# 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 July 3, 2004**

**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** | **13-2622036** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **650 Madison Avenue, New York, New York** | **10022** |
| *(Address of principal executive offices)* | *(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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☑ No o

At August 5, 2004, 57,831,716 shares of the registrant's Class A Common Stock, $.01 par value, were outstanding and 43,280,021 shares of the registrant's Class B Common Stock, $.01 par value, were outstanding.

**POLO RALPH LAUREN CORPORATION**

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**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**
**(In thousands, except shares and per share data)**

| | July 3, 2004 | April 3, 2004 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 174,908 | $ 343,477 |
| Accounts receivable, net of allowances of $26,558 and $30,536 | 262,330 | 441,724 |
| Inventories, net | 418,049 | 363,691 |
| Deferred tax assets | 24,854 | 21,565 |
| Prepaid expenses and other | 74,593 | 100,862 |
| **Total current assets** | 954,734 | 1,271,319 |
| Property and equipment, net | 420,151 | 397,328 |
| Deferred tax assets | 61,495 | 61,579 |
| Goodwill | 578,546 | 341,603 |
| Intangibles, net | 18,746 | 17,640 |
| Other assets | 182,679 | 180,772 |
| **Total assets** | $2,216,351 | $2,270,241 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Accounts payable | $ 129,332 | $ 187,355 |
| Income tax payable | 40,131 | 77,736 |
| Accrued expenses and other | 246,323 | 236,039 |
| **Total current liabilities** | 415,786 | 501,130 |
| Long-term debt | 278,983 | 277,345 |
| Other noncurrent liabilities | 76,828 | 69,693 |
| Commitments and Contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common Stock | | |
| Class A, par value $.01 per share; 500,000,000 shares authorized; 61,992,191 and 61,498,183 shares issued | 632 | 620 |
| Class B, par value $.01 per share; 100,000,000 shares authorized; 43,280,021 shares issued and outstanding | 433 | 433 |
| Additional paid-in-capital | 599,284 | 563,457 |
| Retained earnings | 934,412 | 927,390 |
| Treasury Stock, Class A, at cost (4,156,300 and 4,145,800 shares) | (79,344) | (78,975) |
| Accumulated other comprehensive income | 25,599 | 23,942 |
| Unearned compensation | (36,262) | (14,794) |
| **Total stockholders' equity** | 1,444,754 | 1,422,073 |
| **Total liabilities & stockholders' equity** | $2,216,351 | $2,270,241 |

See accompanying notes to consolidated financial statements.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share data)**
**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| Net sales | $535,808 | $416,089 |
| Licensing revenue | 56,942 | 61,642 |
| **Net revenues** | 592,750 | 477,731 |
| Cost of goods sold | 285,650 | 228,979 |
| **Gross profit** | 307,100 | 248,752 |
| Selling, general and administrative expenses | 285,764 | 243,226 |
| Restructuring charge | 731 | — |
| **Income from operations** | 20,605 | 5,526 |
| Foreign currency losses (gains) | 211 | (2,299) |
| Interest expense, net | 1,630 | 2,918 |
| **Income before provision for income taxes and other (income) expense, net** | 18,764 | 4,907 |
| Provision for income taxes | 6,849 | 1,791 |
| Other (income) expense, net | (1,488) | (1,939) |
| **Net income** | $ 13,403 | $ 5,055 |
| Net income per share — Basic | $ 0.13 | $ 0.05 |
| Net income per share — Diluted | $ 0.13 | $ 0.05 |
| Weighted average common shares outstanding — Basic | 100,481 | 98,377 |
| Weighted average common shares outstanding — Diluted | 102,802 | 99,544 |
| Dividends declared per share | $ 0.05 | $ 0.05 |

See accompanying notes to consolidated financial statements.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(In thousands)**
**(Unaudited)**

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| **Cash flows from operating activities** | | |
| Net income | $ 13,403 | $ 5,055 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Benefit from deferred income taxes | (953) | (4,817) |
| Depreciation and amortization | 22,451 | 21,442 |
| Provision for losses on accounts receivable | 901 | 630 |
| Changes in non-current liabilities | (977) | (18,051) |
| Other | (761) | 14,397 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 176,758 | 131,480 |
| Inventories | (26,375) | (65,659) |
| Prepaid expenses and other | 27,322 | (18,281) |
| Other assets | (3,361) | (1,097) |
| Accounts payable | (58,560) | 3,194 |
| Income taxes payable | (37,604) | (17,024) |
| Accrued expenses and other | (14,075) | (39,466) |
| **Net cash provided by operating activities** | 98,169 | 11,803 |
| **Cash flows from investing activities** | | |
| Acquisition, net of cash acquired | (239,971) | (4,479) |
| Purchases of property and equipment | (35,938) | (13,919) |
| Equity investments | — | (5,427) |
| Disposal of property and equipment | 693 | 409 |
| **Net cash used in investing activities** | (275,216) | (23,416) |
| **Cash flows from financing activities** | | |
| Payment of dividends | (5,023) | — |
| Repurchases of common stock | (369) | (241) |
| Proceeds from exercise of stock options | 13,187 | 3,538 |
| Repayments of short-term bank borrowings | — | (50,827) |
| **Net cash provided by (used in) financing activities** | 7,795 | (47,530) |
| Effect of exchange rate changes on cash and cash equivalents and net investment in foreign subsidiaries | 683 | 3,010 |
| Net decrease in cash and cash equivalents | (168,569) | (56,133) |
| Cash and cash equivalents at beginning of period | 343,477 | 343,606 |
| Cash and cash equivalents at end of period | $ 174,908 | $287,473 |
| **Supplemental cash flow information** | | |
| Cash paid for interest | $ 2,423 | $ 3,298 |
| Cash paid for income taxes | $ 38,734 | $ 17,689 |
| **Supplemental schedule of non-cash investing and financing activities** | | |
| Fair value of assets acquired excluding cash | $ 266,369 | $ — |
| Less: Cash paid | 239,971 | — |
| Acquisition obligation | 15,000 | — |
| Liabilities assumed | $ 11,398 | $ — |

See accompanying notes to consolidated financial statements.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Information for July 3, 2004 and June 28, 2003 is unaudited)**
**(In thousands, except share and per share data and where otherwise indicated)**

## 1. Significant Accounting Policies

### *Principles of Consolidation*

The accompanying unaudited consolidated financial statements include the accounts of Polo Ralph Lauren Corporation ("PRLC") and its wholly and majority owned subsidiaries (collectively referred to as the "Company," "we," "us," and "our," unless the content requires otherwise). All intercompany balances and transactions have been eliminated in consolidation.

### *Financial Reporting*

The consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted from this report as is permitted by such rules and regulations. However, we believe that the disclosures are adequate to make the information presented not misleading. The consolidated balance sheet data for April 3, 2004 is derived from the audited financial statements which are included in our annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended April 3, 2004 ("Fiscal 2004"), which should be read in conjunction with these financial statements. Reference is made to such annual report on Form 10-K for a complete set of financial statement notes, including our significant accounting policies. The results of operations for the three months ended July 3, 2004 are not necessarily indicative of results to be expected for the entire fiscal year ending April 2, 2005 ("Fiscal 2005").

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial condition, results of operations, and changes in cash flows of the Company for the interim periods presented.

Operating results for our Japanese interests are reported on a one-month lag (See Note 2).

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies, discussed below, pertain to revenue recognition, income taxes, accounts receivable, net, inventories, the valuation of goodwill and intangible assets with indefinite lives, accrued expenses and derivative instruments. In applying such policies, management must use some amounts that are based upon its informed judgments and best estimates. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

***Revenue Recognition***

Revenue within the Company's wholesale operations is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of returns, discounts and allowances. Returns and allowances require pre-approval from management. Discounts are based on trade terms. Estimates for end-of-season allowances are based on historic trends, seasonal results, an evaluation of current economic conditions and retailer performance. The Company reviews and refines these estimates on a quarterly basis based on current experience, trends and retailer performance. The Company's historical estimates of these costs have not differed materially from actual results. Retail store revenue is recognized net of estimated returns at the time of sale to consumers. Licensing revenue is recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees.

***Income Taxes***

Income taxes are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the worldwide provisions for income taxes. In the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. It is the Company's policy to establish provisions for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes the provisions based upon management's assessment of exposure associated with permanent tax differences, tax credits and interest expense applied to temporary difference adjustments. The tax provisions are analyzed periodically and adjustments are made as events occur that warrant adjustments to those provisions.

***Accounts Receivable, Net***

In the normal course of business, the Company extends credit to its wholesale customers that satisfy pre-defined credit criteria. Accounts Receivable, net, as shown on the Consolidated Balance Sheets, is net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the consolidated financial statements, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions. A reserve for discounts is based on those discounts relating to open invoices where trade discounts have been extended to customers. Costs associated with potential returns of products as well as allowable customer markdowns and operational charge backs, net of expected recoveries, are included as a reduction to sales and are part of the provision for allowances included in Accounts Receivable, net. These provisions result from seasonal negotiations with the Company's customers as well as historic deduction trends (net of expected recoveries) and an evaluation of current market conditions. The Company's historical estimates of these costs have not differed materially from actual results.

***Inventories***

Inventories are stated at lower of cost (using the first-in-first-out method, "FIFO") or market. The Company continually evaluates the composition of its inventories assessing slow-turning, ongoing product as well as prior seasons' fashion product. Market value of distressed inventory is determined based on historical sales trends for this category of inventory of the Company's individual product lines, the impact of market trends and economic conditions, and the value of current orders in-house relating to the future sales of this type of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in

inventory, consumer and retailer preferences and market conditions. The Company's historical estimates of these costs and its provisions have not differed materially from actual results.

***Goodwill and Other Intangibles***

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested at least annually for impairment. This pronouncement also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the impairment or Disposal of Long-Lived Assets."

The recoverability of the carrying values of all long-lived assets with definite lives is reevaluated when changes in circumstances indicate the assets' value may be impaired. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related business. For the three months ended July 3, 2004, there were no adjustments to the carrying values of any long-lived assets resulting from these evaluations.

***Accrued Expenses***

Accrued expenses for employee insurance, workers' compensation, profit sharing, contracted advertising, professional fees, and other outstanding Company obligations are assessed based on claims experience and statistical trends, open contractual obligations, and estimates based on projections and current requirements.

***Derivative Instruments***

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability and measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings in either income (loss) from continuing operations or Accumulated Other Comprehensive Income (Loss), depending on whether the derivative qualifies for hedge accounting treatment.

The Company uses foreign currency forward contracts and options for the specific purpose of hedging the exposure to variability in forecasted cash flow associated primarily with inventory purchases and royalty payments in connection with the Company's European business.

Hedge accounting requires that, at the beginning of each hedge period, the Company justify an expectation that the hedge will be highly effective. This effectiveness assessment involves an estimation of the probability of the occurrence of transactions for cash flow hedges. The use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and underlying hedged items are recorded in earnings.

The Company hedges its net investment position in Euro-functional subsidiaries by borrowing directly in foreign currency and designating a portion of foreign currency debt as a hedge of net investments. Under SFAS No. 133, changes in the fair value of these instruments are recognized in foreign currency translation, a component of Accumulated Other Comprehensive Income (Loss), to offset the change in value of the net investment being hedged.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

**Other Significant Accounting Policies**

***Fair Value of Financial Instruments***

The fair value of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable approximates their carrying value due to their short-term maturities. Fair values for derivatives are obtained from the counter party.

***Cash and Cash Equivalents***

All highly liquid investments with original maturity of three months or less at the date of purchase are classified as cash equivalents.

***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation and amortization. Buildings and building improvements are depreciated using the straight-line method over 37.5 years. Machinery and equipment, and furniture and fixtures are depreciated using the straight-line method over their estimated useful lives of three to ten years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the assets.

***Foreign Currency Translation***

Assets and liabilities of non-U.S. subsidiaries have been translated at period-end exchange-rates. Revenues and expenses have been translated at average rates of exchange in effect during the period. Resulting translation adjustments have been included in Accumulated Other Comprehensive Income (Loss).

***Cost of Goods Sold***

Cost of goods sold includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, import costs and provisions for shrinkage.

***Shipping and Handling Costs***

Shipping and handling costs are included as a component of selling, general & administrative expenses in the Consolidated Statements of Income.

