase is primarily attributable to overall general increases in sales of existing licensed products, particularly Lauren, Polo Jeans and Home Collection.

Gross Profit. Gross profit as a percentage of net revenues decreased to 49.7% in the six months ended October 2, 1999 from 49.9% in the corresponding period of fiscal 1999. This decrease was mainly attributable to lower wholesale gross margins as a result of higher off-price sales to reduce inventory levels.

Selling, General and Administrative Expenses. SG&A expenses as a percentage of net revenues decreased to 34.7% in the six months ended October 2, 1999 from 35.2% of net revenues in the corresponding period of fiscal 1999. This improvement in SG&A expenses as a percentage of net revenues was primarily due to expense leveraging achieved with the Company's revenue growth.

Interest Expense. Interest expense increased to \$6.2 million in the six months ended October 2, 1999 due to a higher level of borrowings during the current period, primarily as a result of the acquisition of Club Monaco.

#### Liquidity and Capital Resources

The Company's capital requirements primarily derive from working capital needs, construction and renovation of shop-within-shops, retail expansion and other corporate activities. The Company's main sources of liquidity are cash flows from operations and credit facilities.

Net cash provided by operating activities increased to \$42.4 million in the six months ended October 2, 1999 from \$5.3 million in the comparable period in fiscal 1999. This improvement was driven by favorable changes in inventories as the Company implemented a strategic initiative to reduce inventory levels and move excess inventories. This improvement was partially offset by unfavorable changes in accounts receivable and liabilities due to timing (i.e., shipments, vendor payments and customer remittances). Net cash used in investing activities decreased to \$68.2 million in the six months ended October 2, 1999 from \$80.8 million in the comparable period in fiscal 1999. This decrease principally reflects a decline in capital expenditures in the six months ended October 2, 1999. Net cash provided by financing activities decreased to \$23.4 million in the six months ended October 2, 1999 from \$63.3 million in the comparable period in fiscal 1999. This decrease primarily reflects a reduction in the utilization of short-term borrowings under the Credit Facility (as defined) required for working capital needs.

On June 9, 1997, the Company entered into a credit facility with a syndicate of banks which provides for a \$225.0 million revolving line of credit available for the issuance of letters of credit, acceptances and direct borrowings and matures on December 31, 2002 (the "Credit Facility"). Borrowings under the Credit Facility bear interest, at the Company's option, at a Base Rate equal to the higher of: (i) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent; and (ii) the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar Rate plus an interest margin.

On March 30, 1999, in connection with the Company's acquisition of Club Monaco, the Company entered into a \$100.0 million senior credit facility (the "1999 Credit Facility") with a syndicate of banks consisting of a \$20.0 million revolving line of credit and an \$80.0 million term

loan (the "Term Loan"). The revolving line of credit is available for working capital needs and general corporate purposes and matures on June 30, 2003. The Term Loan was used to finance the acquisition of all of the outstanding common stock of Club Monaco and to repay indebtedness of Club Monaco. The Term Loan is also repayable on June 30, 2003. Borrowings under the 1999 Credit Facility bear interest, at the Company's option, at a Base Rate equal to the higher of: (i) the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent; and (ii) the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar Rate plus an interest margin. In April 1999, the Company entered into interest rate swap agreements with an aggregate notional amount of \$100.0 million to convert the variable interest rate on the 1999 Credit Facility to a fixed rate of 5.5%.

The Credit Facility and 1999 Credit Facility (collectively, the "Credit Facilities") contain customary representations, warranties, covenants and events of default, including covenants regarding maintenance of net worth and leverage ratios, limitations on indebtedness, loans, investments and incurrences of liens, and restrictions on sales of assets and transactions with affiliates. Additionally, the Credit Facilities provide that an event of default will occur if Mr. Lauren and related entities fail to maintain a specified minimum percentage of the voting power of the Company's common stock.

As of October 2, 1999, the Company had \$154.8 million outstanding in direct borrowings and \$80.0 million outstanding under the Term Loan and was contingently liable for \$23.4 million in outstanding letters of credit under the Credit Facilities. The weighted average interest rate on outstanding borrowings under the Credit Facilities was 6.6% at October 2, 1999.

Capital expenditures were \$58.7 million and \$72.4 million in the six months ended October 2, 1999 and September 26, 1998, respectively. Capital expenditures primarily reflect costs associated with the following: (i) the Company's expansion of its distribution facilities; (ii) the shop-within-shops development program which includes new shops, renovations and expansions; (iii) the expansion of the Company's retail concept and outlet stores; and (iv) its information systems. The Company plans to invest approximately \$130.0 million, net of landlord incentives, over the current fiscal year for the aforementioned projects and other capital projects. See Part II. Other Information. Item 5. - "Statement Regarding Forward-Looking Disclosure."