***Stock Options***

We use the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees,” and have adopted the disclosure-only provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure.” Accordingly, the Company has recognized compensation costs for restricted stock and stock unit grants and no compensation cost has been recognized for fixed stock option grants. The fair value of the restricted stock and stock unit grants as determined under the Black-Scholes option pricing model approximates the actual expense recognized by the Company. Had compensation costs for the Company’s stock option grants been determined based on the fair value at the grant dates for awards under these plans in accordance with

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts as follows:

| | For the Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| Net income as reported | $13,403 | $5,055 |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | 3,097 | 3,528 |
| Pro forma net income | $10,306 | $1,527 |
| Net income per share as reported — | | |
| Basic | $ 0.13 | $ 0.05 |
| Diluted | $ 0.13 | $ 0.05 |
| Pro forma net income per share — | | |
| Basic | $ 0.10 | $ 0.02 |
| Diluted | $ 0.10 | $ 0.02 |

For this purpose, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in Fiscal 2005 and Fiscal 2004, respectively: risk-free interest rates of 2.20% and 2.52%; a dividend of $0.20 per annum; expected volatility of 47.2% and expected lives of 5.2 years for both periods.

***Fiscal Year***

The Company's fiscal year ends on the Saturday closest to March 31. All references to "Fiscal 2005" represent the 52 week fiscal year ending April 2, 2005, references to "Fiscal 2004" represent the 53 week fiscal year ended April 3, 2004 and references to "Fiscal 2003" represent the 52 week fiscal year ended March 29, 2003.

## 2. Acquisitions

On July 2, 2004, the Company completed the acquisition of certain assets of RL Childrenswear Company, LLC for a purchase price of approximately $255 million, including deferred payments of $15 million, over the next three years. Additionally, we have agreed to pay up to an additional $5 million in contingent payments if certain sales targets are attained. Any future payments will be treated as additional purchase price. RL Childrenswear Company LLC was a Polo Ralph Lauren licensee holding the exclusive licenses to design, manufacture, merchandise and sell newborn, infant, toddler and girls and boys clothing in the United States, Canada and Mexico. In connection with the acquisition, the Company recorded inventory of $26.3 million, property & equipment of $6.8 million, an intangible asset consisting of a non-compete agreement, valued at $1.7 million, other assets of $0.3 million, goodwill of $231.3 million and liabilities of $11.4 million. Transaction costs recorded subsequent to the purchase increased the goodwill recorded to $235.1 million.

We are currently in the process of obtaining an appraisal of the value of the assets acquired and the preliminary purchase price allocation as presented will be modified accordingly. No operating activities of the Childrenswear Company are included in the results of operations for the three months ended July 3, 2004.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

The following unaudited pro forma information assumes the Childrenswear acquisition had occurred on March 30, 2003. The pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred March 30, 2003, nor is it indicative of the Company's future results. The unaudited pro forma information is presented based on the preliminary purchase price allocation. The actual purchase price allocation, and the resulting effect on net income, based on appraisals may differ significantly from the unaudited pro forma amounts included herein.

| | For the Three Months Ended July 3, 2004 | For the Year Ended April 3, 2004 | For the Three Months Ended June 28, 2003 |
|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) |
| Net revenue | $646,503 | $2,858,458 | $525,937 |
| Net income | 19,122 | 191,651 | 8,463 |
| Net income per share — Basic | $ 0.19 | $ 1.94 | $ 0.09 |
| Net income per share — Diluted | $ 0.19 | $ 1.90 | $ 0.09 |

The above pro forma amounts reflect adjustments for purchases made by the Company from Childrenswear and licensing royalties paid to the Company by Childrenswear as well as amortization of the noncompete agreements, lost interest income on the cash used for the purchase and income tax effect based upon an unaudited pro forma effective tax rate of 36.5% in Fiscal 2005 and Fiscal 2004. The unaudited pro forma information gives effect only to adjustments described above and does not reflect management's estimate of any anticipated cost savings or other benefits as a result of the acquisition. The unaudited pro forma amounts exclude material nonrecurring charges of approximately $7.0 million related to the write up to fair value of inventory as part of the preliminary purchase price allocation.

In November 2003, we acquired a license for the use of trademarks for $7.5 million. This license was accounted for as a finite lived intangible asset and is being amortized over 10 years.

In February 2003, we acquired a 50% controlling interest in the Japanese master license for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $24.1 million. In connection with the acquisition of the Japanese master license, we recorded tangible assets of $11.0 million, an intangible license valued at $9.9 million and liabilities assumed of $8.5 million based on estimated fair values as determined by management utilizing information available at the time. At March 29, 2003, goodwill of $13.0 million was recognized for the excess of the purchase price plus transaction costs of $1.3 million over the preliminary estimate of fair market value of the net assets acquired. During Fiscal 2004, we incurred an additional $3.5 million of transaction costs, which have been included in goodwill and finalized our accounting for acquisition, which resulted in an additional $0.5 million of goodwill.

All of the revenues and expenses for the Japanese master license are included in the Company's consolidated statements of operations. For the three months ended July 3, 2004, we have recorded minority interest expense of $0.5 million to reflect the share of earnings allocable to the 50% minority interest holder in the Japanese master license. This amount is included in Other (income) expense, net in the Consolidated Statements of Operations.

Also, in February 2003, we acquired an 18% equity interest in the company which holds the sublicenses for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $47.6 million. In May 2003, we paid $5.4 million to acquire an additional 2% equity interest in this company. For the three months ended July 3, 2004, we recorded $2.0 million of equity investment income related to this investment. This amount is included in Other (income) expense, net in the consolidated statements of operations.

Results for our Japanese interests are reported on a one-month lag.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

On October 31, 2001, we completed the acquisition of substantially all of the assets of PRL Fashions of Europe S.R.L. During Fiscal 2004, an additional payment was made on the first earn-out payment calculation, resulting in an increase in goodwill of approximately $1.0 million.

## 3. Inventories

Inventories are valued at the lower of cost, using the "FIFO" method, or market and are summarized as follows:

| | July 3, 2004 | April 3, 2004 |
|---|---|---|
| Raw materials | $ 5,326 | $ 5,516 |
| Work-in-process | 7,416 | 4,669 |
| Finished goods | 405,307 | 353,506 |
| | $418,049 | $363,691 |

## 4. Goodwill and Other Intangible Assets

As required under SFAS No. 142, "Goodwill and Other Intangible Assets," we completed our annual impairment test as of the first day of the second quarter of Fiscal 2004. No impairment was recognized as a result of this test. The carrying value of goodwill as of July 3, 2004 and April 3, 2004 by operating segment is as follows (dollars in millions):

| | Wholesale | Retail | Licensing | Total |
|---|---|---|---|---|
| Balance at April 3, 2004 | $151.1 | $74.0 | $116.5 | $341.6 |
| Purchases | 235.1 | — | — | 235.1 |
| Effect of foreign exchange and other adjustments | 1.7 | 0.1 | — | 1.8 |
| Balance at July 3, 2004 | $387.9 | $74.1 | $116.5 | $578.5 |

The carrying value of indefinite life intangible assets as of July 3, 2004 was $1.5 million and relates to an owned trademark. Finite life intangible assets as of July 3, 2004 and April 3, 2004, subject to amortization, are comprised of the following:

| | July 3, 2004 | | | April 3, 2004 | | | |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accum. Amort. | Net | Gross Carrying Amount | Accum. Amort. | Net | Estimated Lives |
| Licensed trademarks | $17,400 | $(1,820) | $15,580 | $17,400 | $(1,260) | $16,140 | 10 years |
| Non compete agreement | 1,667 | — | 1,667 | — | — | — | 3 years |

Intangible amortization expense was $0.6 million for the three months ended July 3, 2004. The estimated intangible amortization expense for each of the following five years is expected to be approximately $2.8 million per year for the next three years and $2.2 million in the fourth and fifth year.

## 5. Restructuring

### *(a) 2003 Restructuring Plan*

During the third quarter of Fiscal 2003, we completed a strategic review of our European businesses and formalized our plans to centralize and more efficiently consolidate its business operations. In connection with the implementation of this plan, the Company recorded a restructuring charge of $7.9 million during Fiscal 2004 and $14.4 million during Fiscal 2003 for severance and contract termination costs. The $7.9 million

represents the additional liability for employees notified of their termination and properties we ceased using during Fiscal 2004. An additional $0.7 million charge was recorded during the three months ended July 3, 2004 representing severance costs and other termination benefits for employees released during the period. The major components of the charge and the activity for the quarter ended July 3, 2004 were as follows:

| | Severance and Termination Benefits | Lease and Other Contract Termination Costs | Total |
|---|---|---|---|
| Balance at April 3, 2004 | $3,316 | $1,859 | $5,175 |
| First Quarter Fiscal 2005 provision | 731 | — | 731 |
| Fiscal 2005 spending | (570) | (418) | (988) |
| Balance at July 3, 2004 | $3,477 | $1,441 | $4,918 |

Total severance and termination benefits as a result of this restructuring related to approximately 160 employees. Total cash outlays related to this plan of approximately $18.1 million, since inception, have been paid through July 3, 2004. It is expected that this plan will be completed, and the remaining liabilities will be paid, in Fiscal 2005 or in accordance with contract terms.

***(b) 2001 Operational Plan***

In connection with the implementation of the 2001 Operational Plan, we recorded a pre-tax restructuring charge of $128.6 million in our second quarter of Fiscal 2001. This charge was subsequently adjusted for a $5.0 million reduction of liabilities in the fourth quarter of Fiscal 2001 and a $16.0 million increase in the fourth quarter of Fiscal 2002 for lease termination costs associated with the closure of our retail stores. During Fiscal 2004, a $10.4 million increase was recorded due to market factors that were less favorable than originally estimated. The major component of the charge remaining and the activity for the quarter ended July 3, 2004 were as follows:

| | Lease and Contract Termination Costs |
|---|---|
| Balance at April 3, 2004 | $6,360 |
| Fiscal 2005 spending | (814) |
| Balance at July 3, 2004 | $5,546 |

Total cash outlays related to the 2001 Operational Plan are expected to be approximately $51.2 million, $45.6 million of which have been paid through July 3, 2004. We completed the implementation of the 2001 Operational Plan in Fiscal 2002 and expect to settle the remaining liabilities in Fiscal 2005 or in accordance with contract terms.

## 6. Financing Agreements

The credit facility is with a syndicate of banks and consists of a $300.0 million revolving line of credit, subject to increase to $375.0 million, and is available for direct borrowings and the issuance of letters of credit. It will mature on November 18, 2005. As of July 3, 2004, we had no balance outstanding under the facility. Borrowings under this facility bear interest, at our option, at a rate equal to (i) the higher of the Federal Funds Effective Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of JP Morgan Chase Bank in effect from time to time, or (ii) the LIBO Rate (as defined) in effect from time to time, as adjusted for the Federal Reserve Board's Eurocurrency Liabilities maximum reserve percentages and a margin based on our then current credit ratings. As of July 3, 2004, the

margin was 0.75%. At July 3, 2004, we were contingently liable for $66.1 million in outstanding letters of credit related primarily to commitments for the purchase of inventory. We incur a financing charge of ten basis points per month on the average monthly balance of these outstanding letters of credit.

Our bank credit facility requires that we maintain certain financial covenants. As of July 3, 2004, we were in compliance with all financial and non-financial debt covenants.

## 7. Financial Instruments

We enter into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce our risk from exchange rate fluctuations on inventory purchases and intercompany royalty payments. Gains and losses on these contracts are deferred and recognized as adjustments to either the basis of those assets or foreign exchange gains/losses, as applicable. At July 3, 2004, we had the following foreign exchange contracts outstanding: (i) to deliver €57.5 million in exchange for $65.0 million through Fiscal 2005 and (ii) to deliver ¥8,248 million in exchange for $71.0 million through Fiscal 2008. At July 3, 2004, the fair value of these contracts resulted in unrealized losses, net of taxes of $3.6 million and $6.8 million, for the Euro forward contracts and Japanese Yen forward contracts respectively.

In May 2003, we entered into an interest rate swap that terminates in November 2006. The interest rate swap is being used to convert €105.2 million, 6.125% fixed rate borrowings into €105.2 million, EURIBOR minus 1.55% variable rate borrowings. On April 6, 2004 the Company executed an interest rate swap to convert the fixed interest rate on €50 million of the Eurobonds to a EURIBOR plus 3.14% variable rate borrowing. After the execution of these swaps, approximately €77 million of the Eurobonds remained at a fixed interest rate. We entered into the interest rate swaps to minimize the impact of changes in the fair value of the Euro debt due to changes in EURIBOR, the benchmark interest rate. The swap has been designated as a fair value hedge under SFAS No. 133. Hedge ineffectiveness is measured as the difference between the respective gains or losses recognized resulting from changes in benchmark interest rate, and was immaterial in Fiscal 2004 and the first quarter Fiscal 2005. In addition, we have designated most of the principal of the Euro debt as a hedge of our net investment in certain foreign subsidiaries. As a result, changes in the fair value of the Euro debt resulting from changes in the Euro rate are reported net of income taxes in accumulated other comprehensive income in the consolidated financial statements as an unrealized gain or loss on foreign currency hedges to the extent they are considered a hedge of our investment in foreign subsidiaries.

## 8. Comprehensive Income

For the three months ended July 3, 2004 and June 28, 2003, comprehensive income was as follows:

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| Net income | $13,403 | $ 5,055 |
| Other comprehensive income, net of taxes: | | |
| Foreign currency translation adjustments | 3,080 | 20,394 |
| Unrealized (losses) gains on cash flow and foreign currency hedges, net | (1,423) | (14,737) |
| Comprehensive income | $15,060 | $ 10,712 |

The income tax effect related to foreign currency translation adjustments and unrealized gains and losses on cash flow and foreign currency hedges, net, was a benefit of $2.0 million and $6.1 million in the three months ended July 3, 2004 and June 28, 2003, respectively.

## 9. Earnings Per Share

Basic EPS is calculated based on income available to common shareholders and the weighted-average number of shares outstanding during the reported period. Diluted EPS includes additional dilution from potential common stock issuable pursuant to the exercise of stock options outstanding as well as the vesting of restricted stock and restricted stock units, and is calculated under the treasury stock method. The weighted average number of common shares outstanding used to calculate Basic EPS is reconciled to those shares used in calculating Diluted EPS as follows:

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| Basic | 100,481 | 98,377 |
| Dilutive effect of stock options, restricted stock and restricted stock units | 2,321 | 1,167 |
| Diluted shares | 102,802 | 99,544 |

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock are anti-dilutive and therefore not included in the computation of diluted earnings per share.

## 10. Stock Incentive Plans

In June 2004, the Compensation Committee granted 100,000 restricted stock units, payable solely in shares of our Class A Common Stock, under our Stock Incentive Plan. This was the second of five annual grants pursuant to an employment agreement. Each grant vests on the fifth anniversary of the grant date, and is payable following the termination of the executive's employment. Additional restricted stock units are issued in respect of outstanding grants as dividend equivalents in connection with the payment of dividends on our Class A Common Stock. Also, in June 2004, an aggregate of approximately 230,000 performance based restricted stock units and approximately 1.6 million options to purchase shares of our Class A Common Stock were granted to certain employees under the Stock Incentive Plan. The restricted stock units will vest in Fiscal 2008, subject to the Company's satisfaction of performance goals, and the options will vest in three equal installments on the first three anniversaries of the grant date. The exercise price of the options is the fair market value of the Class A Common Stock on the grant date. Also in June 2004, the Company issued an aggregate of 437,500 restricted stock units pursuant to an employment agreement. Of these units, 187,500 are performance based and will vest over the next three years, subject to the Company's satisfaction of performance goals, and 250,000 will vest in three equal installments at the end of Fiscal 2008, Fiscal 2009 and Fiscal 2010 and will be paid upon the termination of the executive's employment. These units are entitled to dividend equivalents, and the employment agreement provides for the grant of up to an additional 562,500 performance based units that would vest, subject to the Company's achievement of performance goals for periods ending at the close of Fiscal 2008, Fiscal 2009 and Fiscal 2010.

## 11. Commitments & Contingencies

***Declaration of Dividend***

On May 20, 2003 the 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 Polo Ralph Lauren common stock. The first quarter Fiscal 2005 dividend of $0.05 per share was declared on June 17, 2004, payable to shareholders of record at the close of business on July 2, 2004, and was paid on July 16, 2004. Approximately $5.0 million was recorded as a reduction to retained earnings during the three months ended July 3, 2004 in connection with this dividend.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

## 12. Legal Proceedings

As a result of the failure of Jones Apparel Group, Inc. (including its subsidiaries, "Jones") to meet the minimum sales volumes for the year ended December 31, 2002 under the license agreements for the sale of products under the "Ralph" trademark between us and Jones dated May 11, 1998, these license agreements terminated as of December 31, 2003. We had advised Jones that the termination of these license agreements would automatically result in the termination of the license agreements between us and Jones with respect to the "Lauren" trademark pursuant to the Cross Default and Term Extension Agreement between the Company and Jones dated May 11, 1998. The terms of the Lauren license agreements would otherwise have expired on December 31, 2006.

On June 3, 2003, Jones filed a lawsuit against us in the Supreme Court of the State of New York alleging, among other things, that we had breached the Lauren license agreements by asserting our rights pursuant to the Cross Default and Term Extension Agreement, and that we induced Ms. Jackwyn Nemerov, the former President of Jones, to breach the non-compete and confidentiality clauses in Ms. Nemerov's employment agreement with Jones. Jones stated that it would treat the Lauren license agreements as terminated as of December 31, 2003, and is seeking compensatory damages of $550.0 million, punitive damages and enforcement of Ms. Nemerov's agreement. Also on June 3, 2003, we filed a lawsuit against Jones in the Supreme Court of the State of New York seeking, among other things, an injunction and a declaratory judgment that the Lauren license agreements would terminate as of December 31, 2003 pursuant to the terms of the Cross Default and Term Extension Agreement. The two lawsuits were consolidated. On July 3, 2003, we filed a motion to dismiss Jones' claims regarding breach of the "Lauren" agreements and a motion to stay the claims regarding Ms. Nemerov pending the arbitration of Jones' dispute with Ms. Nemerov.

On July 23, 2003, Jones filed a motion for summary judgment in our action against Jones, and on August 12, 2003, we filed a cross-motion for summary judgment. Oral argument on the motions was heard on September 30, 2003. On March 18, 2004, the Court entered orders (i) denying our motion to dismiss Jones' claims against us for breach of the Lauren agreements and (ii) granting Jones' motion for summary judgment in our action for declaratory judgment that the Lauren agreements terminated on December 31, 2003 and dismissing our complaint. The order also stayed Jones' claim against us relating to Ms. Nemerov pending arbitration regarding her alleged breach of her employment agreement. On April 16, 2004, we moved the court to reconsider its orders, and a hearing on our motion was held on May 19, 2004. The Court has not yet issued a ruling as a result of this hearing. We have also filed notices of appeal of the orders. If Jones' lawsuit were to be determined adversely to us, it could have a material adverse effect on our results of operations and financial condition. However, we intend to continue to defend the case vigorously and believe our position is correct on the merits.

On September 18, 2002, an employee at one of the Company's stores filed a lawsuit against us and our Polo Retail, LLC subsidiary in the United States District Court for the District of Northern California alleging violations of California antitrust and labor laws. The plaintiff purports to represent a class of employees who have allegedly been injured by a requirement that certain retail employees purchase and wear Company 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. The Company answered the amended complaint on November 4, 2002. A hearing on cross motions for summary judgment on the issue of whether the Company's policies violated California law took place 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 the Company had maintained for a period of time a dress code policy that violated California law. The Court ordered the parties to conduct limited discovery to that end. Discovery has been stayed pending the outcome of voluntary mediation between the parties, which commenced on May 12, 2004.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

On April 14, 2003, a second putative class action was filed in the San Francisco Superior Court. This suit, brought by the same attorneys, alleges near identical claims to these in the federal class action. The class representatives consist of former employees and the plaintiff in the federal court action. Defendants in this class action include us and our Polo Retail, LLC, Fashions Outlet of America, Inc., Polo Retail, Inc. San Francisco Polo, Ltd. subsidiaries as well as a non-affiliated corporate defendant and two current managers. As in the federal action, the complaint seeks an unspecified amount of action and punitive restitution of monies spent, and declaratory relief. The state court class action has been stayed pending resolution of the federal class action.

On October 1, 1999, we filed a lawsuit against the United States Polo Association Inc., Jordache, Ltd. and certain other entities affiliated with them, alleging that the defendants were infringing on our famous trademarks. This lawsuit continues to proceed as both sides are awaiting the court's decision on various motions. In connection with this lawsuit, on July 19, 2001, the United States Polo Association and Jordache filed a lawsuit against us in the United States District Court for the Southern District of New York. This suit, which is effectively a counterclaim by them in connection with the original trademark action, asserts claims related to our actions in connection with our pursuit of claims against the United States Polo Association and Jordache for trademark infringement and other unlawful conduct. Their claims stem from our contacts with the United States Polo Association's and Jordache's retailers in which we informed these retailers of our position in the original trademark action. All claims and counterclaims have been settled, except for the Company's claims that the defendants violated the Company's trademark rights. We did not pay any damages in this settlement. No date has been set for trial yet.

On December 5, 2003, United Stated Polo Association, USPA Properties, Inc., Global Licensing Sverige and Atlas Design AB (collectively, "USPA") filed a Demand for Arbitration against the Company in Sweden under the auspices of the International Centre for Dispute Resolution seeking a declaratory judgment that USPA's so-called Horseman symbol does not infringe on Polo Ralph Lauren's trademark and other rights. No claim for damages is stated. On February 19, 2004, we answered the Demand for Arbitration, contesting the arbitrability of USPA's claim for declaratory relief. We also asserted our own counterclaim, seeking a judgment that the USPA's Horseman symbol infringes on our trademark and other rights. We also seek injunctive relief and damages in an unspecified amount. On March 5, 2005, USPA answered our counterclaim, denying the allegations set forth therein. A hearing has been set in this matter for June 29, June 30, July 1, August 28 and August 29. We will continue to contest the arbitrability of USPA's claim for declaratory relief and continue vigorously to pursue our counterclaim and contest the claim lodged against us by USPA.

In December 2003, we received a demand on behalf of a stockholder to inspect the Company's books and records relating to the amended and restated employment agreement dated June 23, 2003 between the Company and Ralph Lauren. The demand asserts that the purpose of the inspection is to determine, among other things, whether the directors of the Company breached their fiduciary duties in approving the compensation provided for in the employment agreement. While we have provided certain documents to the Stockholders' counsel pursuant to a confidentiality agreement, we believe that the issues asserted by the demand are without merit.

We are otherwise involved from time to time in legal claims involving 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.

**13. Segment Reporting**

The Company operates in three business segments: wholesale, retail and licensing. Our reportable segments are individual business units that either offer different products and services or are managed separately since 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. Corporate overhead expenses are allocated to each segment based on each segment's usage of corporate resources.

Our net revenues and income from operations for the three months ended July 3, 2004 and June 28, 2003 for each segment were as follows:

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| **Net revenues:** | | |
| Wholesale | $239,024 | $161,625 |
| Retail | 296,784 | 254,464 |
| Licensing | 56,942 | 61,642 |
| | $592,750 | $477,731 |
| **Income (Loss) from operations:** | | |
| Wholesale | $ (18,599) | $ (31,049) |
| Retail | 28,374 | 11,246 |
| Licensing | 11,561 | 25,329 |
| | 21,336 | 5,526 |
| Less: Unallocated Restructuring Charge | 731 | — |
| | $ 20,605 | $ 5,526 |

Our net revenues for the three months ended July 3, 2004 and June 28, 2003, by geographic location of the reporting subsidiary, were as follows:

| | Three Months Ended | |
|---|---|---|
| | July 3, 2004 | June 28, 2003 |
| **Net revenues:** | | |
| United States and Canada | $460,232 | $386,914 |
| Europe | 86,736 | 61,174 |
| Other Regions | 45,782 | 29,643 |
| | $592,750 | $477,731 |

## 14. New Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board ("FASB") published an Exposure Draft, "Share-Based Payment," an amendment of FASB Statement No. 123 and 95. Under this FASB proposal, all forms of share-based payment to employees, including stock options, would be treated as compensation and recognized in the income statement. This proposed statement would be effective for fiscal years beginning after December 15, 2004. The Company currently accounts for stock options under APB No. 25. The pro forma impact of expensing options is disclosed in Note 1 of Notes to Consolidated Financial Statements.

In May 2004, the FASB issued FSP FAS 106-2 to provide guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act), to employers that sponsor postretirement health care plans that provide prescription drug benefits. The Company does not sponsor a post-retirement healthcare plan consequently this pronouncement has no impact on the Company's financial position or results of operations.