In March 1998, the Board of Directors authorized the repurchase, subject to market conditions, of up to \$100.0 million of the Company's Class A Common Stock. Share repurchases under this plan will be made from time to time in the open market over a two-year period which commenced April 1, 1998. Shares acquired under the repurchase program will be used for stock option programs and for other corporate purposes. As of October 2, 1999, the Company had repurchased 1,319,795 shares of its Class A Common Stock at an aggregate cost of \$30.1 million.

In September 1999, the Company reached an agreement in principle to acquire the stock and certain assets of Poloco S.A. and certain affiliates which hold licenses to sell men's and boy's Polo apparel, the men's and women's Polo Jeans business and certain Polo accessories in Europe. The purchase price will approximate \$200.0 million, plus the assumption of short-term debt outstanding at closing. The Company will fund this acquisition and repayment of debt with the proceeds from

the issuance of e275.0 million Notes with a seven-year maturity and 6.125% coupon rate (the "Eurobond Offering"). The net proceeds from the Eurobond Offering, not including proceeds from the exercise by the underwriters of their overallotment option, will approximate \$280.0 million based on current exchange rates. The Eurobond Offering is expected to be completed during the Company's third fiscal quarter. The acquisition is expected to close in January 2000.

Management believes that cash from ongoing operations and funds available under the Credit Facilities and Eurobond Offering will be sufficient to satisfy the Company's current level of operations, the Restructuring Plan, capital requirements, stock repurchase program, the acquisition of Poloco S.A. and certain affiliates and other corporate activities for the next 12 months. Additionally, the Company does not currently intend to pay dividends on its Common Stock in the next 12 months. See Part II. Other Information. Item 5. - "Statement Regarding Forward-Looking Disclosure."

#### Seasonality of Business

The Company's business is affected by seasonal trends, with higher levels of wholesale sales in its second and fourth quarters and higher retail sales in its second and third quarters. These trends result primarily from the timing of seasonal wholesale shipments to retail customers and key vacation travel and holiday shopping periods in the retail segment. As a result of the growth in the Company's retail operations and licensing revenue, historical quarterly operating trends and working capital requirements may not accurately reflect future performances. In addition, fluctuations in sales and operating income in any fiscal quarter may be affected by the timing of seasonal wholesale shipments and other events affecting retail.

#### Exchange Rates

Inventory purchases from contract manufacturers in the Far East are primarily denominated in U.S. dollars; however, purchase prices for the Company's products may be affected by fluctuations in the exchange rate between the U.S. dollar and the local currencies of the contract manufacturers, which may have the effect of increasing the Company's cost of goods sold in the future. During the last two years, exchange rate fluctuations have not had a material impact on the Company's inventory cost. Additionally, certain international licensing revenue could be materially affected by currency fluctuations. From time to time, the Company hedges certain exposures to foreign currency exchange rate changes arising in the ordinary course of business.



## New Accounting Standards

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This Statement establishes accounting and reporting standards for derivative instruments and hedging activities. It requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative is dependent upon the intended use of the derivative. SFAS No. 133 is effective for the Company's first quarter of fiscal year ending March 30, 2002 and retroactive application is not permitted. The Company has not yet determined whether the application of SFAS No. 133 will have a material impact on the Company's financial position or results of operations.

## Impact of the Year 2000 Issue

The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Certain of the Company's computer programs have date-sensitive software which may recognize a date using "00" as the year 1900 rather than the year 2000. This situation could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in similar normal business activities.

In 1997, the Company, with the aid of outside consultants, initiated a program to assess the impact of Year 2000 issues on its information technology ("IT") systems and its non-IT systems.

Through its assessment, the Company identified potential date deficiencies in its IT systems, both hardware and software and in its non-IT systems (including functions involving embedded chip technology), and has addressed these deficiencies through upgrades, replacements and other remediation. The Company has completed the remediation of its material IT systems. In connection with other equipment with date sensitive operating controls such as distribution center equipment, HVAC, employee time clocks, security and other similar systems, the Company identified those items which required replacement or other remediation and believes it has taken steps adequate to ensure such equipment is Year 2000 compliant.