**POLO RALPH LAUREN CORPORATION**

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

*The following discussion and analysis is a summary and should be read together with our Consolidated Financial Statements and related notes thereto which are included herein. We utilize a 52-53 week Fiscal year ending on the Saturday nearest March 31. Fiscal 2005 will end on April 2, 2005 ("Fiscal 2005") and reflects a 52 week period. Fiscal 2004 ended April 3, 2004 ("Fiscal 2004") and reflects a 53 week period.*

*Certain statements in this Form 10-Q and in future filings with the Securities and Exchange Commission, 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. Such forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements 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 a general economic downturn and other events leading to a reduction in discretionary consumer spending; risks associated with implementing our plans to enhance our worldwide luxury retail business, inventory management program and operating efficiency initiatives; risks associated with our start-up of the Lauren Line; risks associated with changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors; changes in global economic or political conditions; risks associated with our dependence on sales to a limited number of large department store customers, including risks related to extending credit to customers; risks associated with our dependence on our licensing partners for a substantial portion of our net income and risks associated with a lack of operational and financial control over licensed businesses; risks associated with financial distress of licensees, including the impact on our net income and business of one or more licensees' reorganization; 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 we operate, including our ability to shape, stimulate and respond to changing consumer tastes and demands by producing attractive products, brands and marketing, and our ability to remain competitive in the areas of quality and price; risks associated with uncertainty relating to our ability to implement our growth strategies; or ability to successfully integrate acquired businesses; risks associated with our entry into new markets either through internal development activities or through acquisitions; risks associated with the possible adverse impact of our 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 or sourcing (including foreign currency fluctuations) and the possible adverse impact of changes in import restrictions; risks related to our ability to establish and protect our trademarks and other proprietary rights; risks related to fluctuations in foreign currency affecting our foreign subsidiaries' and foreign licensees' results of operations and the relative prices at which we and our foreign competitors sell products in the same market and our operating and manufacturing costs outside of the United States; and risks associated with our control by Lauren family members and the anti-takeover effect of multiple classes of stock. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**Overview**

We operate in three business segments: wholesale, retail and licensing.

Wholesale consists of women's and men's apparel designed and marketed worldwide, divided primarily into three groups: Polo Brands, Lauren and Collection Brands. In each of the wholesale groups, we offer discrete brand offerings, directed by teams comprising design, merchandising, sales and production staff who work together to conceive, develop and merchandise product groupings organized to convey a variety of design concepts. This segment includes the core business Polo Ralph Lauren, Lauren, Blue Label, Polo Golf, RLX Polo Sport, Women's Ralph Lauren Collection and Black Label, and Men's Purple Label Collection.

Retail consists of our worldwide Ralph Lauren retail operations, which sell through full-price and outlet stores, and Club Monaco full-price and outlet stores.

Licensing consists of product, international and home collection licensing alliances, each of which pay us royalties based upon sales of our product, subject to minimum royalty payments. We work closely with our licensing partners to ensure that products are developed, marketed and distributed in a manner consistent with the distinctive perspective and lifestyle associated with our brand.

Our retail operations continued to perform well during the three months ended July 3, 2004, driven by increased net sales and improved gross profit as a percentage of net revenues.

Retail net sales increased primarily due to positive comparable store sales in both full-price and outlet stores and, to a modest extent, the impact of the appreciation of the Euro relative to the U.S. dollar. The increasing gross profit rate reflects a continued focus on inventory management and higher realized sales dollars resulting from a combination of improved product mix, advertising and targeted marketing.

Our licensing segment's operating income decreased compared to the prior year's comparable period primarily as a result of the loss of royalties associated with the Lauren line partially offset by increases in International licensing income.

Our wholesale business showed significant improvements in sales, gross margin rates and operating income during the three months ended July 3, 2004. These improvements were largely due to the addition of the Lauren line during the quarter. The sales additions from Lauren were partially offset by planned sales reductions in our men's off-price sales.

Our international operations' results were modestly affected by foreign exchange rate fluctuations. However, the increase in net sales due to the strengthening of the Euro was generally offset by a comparable increase in cost of sales and selling, general and administrative expenses. The strengthening of the Euro has had a significant effect on certain of our balance sheet accounts including accounts receivable, inventory, accounts payable and long-term debt.

**Recent Developments**

On July 2, 2004, the Company completed the acquisition of certain assets of RL Childrenswear Company LLC. See "Recent Acquisitions."

As a result of the failure of Jones Apparel Group, Inc. (including its subsidiaries, "Jones") to meet the minimum sales volumes for the year ended December 31, 2002 under the license agreements for the sale of products under the "Ralph" trademark between the Company and Jones dated May 11, 1998, these license agreements terminated as of December 31, 2003. The Company had advised Jones that the termination of these licenses would automatically result in the termination of the licenses between it and Jones with respect to the "Lauren" trademark pursuant to the Cross Default and Term Extension Agreement between the Company and Jones dated May 11, 1998. The Lauren license agreements would otherwise have expired on December 31, 2006.

On June 3, 2003, Jones filed a lawsuit against us in the Supreme Court of the State of New York alleging, among other things, that the Company breached its agreements with Jones with respect to the "Lauren" trademark by asserting its rights pursuant to the Cross Default and Term Extension Agreement, and that the Company induced Ms. Jackwyn Nemerov, the former President of Jones, to breach the non-compete and confidentiality clauses in Ms. Nemerov's employment agreement with Jones. Jones stated that it would treat the Lauren license agreements as terminated as of December 31, 2003, and is seeking compensatory damages of $550.0 million, punitive damages and enforcement of the provisions of Ms. Nemerov's agreement. Also on June 3, 2003, the Company filed a lawsuit against Jones in the Supreme Court of the State of New York seeking, among other things, an injunction and a declaratory judgment that the Lauren license agreements would terminate as of December 31, 2003 pursuant to the terms of the Cross Default and Term Extension Agreement. The two lawsuits have been consolidated.

On July 3, 2003, the Company filed a motion to dismiss Jones' claims regarding breach of the "Lauren" agreements and a motion to stay the claims regarding Ms. Nemerov pending the arbitration of Jones' dispute with Ms. Nemerov. On July 23, 2003 Jones filed a motion for summary judgment in the action filed by the Company, and on August 12, 2003, the Company filed a cross-motion for summary judgment. Oral argument on the motions was heard on September 30, 2003. On March 18, 2004, the Court entered orders (i) denying our motion to dismiss Jones' claims against us for breach of the Lauren agreements and (ii) granted Jones' motion for summary judgement in our action for declaratory judgement the Lauren agreement terminated on December 31, 2003 and dismissed our complaint. The order also stayed Jones' claim against us relating to Ms. Nemerov pending arbitration regarding her alleged breach of her employment agreement. On April 16, 2004, the Company moved the court to reconsider its orders, and a hearing on our motion was held on May 19, 2004. The court has not yet issued a ruling as a result of this hearing. We have also filed notices of appeal of the orders. If Jones' lawsuit were to be determined adversely to the Company, it could have a material adverse effect on the Company's results of operations and financial condition. However, the Company intends to continue to defend the case vigorously and believes that our position is correct on the merits.

**Recent Acquisitions**

On July 2, 2004, the Company completed the acquisition of certain assets of RL Childrenswear Company, LLC for a purchase price of approximately $255 million including deferred payments of $15 million, over the next three years. Additionally, we have agreed to pay up to an additional $5 million in contingent payments if certain sales targets are attained. Any future payments will be treated as additional purchase price. RL Childrenswear Company LLC was a Polo Ralph Lauren licensee holding the exclusive licenses to design, manufacture, merchandise and sell newborn, infant, toddler and girls and boys clothing in the United States, Canada and Mexico. In connection with the acquisition, the Company recorded inventory of $26.3 million, property & equipment of $6.8 million, an intangible asset consisting of a non-compete agreement, valued at $1.7 million, other assets of $0.3 million, goodwill of $231.3 million and liabilities of $11.4 million. Transaction costs recorded subsequent to the purchase increased the goodwill recorded to $235.1 million.

We are currently in the process of obtaining an appraisal of the value of the assets acquired and the preliminary purchase price allocation as presented will be modified accordingly. No operating activities of the Childrenswear Company are included in the results of operations for the three months ended July 3, 2004.

The following unaudited pro forma information assumes the Childrenswear acquisition had occurred on March 30, 2003. The pro forma information, as presented below, is not indicative of the results that would have been obtained had the transaction occurred March 30, 2003, nor is it indicative of the Company's future results. The unaudited pro forma information is presented based on the preliminary purchase price allocation. The actual purchase price allocation, and the resulting effect on net income, based on appraisals may differ significantly from the unaudited pro forma amounts included herein (dollars in thousands).

| | For the Three Months Ended July 3, 2004 | For the Year Ended April 3, 2004 | For the Three Months Ended June 28, 2003 |
|---|---|---|---|
| | unaudited | unaudited | unaudited |
| Net revenue | $646,503 | $2,858,458 | $525,937 |
| Net income | 19,122 | 191,651 | 8,463 |
| Net income per share — Basic | $ 0.19 | $ 1.94 | $ 0.09 |
| Net income per share — Diluted | $ 0.19 | $ 1.90 | $ 0.09 |

The above pro forma amounts reflect adjustments for purchases made by the Company from Childrenswear and licensing royalties paid to the Company by Childrenswear as well as amortization of the non compete agreements, lost interest income on the cash used for the purchase and income tax effect based upon unaudited pro forma effective tax rate of 36.5% in Fiscal 2005 and Fiscal 2004. The unaudited pro forma information gives effect only to adjustments described above and does not reflect management's estimate of any anticipated cost savings or other benefits as a result of the acquisition. The unaudited pro forma amounts

exclude material non recurring charges of approximately $7.0 million related to the write up to fair value of inventory as part of the preliminary purchase price allocation.

In February 2003, we acquired a 50% controlling interest in the Japanese master license for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $24.1 million. In connection with the acquisition of the Japanese master license, we recorded tangible assets of $11.0 million, an intangible license valued at $9.9 million and liabilities assumed of $8.5 million based on estimated fair values as determined by management utilizing information available at the time. At March 29, 2003, goodwill of $13.0 million was recognized for the excess of the purchase price plus transaction costs of $1.3 million over the preliminary estimate of fair market value of the net assets acquired. During Fiscal 2004, we incurred an additional $3.5 million of transaction costs, which have been included in goodwill and finalized our accounting for the acquisition, which resulted in an additional $0.5 million of goodwill.

All of the revenues and expenses for the Japanese master license are included in the Company's consolidated statements of operations. For the three months ended July 3, 2004, we recorded minority interest expense of $0.5 million to reflect the share of earnings allocable to the 50% minority interest holder in the Japanese master license. This amount is included in Other (income) expense, net in the Consolidated Statements of Operations.

**Results of Operations**

***Three Months Ended July 3, 2004 Compared to Three Months Ended June 28, 2003***

The following table sets forth results in millions of dollars and the percentage relationship to net revenues of certain items in our consolidated statements of operations for the three months ended July 3, 2004 and June 28, 2003:

| | Three Months Ended | | Three Months Ended | |
|---|---|---|---|---|
| | July 3, 2004 | June 28, 2003 | July 3, 2004 | June 28, 2003 |
| Net sales | $535.8 | $416.1 | 90.4% | 87.1% |
| Licensing revenue | 56.9 | 61.6 | 9.6 | 12.9 |
| Net revenues | 592.7 | 477.7 | 100.0 | 100.0 |
| Gross profit | 307.1 | 248.7 | 51.8 | 52.1 |
| Selling, general and administrative expenses | 285.8 | 243.2 | 48.2 | 50.9 |
| Restructuring charge | 0.7 | — | 0.1 | — |
| Income from operations | 20.6 | 5.5 | 3.5 | 1.2 |
| Foreign currency (gains) losses | 0.2 | (2.3) | 0.0 | (0.5) |
| Interest expense, net | 1.6 | 2.9 | 0.3 | 0.6 |
| Income before provision for income taxes and other (income) expense, net | 18.8 | 4.9 | 3.2 | 1.1 |
| Provision for income taxes | 6.9 | 1.7 | 1.2 | 0.4 |
| Other (income) expense, net | (1.5) | (1.9) | (0.3) | (0.4) |
| Net income | $ 13.4 | $ 5.1 | 2.3% | 1.1% |

*Net revenues.* Net revenues for the first quarter of Fiscal 2005 were $592.7 million, an increase of $115.0 million over net revenues for the first quarter of Fiscal 2004. Net revenues by business segments were as follows (dollars in thousands):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | July 3, 2004 | June 28, 2003 | Increase (Decrease) | % Change |
| **Net revenues:** | | | | |
| Wholesale | $239,024 | $161,625 | $ 77,399 | 47.9 |
| Retail | 296,784 | 254,464 | 42,320 | 16.6 |
| Licensing | 56,942 | 61,642 | (4,700) | (7.6) |
| | $592,750 | $477,731 | $115,019 | 24.1 |

*Wholesale Net Sales* increased by $77.4 million primarily due to the following:

- sales from the newly implemented Lauren line of $80.4 million during the three months ended July 3, 2004;
- a $9.2 million increase in European sales, exclusive of the effects of currency exchange rate fluctuations, primarily as a result of the timing of fall shipments;
- $3.4 million from the favorable impact of Euro currency fluctuations;
- partially offsetting these increases is a $23.8 million decrease in men's wholesale sales, resulting primarily from a planned reduction in off-price sales to lower margin customers.