The Company has made inquiries of third parties with whom it has material business relationships (such as customers, suppliers, licensees, transportation carriers, utility and other general service providers) to determine whether they will be able to resolve in a timely manner any Year 2000 issues that will materially and adversely impact the Company. This process included the solicitation of written responses to questionnaires, followed, in some cases, by meetings with certain of such third parties. To date, virtually all of those contacted have responded, none of whom have raised any Year 2000 issues which the Company believes would have a material adverse effect on the Company.

To date, the Company has incurred expenses of approximately \$5.2 million related to the assessment of its Year 2000 issues and development and implementation of its remediation plan. The total remaining cost of the Company's Year 2000 project is estimated at approximately \$0.5 million and is being funded through operating cash flows. Such costs do not include internal management time and the deferral of other projects, the effects of which are not expected to be material to the Company's results of operations or financial condition. Of the total project cost, approximately \$0.6 million is attributable to the purchase of new software which will be capitalized. The remainder will be expensed as incurred. The costs of the Year 2000 project and the successful assessment and remediation of the Company's Year 2000 issues are based on management's best estimates, which were derived by utilizing several assumptions of future events including continued availability of certain resources, third party modification plans and other factors. There can be no guarantee that these estimates are correct or that they will be achieved, and actual results could differ materially from those plans. See Part II. Other Information. Item 5. -- "Statement Regarding Forward-Looking Disclosure."

The Company believes that it is difficult to identify its most reasonable worst case Year 2000 scenario. However, a reasonable worst case Year 2000 scenario would be a failure by a significant third party in the Company's supply and distribution chain (including, without limitation, utility or other general service provider, government authority or third party with whom it has a material business relationship) to remediate its Year 2000 deficiencies that continues for several days or more. Any such failure could impair the manufacture and/or delivery of products, and/or the processing of orders, and shipments. In addition, a failure by the Company to remediate any of its internal inventory management systems would adversely affect its stock allocation program, resulting in mistimed shipments and potential order cancellations. These scenarios would likely have a material adverse effect on the Company's results of operations, and, in particular, would result in the loss of sales and revenue. The extent of lost revenue as a result of these scenarios cannot be estimated at this time.

The Company has developed contingency plans to limit the effect of any Year 2000 issues on its operations and results. As an example, the Company plans to use where possible, alternate service providers. While the Company anticipates continuity of its business activities, that continuity will be dependent upon its ability, and the ability of third parties with whom the Company relies on directly, or indirectly, to be Year 2000 compliant in a timely fashion.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

In January 1999, two actions were filed in California naming as defendants more than a dozen United States-based companies that source apparel garments from Saipan (Commonwealth of the Northern Mariana Islands) and a large number of Saipan-based factories. The actions assert that the Saipan factories engage in unlawful practices relating to the recruitment and employment of foreign workers and that the apparel companies, by virtue of their alleged relationships with the factories, have violated various Federal and state laws. One action, filed in California Superior Court in San Francisco by a union and three public interest groups, alleges unfair competition and false advertising and seeks equitable relief, unspecified amounts for restitution and disgorgement of profits, interest and an award of attorney's fees. The second, filed in Federal Court for the Central District of California and recently transferred to the United States District Court for the District of Hawaii, is brought on behalf of a purported class consisting of the Saipan factory workers. It alleges claims under the Federal civil RICO statute, Federal peonage and involuntary servitude laws, the Alien Tort Claims Act, and state tort law, and seeks equitable relief and unspecified damages, including treble and punitive damages, interest and an award of attorney's fees. Although the Company was not named as a defendant in these suits, the Company sources products in Saipan, and counsel for the plaintiffs in these actions informed the Company that it is a potential defendant in these or similar actions. The Company and counsel have recently agreed to settle any claims for nonmaterial consideration. The final agreement, when completed and filed, will be subject to court approval. The Company has denied any liability and is not at this preliminary stage in a position to evaluate the likelihood of a favorable or unfavorable outcome if the settlement is not approved and it were named in any such suit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

- (a) The Annual Meeting of Stockholders of the Company was held on August 19, 1999.
- (b) The following directors were elected at the Annual Meeting of Stockholders to serve until the 2000 Annual Meeting and until their respective successors are duly elected and qualified:

Class A Director:

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Allen Questrom

Class B Directors:

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Ralph Lauren

Michael J. Newman\*

Frank A. Bennack, Jr.