*Retail Net Sales* increased by $42.3 million primarily as a result of:

- a 14.4% and 11.6% increase, respectively, in comparable store sales for full price and outlet stores. Excluding the effect of foreign currency exchange rate fluctuations, comparable store sales increased 12.8% and 10.4% for full price and outlet stores, respectively; and
- the stronger Euro, which accounted for approximately $3.6 million of the increase in net sales.

*Licensing Revenue* decreased by $4.7 million primarily due to the following:

- loss of $8.0 million of royalties from Lauren licenses, which were terminated as of the end of the third quarter of Fiscal 2004;
- partially offset by growth in our international and home licensing businesses.

*Gross Profit.* Gross profit increased $58.3 million, or 23.5%, for the three months ended July 3, 2004 over the three months ended June 28, 2003. This increase reflected higher sales and improved merchandise margins generally across our retail store business.

Gross profit as a percentage of net revenues decreased to 51.8% from 52.1%. The decreasing gross profit rate reflects a loss of licensing revenue from the Lauren license, partially offset by improvements in the wholesale and retail business. The gross profit rate improvement in both wholesale and retail reflects a planned reduction in off price sales and a continued focus on inventory management. Although our inventory balance is higher at July 3, 2004 compared to the same period last year, this increase primarily reflects the appreciation of the Euro, inventories related to the start-up of our Lauren wholesale business and inventory associated with our recently acquired childrens business.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses ("SG&A") increased $42.6 million, or 17.5%, to $285.8 million for the three months ended July 3, 2004 from

$243.2 million for the three months ended June 28, 2003. SG&A as a percentage of net revenues decreased to 48.2% from 50.9%. The increase in SG&A was driven by:

- higher selling salaries and related costs of $8.7 million in connection with the increase in retail sales,
- expenses of $13.6 million associated with the Lauren wholesale business, exclusive of additional corporate and overhead expenses incurred and reduced royalty revenues received, and
- approximately $4.8 million of the increase in the quarter was due to the impact of foreign currency exchange rate fluctuations, primarily the strengthening of the Euro.
- the remainder of the increase in SG&A results from a number of factors including higher distribution costs as a result of volume increases, accruals for legal expenses and the purchase of the remaining portion of a trademark license for certain countries in Central and South America.

*Restructuring Charge.* During the quarter, the Company recorded a $0.7 million restructuring charge associated with our European operation. This charge was primarily attributable to severance and other benefits associated with employees released during the quarter.

*Income (Loss) from Operations.* Income from operations increased $15.1 million, or 272.9%, for the three months ended July 3, 2004 over the three months ended June 28, 2003. Income from operations for our three business segments is provided below (dollars in thousands):

| | Three Months Ended | | | |
|---|---|---|---|---|
| | July 3, 2004 | June 28, 2003 | Increase (Decrease) | % Change |
| Income (loss) from operations: | | | | |
| Wholesale | $(18,599) | $(31,049) | $ 12,450 | 40.1% |
| Retail | 28,374 | 11,246 | 17,128 | 152.3% |
| Licensing | 11,561 | 25,329 | (13,768) | (54.4)% |
| | 21,336 | 5,526 | 15,810 | 286.1% |
| Less: Unallocated Restructuring charge | 731 | — | (731) | (100.0)% |
| | $ 20,605 | $ 5,526 | $ 15,079 | 272.9% |

- The increase in the wholesale operating results was primarily the result of additional sales generated by Lauren wholesale business and improvements in the gross margin rate, partially offset by the sales decrease in the men's wholesale business.
- The increase in retail operating results was driven by increased net sales and improved gross profits as a percentage of net revenues, partially offset by the higher selling salaries and related costs incurred in connection with the increase in retail sales.
- The decrease in licensing operating results was primarily due to the loss of royalties from the Lauren licenses.

*Foreign Currency (Gains) Losses.* The effect of foreign currency exchange rate fluctuations resulted in a loss of $0.2 million for the three months ended July 3, 2004, compared to a $2.3 million gain for the three months ended June 28, 2003. The Fiscal 2004 gains primarily related to transaction gains on royalty payments received resulting from increases in the Euro to dollar exchange rate.

*Interest Expense, Net.* Interest expense, net decreased to $1.6 million in the three months ended July 3, 2004 from $2.9 million for the three months ended June 28, 2003. This decrease was due to lower levels of borrowings due to the repayment of approximately $50.1 million of short-term borrowings over the last twelve months, as well as decreased interest rates as a result of the May 2003 and April 2004 interest rate swaps described in "Liquidity and Capital Resources — Derivative Instruments."

*Provision for Income Taxes.* The effective tax rate was 36.5% for the three months ended July 3, 2004 and June 28, 2003.

*Other (Income) Expense, Net.* Other (income) expense, net was ($1.5) million for the three months ended July 3, 2004. This reflected $2.0 million of income related to the 20% equity interest in the company that holds the sublicenses for the Polo Ralph Lauren men's, women's and jeans business in Japan, net of $0.5 million of minority interest expense associated with our Japanese master license, both of which were acquired in 2003.

*Net Income.* Net income increased to $13.4 million for three months ended July 3, 2004 from $5.1 million for the three months ended June 28, 2003, or 2.3% and 1.1% of net revenues, respectively.

*Net Income Per Share.* Diluted net income per share increased due to the increase in Net income, partially offset by an increase in weighted average shares outstanding due to stock option exercises, the issuance of restricted stock units and an increase in stock price.

**Liquidity and Capital Resources**

Our primary ongoing cash requirements are to fund growth in working capital (primarily accounts receivable and inventory) to support projected sales increases, construction and renovation of shop-within-shops, investment in the technological upgrading of our distribution centers and information systems, expenditures related to retail store expansion, acquisitions, dividends and other corporate activities. Sources of liquidity to fund ongoing and future cash requirements include cash flows from operations, cash and cash equivalents, credit facilities and other borrowings.

As of July 3, 2004, we had $174.9 million in cash and cash equivalents and $279.0 million of debt outstanding compared to $287.5 million in cash and cash equivalents and $315.2 million of debt outstanding at June 28, 2003. This represents an increase in our debt net of cash position of $76.4 million, which was primarily attributable to the following factors: the appreciation of the Euro increased the dollar equivalent of our Euro denominated debt by $13.9 million and we acquired RL Childrenswear Company LLC for approximately $240 million. Our capital expenditures were $35.9 million for the three months ended July 3, 2004, compared to $13.9 million for the three months ended June 28, 2003.

As of July 3, 2004, we had $279.0 million outstanding in long-term Euro denominated debt, based on the Euro exchange rate at that date. We were also contingently liable for $66.1 million in outstanding letters of credit primarily related to commitments for the purchase of inventory.

Accounts receivable increased to $262.3 million, or 4.9%, at July 3, 2004 compared to $250.0 million at June 28, 2003, primarily due to $44.2 million of accounts receivables associated with Lauren business and $4.9 million due to favorable impact of foreign currency exchange rate fluctuations on our European businesses accounts receivable, partially offset by decreases in accounts receivable in our other lines. Inventories decreased to $418.0 million, or 2.8%, at July 3, 2004 compared to $430.1 million at June 28, 2003, which primarily reflects reduced inventory in our mens business due to reductions in off price sales and inventory management efforts, as well as reductions in our domestic retail businesses inventory as a result of inventory management efforts, partially offset by the addition of inventory for the new Lauren and childrens lines in the amount of $39.5 million and $26.3 million, respectively, and a $9.5 million increase in our European businesses inventory level due to foreign currency exchange rate fluctuations. Accounts payable and accrued expenses and other increased to a total of $375.7 million, or 11.9% at July 3, 2004 compared to $335.7 at June 28, 2003. This increase is primarily the result of increases in our European businesses, which are driven by the impact of the appreciation of the Euro as well as timing of European payments, including VAT taxes and the addition of payables associated with the Lauren wholesale business.

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities increased to $98.2 million during the three-month period ended July 3, 2004, compared to $11.8 million for the three–month period ended June 28, 2003. This $86.4 million increase in cash flow was driven primarily by year-over-year changes in working capital described above and the increase in net income.

During Fiscal 2003, we completed a strategic review of our European businesses and formalized our plans to centralize and more efficiently consolidate our business operations. In connection with the implementation of this plan, we had total cash outlays of approximately $1.0 million during the three months ended July 3, 2004. We expect that the remaining liabilities will be paid throughout Fiscal 2005. During Fiscal 2001, we implemented the 2001 Operational Plan, and total cash outlays related to this plan were $0.8 million during the three months ended July 3, 2004.

*Net Cash Used in Investing Activities.* Net cash used in investing activities was $275.2 million for the three months ended July 3, 2004, as compared to $23.4 million for the three months ended June 28, 2003. For both periods, net cash used reflected capital expenditures related to retail expansion and upgrading our systems and facilities, as well as shop-within-shop expenditures. Our anticipated capital expenditures for all of Fiscal 2005 approximate $143.5 million. For the three months ended July 3, 2004, net cash used also reflected $240 million for the acquisition of RL Childrenswear, LLC. The Fiscal 2003 amounts included a $1.0 million for the first earn-out payment in connection with the P.R.L. Fashions of Europe SRL acquisition and $9.0 million related to the acquisition of our Japanese businesses.

*Net Cash provided by Financing Activities.* Net cash provided by financing activities was $7.8 million for the three months ended July 3, 2004, compared to $47.5 million used in the three months ended June 28, 2003. Cash provided by financing activities during the three months ended July 3, 2004 consists of $13.2 million received from the exercise of stock options partially offset by the payment of $5.0 million of dividends. Cash used in financing activities during the three months ended June 28, 2003, consisted primarily of the net repayment of short-term borrowings of $50.8 million.

Our 2002 bank credit facility, which expires in November 2005, consists of a $300.0 million revolving line of credit, subject to increase to $375.0 million, which is available for direct borrowings and the issuance of letters of credit. As of July 3, 2004, we had no outstanding borrowings under this facility. This facility requires that we maintain certain financial covenants. As of July 3, 2004, the Company was in compliance with all financial and non-financial debt covenants.

In Fiscal 2004, the Board of Directors initiated a dividend program consisting of quarterly cash dividends of $0.05 per outstanding share, or $0.20 per outstanding share on an annual basis, on our common stock. Dividends of $0.05 per outstanding share declared to stockholders of record at the close of business on June 27, 2003, September 26, 2003, December 26, 2003 and April 2, 2004 were paid on July 11, 2003, October 10, 2003, January 9, 2004 and April 16, 2004, respectively.

We believe that cash from ongoing operations and funds available under our credit facility will be sufficient to fund our current level of operations, capital requirements, the stock repurchase program, cash dividends and other corporate activities for the next twelve months.

*Derivative Instruments.* In May 2003, we entered into an interest rate swap that will terminate in November 2006. The interest rate swap is being used to convert € 105.2 million, 6.125% fixed rate borrowings into € 105.2 million, EURIBOR minus 1.55% variable rate borrowings. On April 6, 2004 the Company executed an interest rate swap to convert the fixed interest rate on € 50 million of the Eurobonds to a EURIBOR plus 3.14% variable rate borrowing. After the execution of this swap, approximately € 77 million of the Eurobonds remained at a fixed interest rate. We entered into the interest rate swaps to minimize the impact of changes in the fair value of the Euro debt due to changes in EURIBOR, the benchmark interest rate. The swaps have been designated as a fair value hedge under SFAS No. 133. Hedge ineffectiveness is measured as the difference between the respective gains or losses recognized in earnings from the changes in the fair value of the interest rate swap and the Euro debt resulting from changes in the benchmark interest rate, and was immaterial in Fiscal 2004 and for the three months ended July 3, 2004. In addition, we have designated most of the principal of the Euro debt as a hedge of our net investment in a foreign subsidiary. As a result, the changes in the fair value of the Euro debt resulting from changes in the Euro rate are reported net of income taxes in accumulated other comprehensive income in the consolidated financial statements as an unrealized gain or loss on foreign currency hedges to the extent they are considered a hedge of our investment in foreign subsidiaries.