Joel L. Fleishman

Terry S. Semel

Class C Director:

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Richard A. Friedman

(c) (i) Each person elected as a director received the number of votes (shares of Class B Common Stock are entitled to ten votes per share) indicated beside his name:

	Number of Votes For -----	Number of Votes Withheld -----
Class A Director:		
-----		
Allen Questrom	30,290,852	119,662
Class B Directors:		
-----		
Ralph Lauren	432,800,210	-0-
Michael J. Newman*	432,800,210	-0-
Frank A. Bennack, Jr.	432,800,210	-0-
Joel L. Fleishman	432,800,210	-0-
Terry S. Semel	432,800,210	-0-
Class C Director:		
-----		
Richard A. Friedman	22,720,979	-0-

\* Mr. Newman resigned as Vice Chairman and Director effective November 1, 1999

(ii) 485,844,428 votes were cast for and 59,131 votes were cast against the ratification of the selection of Deloitte & Touche LLP as the independent auditors of the Company for the year ending April 1, 2000. Abstentions totaled 28,144; there were no broker nonvotes.

(iii) 485,312,474 votes were cast for and 537,931 votes were cast against the approval of the terms of the Polo Ralph Lauren Corporation Executive Officer Annual Incentive Plan to qualify such plan under Section 162 (m) of the Internal Revenue Code, as amended. Abstentions totaled 81,298; there were no broker nonvotes.

#### ITEM 5. OTHER INFORMATION.

##### Statement Regarding Forward-Looking Disclosure

Certain statements in this Form 10-Q and in future filings by the Company with the Securities and Exchange Commission, in the Company's 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. Such forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors,

which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: risks associated with changes in the competitive marketplace, including the introduction of new products or pricing changes by the Company's competitors; changes in global economic conditions; risks associated with the Company's dependence on sales to a limited number of large department store customers, including risks related to extending credit to customers; risks associated with the Company's dependence on its licensing partners for a substantial portion of its net income and risks associated with a lack of operational and financial control over licensed businesses; risks associated with consolidations, restructurings and other ownership changes in the retail industry; risks associated with competition in the segments of the fashion and consumer product industries in which the Company operates, including the Company's ability to shape, stimulate and respond to changing consumer tastes and demands by producing attractive products, brands and marketing, and its ability to remain competitive in the areas of quality and price; risks associated with uncertainty relating to the Company's ability to implement its growth strategies; risks associated with the Company's entry into new markets either through internal development activities or through acquisitions; risks associated with the ability of the Company or the Company's third party customers and suppliers and government agencies to timely and adequately remedy any Year 2000 issues; risks associated with the possible adverse impact of the Company's unaffiliated manufacturers' inability to manufacture in a timely manner, to meet quality standards or to use acceptable labor practices; risks associated with changes in social, political, economic and other conditions affecting foreign operations and sourcing and the possible adverse impact of changes in import restrictions; risks related to the Company's ability to establish and protect its trademarks and other proprietary rights; risks related to fluctuations in foreign currency as the Company's international licensing revenue generally is derived in foreign currencies, including the Japanese yen and the French franc, and, in addition, changes in currency exchange rates may also affect the relative prices at which the Company and foreign competitors sell their products in the same market; and, risks associated with the Company's control by Lauren family members and the anti-takeover effect of multiple classes of stock. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits--

18 Preferability Letter

27.1 Financial Data Schedule

(b) Reports on Form 8-K--

No reports on Form 8-K were filed by the Company in the quarter ended October 2, 1999.

SIGNATURES

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

POLO RALPH LAUREN CORPORATION

Date: November 16, 1999

By: /s/ Nancy A. Platoni Poli  
Nancy A. Platoni Poli  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

November 5, 1999

Polo Ralph Lauren Corporation  
650 Madison Avenue  
New York, New York 10022

At your request, we have read the description included in your Quarterly Report on Form 10-Q to the Securities and Exchange Commission for the quarter ended July 3, 1999, of the facts relating to changing from the retail method of valuing its retail inventories to the lower of cost (first-in, first-out) or market. We believe, on the basis of the facts so set forth and other information furnished to us by appropriate officials of the Company, that the accounting change described in your Form 10-Q is to an alternative accounting principle that is preferable under the circumstances.

We have not audited any consolidated financial statements of Polo Ralph Lauren Corporation and its consolidated subsidiaries as of any date or for any period subsequent to April 3, 1999. Therefore, we are unable to express, and we do not express, an opinion on the facts set forth in the above-mentioned Form 10-Q, on the related information furnished to us by officials of the Company, or on the financial position, results of operations, or cash flows of Polo Ralph Lauren Corporation and its consolidated subsidiaries as of any date or for any period subsequent to April 3, 1999.

Yours truly,

/s/ Deloitte & Touche LLP  
New York, New York

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