We enter into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce our risk from exchange rate fluctuations on inventory and intercompany royalty payments. Gains and losses on these contracts are deferred and recognized as adjustments to either the basis of those assets or foreign exchange gains/losses, as applicable. At July 3, 2004, we had the following foreign exchange contracts outstanding: (i) to deliver € 57.5 million in exchange for $65.0 million through Fiscal 2005 and (ii) to deliver ¥8,248 million in exchange for $71.0 million through Fiscal 2008. At July 3, 2004, the fair value of these contracts resulted in unrealized losses, net of taxes of $3.6 million and $6.8 million, for the Euro forward contracts and Japanese Yen forward contracts respectively.

**Seasonality of Business**

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 to retail customers and key vacation travel and holiday shopping periods in the retail segment. As a result of the growth in our retail operations and licensing revenue, 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 the timing of seasonal wholesale shipments and other events affecting retail sales.

**Critical Accounting Policies**

***Principles of Consolidation***

The accompanying unaudited consolidated financial statements include the accounts of Polo Ralph Lauren Corporation (“PRLC”) and its wholly and majority owned subsidiaries (collectively referred to as the “Company,” “we,” “us,” and “our,” unless the content requires otherwise). All intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company’s financial condition and the results of operations and require management’s most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company’s most critical accounting policies, discussed below, pertain to revenue recognition, income taxes, accounts receivable, net, inventories, net, the valuation of goodwill and intangible assets with indefinite lives, accrued expenses and derivative instruments. In applying such policies, management must use some amounts that are based upon its informed judgments and best estimates. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

***Revenue Recognition***

Revenue within the Company’s wholesale operations is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of returns, discounts and allowances. Returns and allowances require pre-approval from management. Discounts are based on trade terms. Estimates for end-of-season allowances are based on historic trends, seasonal results, an evaluation of current economic conditions and retailer performance. The Company reviews and refines these estimates on a monthly basis

based on current experience, trends and retailer performance. The Company's historical estimates of these costs have not differed materially from actual results. Retail store revenue is recognized net of estimated returns at the time of sale to consumers. Licensing revenue is recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees.

***Income Taxes***

Income taxes are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the worldwide provisions for income taxes. In the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. It is the Company's policy to establish provisions for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes the provisions based upon management's assessment of exposure associated with permanent tax differences, tax credits and interest expense applied to temporary difference adjustments. The tax provisions are analyzed periodically and adjustments are made as events occur that warrant adjustments to those provisions.

***Accounts Receivable, Net***

In the normal course of business, the Company extends credit to wholesale customers that satisfy pre-defined credit criteria. Accounts Receivable, net, as shown on the Consolidated Balance Sheets, is net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the consolidated financial statements, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions. A reserve for discounts is based on those discounts relating to open invoices where trade discounts have been extended to customers. Costs associated with potential returns of products as well as allowable customer markdowns and operational charge backs, net of expected recoveries, are included as a reduction to net sales and are part of the provision for allowances included in Accounts Receivable, net. These provisions result from seasonal negotiations with the Company's customers as well as historic deduction trends (net of expected recoveries) and an evaluation of current market conditions. The Company's historical estimates of these costs have not differed materially from actual results.

***Inventories***

Inventories are stated at lower of cost (using the first-in-first-out method) or market. The Company continually evaluates the composition of its inventories assessing slow-turning, ongoing product as well as prior seasons' fashion product. Market value of distressed inventory is determined based on historical sales trends for this category of inventory of the Company's individual product lines, the impact of market trends and economic conditions, and the value of current orders in-house relating to the future sales of this type of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. The Company's historical estimates of these costs and its provisions have not differed materially from actual results.

***Goodwill and Other Intangibles***

SFAS No. 142, "Goodwill and Other Intangible Assets," requires that goodwill and intangibles assets with indefinite lives no longer be amortized, but rather be tested at least annually for impairment. This pronouncement also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the impairment or Disposal of Long-Lived Assets."

The recoverability of the carrying values of all long-lived assets with definite lives is reevaluated when changes in circumstances indicate the assets' value may be impaired. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related business. For the three months ended July 3, 2004, there were no adjustments to the carrying values of any long-lived assets resulting from these evaluations.

***Accrued Expenses***

Accrued expenses for employee insurance, workers' compensation, profit sharing, contracted advertising, professional fees, and other outstanding Company obligations are assessed based on claims experience and statistical trends, open contractual obligations, and estimates based on projections and current requirements.

***Derivative Instruments***

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability and measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings in either income (loss) from continuing operations or Accumulated Other Comprehensive Income (Loss), depending on whether the derivative qualifies for hedge accounting treatment.

The Company uses foreign currency forward contracts and options for the specific purpose of hedging the exposure to variability in forecasted cash flow associated primarily with inventory purchases and royalty payments in connection with the Company's European business.

Hedge accounting requires that, at the beginning of each hedge period, the Company justify an expectation that the hedge will be highly effective. This effectiveness assessment involves an estimation of the probability of the occurrence of transactions for cash flow hedges. The use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and underlying hedged items are recorded in earnings.

The Company hedges its net investment position in euro-financial subsidiaries by borrowing directly in foreign currency and designating a portion of foreign currency debt as a hedge of net investments. Under SFAS No. 133, changes in the fair value of these instruments are recognized in foreign currency translation, a component of Accumulated Other Comprehensive Income (Loss), to offset the change in value of the net investment being hedged.

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

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in interest rates or foreign currency exchange rates. We manage these exposures through operating and financing activities and, when appropriate, through the use of derivative financial instruments. Our policy allows for the use of derivative financial instruments for identifiable market risk exposures, including interest rate and foreign currency fluctuations.

During the three months ended July 3, 2004, there were significant fluctuations in the Euro to U.S. dollar exchange rate. In May 2003, we entered into an interest rate swap for Euro 105.2 million to minimize the impact of changes in the fair value of the Euro debt due to changes in EURIBOR, the benchmark interest rate. In April 2004, we entered into an additional interest rate swap of Euro 50 million for the same purpose as the May 2003 swap. We have exposure to interest rate volatility as a result of these interest rate swaps. A ten percent change in the average rate would have resulted in a $0.1 million change in interest expense during the first quarter of Fiscal 2005.

Since April 3, 2004, other than disclosed above, there have been no significant changes in our interest rate and foreign currency exposures, changes in the types of derivative instruments used to hedge those exposures, or significant changes in underlying market conditions.

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

Based on an evaluation carried out as of the end of the period covered by this report under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to provide reasonable assurance that information relating to the Company and its subsidiaries that we are required to disclose in the reports that we file or submit to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. As of the end of the period covered by this report, there have been no significant changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

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

Reference is made to the information disclosed under Item 3 — Legal Proceedings in our Annual Report on Form 10-K for the fiscal year ended April 3, 2004.

**Item 2.** ***Changes in Securities and Use of Proceeds.***

The following table sets forth the repurchases of our common stock during the fiscal quarter ended July 3, 2004.

| Period | Total Number of Shares or Units Purchased | Average Price Paid Per Share | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value of Shares or Units) That May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 4, 2004 to May 1, 2004 | 10,500(1) | $35.345 | — | (2) |
| May 2, 2004 to May 29, 2004 | — | — | — | — |
| May 30, 2004 to July 3, 2004 | — | — | — | — |
| Total | 10,500(1) | $35.345 | — | — |

(1) Represents shares surrendered to the Company in satisfaction of withholding taxes in connection with the vesting of an award under the Company's 1997 Long Term Incentive Plan, as amended.

(2) The Company has publicly announced a $100 million stock repurchase plan which was first publicly announced in March 1998. The extension of the Plan thru April 1, 2006 was announced on May 26, 2004. Approximately $21 million in shares may yet be repurchased under the Plan.

**Item 6.** ***Exhibits and Reports on Form 8-K***

(a) *Exhibits* —

| | |
|---|---|
| 10.1 | Asset Purchase Agreement by and among Polo Ralph Lauren Corporation, RL Childrenswear Company, LLC and The Seller Affiliate Group (as defined therein) dated May 25, 2004. |
| 10.2 | Amendment No. 1, dated as of July 2, 2004, to Asset Purchase Agreement by and among Polo Ralph Lauren Corporation, RL Childrenswear Company, LLC and The Seller Affiliate Group (as defined therein). |
| 10.3 | Amended and Restated Employment Agreement, effective as of July 1, 2004, by and between the Polo Ralph Lauren Corporation and Gerald M. Chaney.† |
| 31.1 | Certification of Ralph Lauren required by 17 CFR 240.13a-14(a). |
| 31.2 | Certification of Gerald M. Chaney required by 17 CFR 240 13a-14(a). |
| 32.1 | Certification of Ralph Lauren Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Gerald M. Chaney Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

† Exhibit is a management contract or compensatory plan or arrangement.

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

(b) *Reports of Form 8-K —*

(i) Report on Form 8-K dated May 26, 2004, reporting the release of our results of operations for the fiscal year ended April 3, 2004 and attaching a copy of the press release reporting such results. The information contained in this Form 8-K, including the accompanying exhibit, was furnished under Item 12 of Form 8-K and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section, and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(ii) Report on Form 8-K dated May 28, 2004, attaching a copy of the press release announcing the signing of a definitive agreement to purchase certain assets of RL Childrenswear Company LLC, its licensee for childrenswear in the United States, Canada and Mexico.

(iii) Report on Form 8-K dated July 2, 2004, reporting the consummation of the acquisition of certain assets of RL Childrenswear Company LLC and attaching a copy of the press release issued in connection therewith (required Financial statements to be filed by amendment).

**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

By: /s/ GERALD M. CHANEY

Gerald M. Chaney
*Senior Vice President of Finance and*
*Chief Financial Officer*
*(Principal Financial and*
*Accounting Officer)*

Date: August 12, 2004

Exhibit 10.1

# ASSET PURCHASE AGREEMENT

by and among

POLO RALPH LAUREN CORPORATION

RL CHILDRENSWEAR COMPANY, LLC

and

THE SELLER AFFILIATE GROUP, solely with respect to the Sections specified herein

Dated: May 25, 2004

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**EXHIBITS**



**SCHEDULES**

**ASSET PURCHASE AGREEMENT**

ASSET PURCHASE AGREEMENT, dated as of May 25, 2004 (this "**Agreement**"), by and among POLO RALPH LAUREN CORPORATION, a Delaware corporation (the "**Buyer**"), RL CHILDRENSWEAR COMPANY, LLC, a Maryland limited liability company (the **Seller**"), and solely for the purposes of Section 3.5, 6.14, 6.15, 6.18, Article X and XII, the Seller Affiliate Group (as defined below).

WHEREAS, upon the terms and conditions set forth in this Agreement, the Seller wishes to sell to the Buyer, and the Buyer wishes to purchase from the Seller, certain of the assets as more fully described herein and to assume certain liabilities of the Seller as more fully described herein relating to Seller's licensed childrenswear apparel business in the United States, Canada and Mexico (the "**Business**"), as licensed pursuant to the License Agreement, dated as of January 1, 2000, by and between PRL USA, Inc., The Polo/Lauren Company, L.P. and the Seller, as amended, modified or supplemented from time to time (the "**License**").

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Definitions. As used in this Agreement, and unless the context requires a different meaning, the following terms have the meanings indicated:

"**Accommodation Return**" has the meaning set forth in Section 6.11 of this Agreement.

"**Accounts Receivable**" has the meaning set forth in Section 2.2(b) of this Agreement.

"**Accrued Expenses**" means only those categories of the Seller's ordinary course accrued expenses (including all such accrued but unpaid obligations under the License Agreement and the Design Agreement) of the type set forth on Schedule 1.1 and accrued through and including the dates set forth on Schedule 1.1.

"**Accrued Vacation Liabilities**" has the meaning set forth in Section 2.3(d) of this Agreement.

"**Additional Purchase Price**" has the meaning set forth in Section 3.5 of this Agreement.

"**Additional Royalty Payment Amount**" means the sum of (x) three and one-half percent (3.5%) of the Net Sales of all Licensed Products that are sold by the

Seller from and including June 1, 2004 through and including June 24, 2004, (y) (i) eleven and one-half percent (11.5%) of the first sixty percent (60%) of Net Sales in respect of June 25 Orders and (ii) three and one-half percent (3.5%) of the last forty percent (40%) of Net Sales in respect of June 25 Orders and (y) eleven and one-half percent (11.5%) of the Net Sales of all Licensed Products that are sold by Seller and its Affiliates from and including July 25, 2004 through and including the Closing Date.

"**Adjusted Inventory Amount**" shall mean the sum of (a) the value of the Current Inventory as determined pursuant to Section 3.4, (b) the product of 0.50 and the value of the Medium Term Inventory as determined pursuant to Section 3.4, (c) the value of BSRs included in the Conveyed Inventory as determined pursuant to Section 3.4, (d) the value of the Transition Inventory included in the Conveyed Inventory as determined pursuant to Section 3.4, (e) the product of 0.75 and the value of the Scheduled 4/25 Inventory as determined pursuant to Section 3.4(a), (f) the product of 0.80 and the value of the Scheduled 5/25 Inventory as determined pursuant to Section 3.4, (g) in respect of Purchase Order Scheduled 5/25 Inventory, the lesser of (x) the product of .80 and the value of the Purchase Order Scheduled 5/25 Inventory as determined in accordance with Section 3.4 and (y) and the wholesale price for such Purchase Order Scheduled 5/25 Inventory as set forth on the valid customer purchase order for such Purchase Order Scheduled 5/25 Inventory, and (h) in respect of Purchase Order Scheduled 4/25 Inventory, the lesser of (x) the product of .75 and the value of the Purchase Order Scheduled 4/25 Inventory as determined in accordance with Section 3.4 and (y) the wholesale price for such Purchase Order Scheduled 4/25 Inventory as set forth on the valid customer purchase order for such Purchase Order Scheduled 4/25 Inventory, in each case, not including inventory that constitutes goods-in-transit or Conveyed Inventory that has not otherwise been paid for in full by the Seller as of the Closing Date.

"**Affiliate**" shall mean any Person who is an "affiliate" as defined in Rule 12b-2 of the General Rules and Regulations under the Exchange Act.

"**Agreement**" has the meaning set forth in the preamble to this Agreement.

"**Annual Deferred Payments**" has the meaning set forth in Section 3.5(b)(i).

"**Arbitrator**" has the meaning set forth in Section 3.4(c) of this Agreement.

"**Asserted Liability**" has the meaning set forth in Section 10.3(b) of this Agreement.

"**Asset-Liability Ratio**" means the quotient equal to (a) the sum of, without duplication, (i) the amount of the Prepaid Assets as of the Closing Date and (ii) the Adjusted Inventory Amount as of the Closing Date divided by (b) the sum of, without duplication, (i) the amount of the Assumed Accounts Payable as of the Closing Date, (ii) the amount of the Accrued Expenses as of the Closing Date, (iii) the amount of

Accrued Vacation Liability as of the Closing Date and (iv) the Additional Royalty Payment Amount.

**"Asset-Liability Ratio Amount"** shall mean either the Positive Asset-Liability Ratio Amount or the Negative Asset-Liability Ratio Amount, as the case may be.

"**Assumed Accounts Payable**" has the meaning set forth in Section 2.3(b) of this Agreement.

"**Assumed Liabilities**" has the meaning set forth in Section 2.3 of this Agreement.

"**Audited Financials**" has the meaning set forth in Section 4.3 of this Agreement.

"**Balance Sheet**" has the meaning set forth in Section 4.3 of this Agreement.

"**Balance Sheet Date**" has the meaning set forth in Section 4.3 of this Agreement.

"**Basket Amount**" has the meaning set forth in Section 10.5(a) of this Agreement.

"**Basket Exclusions**" has the meaning set forth in Section 10.5(a) of this Agreement.

"**Benefit Plan**" has the meaning set forth in Section 4.18(f) of this Agreement.

"**BSRs**" means the basic stock replenishment Licensed Products having the sku numbers set forth on Exhibit C.

"**Business**" has the meaning set forth in the recitals to this Agreement.

"**Business Employee**" means any person who is: (a) employed by the Seller or a member of the Seller Affiliate Group in connection with the Business immediately prior to the Closing Date and (b) listed on Schedule 4.18(c) as such Schedule 4.18(c) may be updated in accordance with Section 2.6(a).

"**Buyer**" has the meaning set forth in the preamble to this Agreement.

"**Buyer Indemnified Parties**" has the meaning set forth in Section 10.1(a) of this Agreement.

"**Claims Notice**" has the meaning set forth in Section 10.3(b) of this Agreement.

"**Closing**" has the meaning set forth in Section 3.2 of this Agreement.

"**Closing Date**" has the meaning set forth in Section 3.2 of this Agreement.

"**Closing Statement**" has the meaning set forth in Section 3.4(a) of this Agreement.

"**COBRA**" has the meaning set forth in Section 2.6(e) of this Agreement.

"**Code**" means the United States Internal Revenue Code of 1986, as amended (or any successor statute thereto) and the rules and regulations promulgated thereunder.

"**Commission**" means the United States Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act.

"**Contingent Obligation**" means, as applied to any Person, any direct or indirect liability of that Person with respect to any Indebtedness, lease, dividend, guaranty, letter of credit or other obligation, contractual or otherwise (the "primary obligation") of another Person (the "primary obligor"), whether or not contingent, (a) to purchase, repurchase or otherwise acquire such primary obligations or any property constituting direct or indirect security therefor, (b) to advance or provide funds (i) for the payment or discharge of any such primary obligation, or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the owner of any such primary obligation against loss or failure or inability to perform in respect thereof. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the reasonably anticipated liability in respect thereof.

"**Contingent Purchase Price Payments**" has the meaning set forth in Section 3.5(b)(ii).

"**Contracts**" has the meaning set forth in Section 2.1(e) of this Agreement.

"**Contractual Obligations**" means, as to any Person, any provision of any agreement (written, oral or implied), undertaking (written, oral or implied), contract, indenture, commitment, lease or other instrument to which such Person is a party or by which it or any of its assets or properties are contractually bound.

"**Control Conditions**" has the meaning set forth in Section 10.3(d) of this Agreement.

"**Conveyed Inventory**" has the meaning set forth in Section 2.1(b) of this Agreement.

"**Conveyed Leases**" has the meaning set forth in Section 2.1(c) of this Agreement.

"**Conveyed Leases Premises**" has the meaning set forth in Section 2.1(d) of this Agreement.

"**Copyrights**" means all existing copyrights, including all renewals and extensions thereof, existing copyright registrations and applications for registration thereof, and existing non-registered copyrights.

"**Credited Seller Receivable Amount**" means the aggregate invoiced amount of any Returned Inventory returned to Buyer after the Closing Date through the six-month anniversary of the Closing Date that is credited against or deducted from any Account Receivable retained by the Seller.

"**Current Inventory**" means the subset of Conveyed Inventory that are first quality, ready saleable finished goods available for sale as part of the Business for the "Fall 2004" or later collections.

"**Customer Lists**" has the meaning set forth in Section 2.1(g) of this Agreement.

"**Date of Execution**" means the date upon which this Agreement is executed.

"**DC Adjustment Amount**" means $441,194.00 less, for each Business Employee who does not become a Transferred Employee on the Closing Date, the sum of the amounts set forth on Schedule 2.11 next to each such Business Employee's name under the column labeled severance.

"**Definitive Earn-Out Report**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Design Agreement**" means that certain Design Services Agreement dated January 1, 2000 between Buyer and Seller, as amended, modified and supplemented from time to time.

"**Determination**" has the meaning set forth in Section 3.4(c) of this Agreement.

"**Dispute Report**" has the meaning set forth in Section 3.4(b) of this Agreement.

"**Disputed Matter**" has the meaning set forth in Section 3.4(c) of this Agreement.

"**Dollars**" or "**$**" means United States dollars.

"**Earn-Out Arbitrator**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Earn-Out Disputed Matters**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Earn-Out Eligible Period**" means each of the (i) First Earn-Out Eligible Period (ii) Second Earn-Out Eligible Period and (iii) Third Earn-Out Eligible Period.

"**Earn-Out Report**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Employment Agreements**" means collectively (a) the Employment Agreement between LM Services, LLC and Christopher William Rork, dated June 30, 2003, (b) the Employment Agreement between LM Services, LLC and George Hrdina dated February 9, 2000 and (c) the Employment Agreement between LM Services, LLC and Luciana G. Marsicano, dated January 20, 2000, in each case as amended and supplemented from time to time.

"**Environmental Laws**" means federal, state, foreign or local laws, regulations, codes, plans, orders, decrees, judgments, notices or demand letters relating to pollution, protection of the environment, public or worker health and safety, or emissions, discharges, releases or threatened releases of pollutants, noise, contaminants or hazardous or toxic materials or wastes into ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, presence, production, labeling, testing, treatment, storage, disposal, transport or handling of pollutants, contaminants or hazardous or toxic materials or wastes.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

**"ERISA Affiliate**" means any entity which is (or at any relevant time was) a member of a "controlled group of corporations" under "common control" or in "an affiliated service group" with the Seller within the meaning of Section 414(b), (c) or (m) of the Code.

"**Estimated Additional Royalty Payment Amount**" shall mean the Seller's estimated good faith determination of the Additional Royalty Payment Amount as of the Closing Date, which determination shall be certified by the Seller in writing to the Buyer two (2) business days prior to the Closing Date.

**"Estimated Asset-Liability Ratio"** shall mean the Seller's estimated good faith determination of the Asset-Liability Ratio as of the Closing Date, which determination and calculation shall be certified by the Seller in writing to the Buyer two (2) business days prior to the Closing Date.

**"Estimated Asset-Liability Ratio Amount"** shall mean either the Estimated Positive Asset-Liability Ratio Amount or the Estimated Negative Asset-Liability Ratio Amount, as the case may be.

"**Estimated Closing Date Basic Purchase Price**" has the meaning set forth in Section 3.1 of this Agreement.

**"Estimated Markdown Pool Amount**" shall mean the Seller's estimated good faith determination of the Markdown Pool Amount as of the Closing Date, which determination shall be certified by Seller to Buyer in writing two (2) business days prior to the Closing Date.

**"Estimated Negative Asset-Liability Ratio Amount"** shall mean, if the Estimated Asset-Liability Ratio is less than 1.0, such amount which, if added to the numerator of the Estimated Asset-Liability Ratio would result in the Estimated Asset-Liability Ratio being equal to 1.0.

**"Estimated Positive Asset-Liability Ratio Amount"** shall mean, if the Estimated Asset-Liability Ratio is greater than 1.0, such amount which, if subtracted from the numerator of the Estimated Asset-Liability Ratio would result in the Estimated Asset-Liability Ratio being equal to 1.0.

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

"**Excluded Assets**" has the meaning set forth in Section 2.2 of this Agreement.

"**Excluded Contracts**" has the meaning set forth in Section 2.2(f) of this Agreement.

"**Excluded Liabilities**" has the meaning set forth in Section 2.4 of this Agreement.

"**Final Basic Purchase Price**" means an amount equal to Two Hundred Thirty Two Million One Hundred Thousand Dollars ($232,100,000) plus the Positive Asset-Liability Ratio Amount, if any, minus the Negative Asset-Liability Ratio Amount, if any, minus the DC Adjustment Amount, minus the Markdown Pool Amount as finally determined or agreed in accordance with Section 3.4.

"**Financials**" has the meaning set forth in Section 4.3 of this Agreement.

"**First Earn-Out Eligible Period**" means the twelve (12) fiscal month period beginning on (x) if the Closing Date is on the first day of a fiscal month, the Closing Date or (y) if the Closing Date is not on the first day of a fiscal month, the first day of the fiscal month following the month in which the Closing Date occurs.

"**First Period Shipments**" has the meaning set forth in Section 3.5(b)(ii)(1) of this Agreement.

"**GAAP**" means the United States generally accepted accounting principles as in effect from time to time.

"**George Hrdina Non-Compete**" means the Non-Compete Agreement substantially in the form of Exhibit M to be executed and delivered at Closing by George Hrdina.

"**Goodwill**" means the overall economic potential accruing to the Business, including the Customer Lists.

"**Governmental Authority**" means the government of any nation, state, city, locality or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"**Governmental Licenses**" has the meaning set forth in Section 2.1(f) of this Agreement.

"**Group Non-Compete Agreement**" means the Non-Compete Agreement substantially in the form of Exhibit F to be executed and delivered at Closing by Douglas Schwab, Tadd Schwab and Amy Owens and each other member of the Seller Affiliate Group (other than Samuel Schwab).

"**HSR Act**" has the meaning set forth in Section 4.7 of this Agreement.

"**Indebtedness**" means, as to any Person, (a) all obligations of such Person for borrowed money (including reimbursement and all other obligations with respect to surety bonds, letters of credit and bankers' acceptances, whether or not matured), (b) all obligations of such Person to pay the deferred purchase price of property or services, other than amounts not yet due and payable in the ordinary course of business pursuant to the Conveyed Leases that are not capitalized leases, (c) all interest rate and currency swaps, caps, collars and similar agreements or hedging devices under which payments are obligated to be made by such Person, whether periodically or upon the happening of a contingency, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person under leases which have been or should be, in accordance with GAAP,

recorded as capital leases, (f) all indebtedness secured by any Lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person, and (g) any Contingent Obligation of such Person.

"**Indemnified Party**" has the meaning set forth in Section 10.3(a) of this Agreement.

"**Indemnifying Party**" has the meaning set forth in Section 10.3(a) of this Agreement.

"**Intellectual Property**" means all Copyrights, Internet Assets, Patents, Software, Trade Secrets and Trademarks, as they exist anywhere in the world.

"**Internet Assets**" means domain names, Internet addresses and other computer identifiers, websites, web pages and other similar rights and items.

"**Inventory Return Amount**" means an amount equal to the excess, if any, of (x) One Hundred Twenty Five Thousand Dollars ($125,000) over (y) the sum of the (a) Credited Seller Receivable Amount, if any, and (b) Qualified Returned Inventory Cost Amount, if any.

"**IP Licenses**" has the meaning set forth in Section 4.11 of this Agreement.

"**June 25 Orders**" means the customer orders for Licensed Products that are scheduled to be shipped during the four (4) week period commencing on June 25, 2004 and all other customer orders for Licensed Products that are shipped during the four (4) week period commencing on June 25, 2004.

"**Knowledge**" means the knowledge of Doug Schwab, Sam Schwab, George J. Hrdina and Hugh Woltzen, in each case after due inquiry, except that solely for purposes of Section 4.16 (Commercial Relationships and 4.20 (Questionable Payments), Knowledge shall mean the actual knowledge of the Persons set forth above.

"**Lease Agreement**" means that certain Lease Agreement substantially in the form of Exhibit E, pursuant to which Buyer shall sublease the distribution center facility located in Martinsburg, West Virginia.

"**Liabilities**" has the meaning set forth in Section 4.13 of this Agreement.

"**License**" has the meaning set forth in the recitals to this Agreement.

"**Licensed Products**" has the meaning defined in the License Agreement.

"**Lien**" means any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, claim, license, charge, option, lien (statutory or other) or

preference, priority, right or other security interest or preferential arrangement of any kind or nature whatsoever.

"**Litigation**" has the meaning set forth in Section 2.4(f) of this Agreement.

"**Losses**" has the meaning set forth in Section 10.1 of this Agreement.

"**Markdown Pool Amount**" means an amount equal to the sum of (x) $3,824,300 and (y) the sum of the product of (a) the gross wholesale sales price of all Licensed Products that are sold by the Seller from and including May 25, 2004 through and including the Closing Date to each of the department store customers set forth on Exhibit I multiplied by (b) such customer's applicable markdown percentage as set forth across from such customer's name on Exhibit I.

"**Material Adverse Effect**" has the meaning set forth in Section 4.1 of this Agreement.

"**Medium Term Inventory**" means the subset of the Conveyed Inventory that are first quality, ready saleable finished goods available for sale as part of the Business for any of the "Spring 2004," "Holiday 2003," and "Fall 2003" collections, but not including any Transition Inventory.

**"Negative Asset-Liability Ratio Amount"** shall mean, if the Asset-Liability Ratio as finally determined or agreed in accordance with Section 3.4 is less than 1.0, such amount which, if added to the numerator of such Asset-Liability Ratio would result in such Asset-Liability Ratio being equal to 1.0.

"**Net Sales**" has the meaning set forth in the License Agreement for such term.

"**Non-Compete Agreements**" means collectively the Group Non-Compete Agreement, the George Hrdina Non-Compete Agreement and the Samuel Schwab Non-Compete Agreement.

"**Notice of Acceptance**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Notice of Disagreement**" has the meaning set forth in Section 3.5(a) of this Agreement.

"**Off-Price Accounts**" shall mean sales of Licensed Products sold by the Buyer to the retailers set forth on Exhibit B.

"**Orders**" has the meaning set forth in Section 4.7 of this Agreement.

"**Other Taxes**" has the meaning set forth in Section 4.5(b) of this Agreement.

"**Party**" or "**Parties**" means the Seller and the Buyer or any one or some of them, as the context requires.

"**Patents**" means any United States or foreign patents and patent applications and inventions, designs and improvements described and claimed therein including any divisions, continuations, continuations-in-part, reissues, reexaminations, or interferences thereof, whether or not patents are issued on such applications and whether or not such applications are modified, withdrawn or resubmitted.

"**Payment Date**" has the meaning set forth in Section 3.5(c) of this Agreement.

"**Permitted Liens**" means and includes (i) Liens for Taxes, assessments or governmental charges or levies not yet due and delinquent, (ii) Liens of carriers, warehousemen, mechanics, materialmen, workmen and the like arising in the ordinary course of business or being contested in good faith, (iii) in the case of leased property, all matters, whether or not of record, affecting the title of the lessor (and any underlying lessor) of the leased property and (iv) Liens that, individually or in the aggregate, do not impair the current or proposed use or the value of the applicable asset.

"**Person**" means any individual, firm, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company, limited liability partnership, Governmental Authority or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity.

"**Plan**" means any employee benefit plan, arrangement, policy, program, agreement or commitment, including any employment (including without limitation, any employment offer letter), change in control, consulting or deferred compensation agreement, salary, executive compensation, bonus, incentive, pension, profit sharing, savings, retirement, post-retirement, consultant, stock option, equity stock purchase or severance plan, agreement, program or policy and any separation, retention vacation, fringe benefit, life, health, disability or accident insurance plan, agreement, program or policy or any payroll practice or arrangement, whether formal or informal, oral or written.

**"Positive Asset-Liability Ratio Amount"** shall mean, if the Asset-Liability Ratio as finally determined or agreed in accordance with Section 3.4 is greater than 1.0, such amount which, if subtracted from the numerator of such Asset-Liability Ratio would result in such Asset-Liability Ratio being equal to 1.0.

"**Prepaid Assets**" has the meaning set forth in Section 2.1(p) of this Agreement.

"**Purchase Order Scheduled 4/25 Inventory**" has the meaning set forth in the definition of Scheduled 4/25 Inventory.

"**Purchase Order Scheduled 5/25 Inventory**" has the meaning set forth in the definition of Scheduled 5/25 Inventory.

"**Purchase Price**" means the sum of the Estimated Closing Date Basic Purchase Price, as adjusted pursuant to Section 3.4 and the Additional Purchase Price.

"**Purchase Price Adjustment**" has the meaning set forth in Section 10.4(a) of this Agreement.

"**Purchased Assets**" has the meaning set forth in Section 2.1 of this Agreement.

"**PWC**" has the meaning set forth in Section 3.4(c)

"**Qualified Returned Inventory"** means any Returned Inventory that is either Current Inventory, Medium Term Inventory, Transitional Inventory, Scheduled 4/26 Inventory or Scheduled 5/26 Inventory.

"**Qualified Returned Inventory Cost Amount"** means, in respect of any Qualified Returned Inventory returned to Buyer after the Closing Date through the six-month anniversary of the Closing Date that is credited against or deducted from any account receivable of the Buyer due from the customer making such return, the aggregate value of such Qualified Returned Inventory based on the values attributable to the type of such Qualified Returned Inventory had such inventory been included in the Adjusted Inventory Amount calculation at the Closing Date.

"**Records**" has the meaning set forth in Section 2.1(i) of this Agreement.

"**Requirements of Law**" means, as to any Person, any law, statute, treaty, rule, regulation, right, privilege, qualification, license or franchise or determination of an arbitrator or a court or other Governmental Authority or stock exchange, in each case applicable or binding upon such Person or any of its assets or properties or to which such Person or any of its assets or properties is subject or pertaining to any or all of the transactions contemplated herein.

"**Retained Real Property**" has the meaning set forth in Section 2.2(c) of this Agreement.

"**Returned Inventory**" has the meaning set forth in Section 6.11(a) of this Agreement.

"**RLC**" has the meaning set forth in the preamble of this Agreement.

"**Salesmen Samples**" means the samples of finished products sold or to be sold as part of the Business.

"**Samuel Schwab Non-Compete Agreement**" means the Non-Compete Agreement substantially in the form of Exhibit L to be executed and delivered at Closing by Samuel Schwab.

"**Scheduled Contracts**" has the meaning set forth in Section 2.1(e) of this Agreement.

"**Scheduled 4/25 Inventory**" means the subset of Conveyed Inventory that are first quality, readily saleable finished goods available for sale as part of the Business for the Seller's "Summer 2004" collection having the style numbers set forth on Exhibit G, other than any such items included in such subset for which there exists on the Closing Date an open valid customer purchase order to purchase such Conveyed Inventory (x) at its full listed wholesale price, which Conveyed Inventory will be deemed to constitute Current Inventory or (y) at less than its full listed wholesale price, which Conveyed Inventory shall be deemed to constitute "Purchase Order Scheduled 4/25 Inventory".

"**Scheduled 5/25 Inventory**" means the subset of Conveyed Inventory that are first quality, readily saleable finished goods available for sale as part of the Business for the Seller's "Summer 2004" collection having the style numbers set forth on Exhibit H, other than any such items included in such subset for which there exists on the Closing Date an open valid customer purchase order to purchase such Conveyed Inventory (x) at its full listed wholesale price, which Conveyed Inventory will be deemed to constitute Current Inventory or (y) at less than its full listed wholesale price, which Conveyed Inventory shall be deemed to constitute "Purchase Order Scheduled 5/25 Inventory".

"**Second Earn-Out Eligible Period**" means the twelve (12) fiscal months immediately following the First Earn-Out Eligible Period.

"**Second Period Cumulative Shipments**" has the meaning set forth in Section 3.5(b)(ii)(2) of this Agreement.

"**Second Period Shipments**" has the meaning set forth in Section 3.5(b)(ii)(2) of this Agreement.

"**Securities Act**" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

"**Seller**" has the meaning set forth in the preamble to this Agreement.

"**Seller Affiliate Group**" means collectively, Sylvia Company, LLC, a Maryland limited liability company, CUNY Associates LLC, a Maryland limited liability company, LM Services LLC, a Maryland limited liability company, S. Schwab Company, a Maryland corporation, Samuel Schwab, Douglas Schwab, Tadd Schwab and Amy Owens.

"**Seller Indemnifying Parties**" has the meaning set forth in Section 10.1(a) of this Agreement.

"**Seller Subsidiary**" has the meaning set forth in Section 2.2(h) of this Agreement.

"**Set-Off Amount**" has the meaning set forth in Section 10.4(a) of this Agreement.

"**Set-Off Notice**" has the meaning set forth in Section 10.4(a) of this Agreement.

"**Shipments**" shall mean the gross wholesale sales price of all Licensed Products that are sold by the Buyer or its Affiliates into the Territory (as such term is defined in the License Agreement in effect on the date hereof); provided, that only Shipments to Off-Price Accounts in excess of $50,000,000 in the aggregate in any Earn-Out Eligible Period shall be included in the calculation of Shipments in such Earn-Out Eligible Period.

"**Software**" means any computer software programs, source code, object code, data and documentation relating thereto, including any computer software programs that incorporate and run the pricing models, formulae and algorithms that relate to the Business.

"**Subsidiary**" means, as of the relevant date of determination, with respect to any Person, a corporation or other Person of which 50% or more of the voting power of the outstanding voting equity securities or 50% or more of the outstanding economic equity interest is held, directly or indirectly, by such Person.

"**Supplemental Deferred Purchase Price**" has the meaning set forth in Section 3.5(b)(iii).

"**Supplier Lists**" has the meaning set forth in Section 2.1(h) of this Agreement.

"**Tax or Taxes**" means (i) any and all federal, state, provincial, local, foreign and other taxes, levies, fees, imposts, duties, and similar governmental charges (including any interest, fines, assessments, penalties or additions to tax imposed in connection therewith or with respect thereto) including, without limitation (x) taxes imposed on, or measured by, income, franchise, profits or gross receipts, and (y) ad valorem, value added, capital gains, sales, goods and services, use, real or personal property, capital stock, license, branch, payroll, estimated withholding, employment, social security (or similar), unemployment, compensation, utility, severance, production, excise, stamp, occupation, premium, windfall profits, transfer and gains taxes, and customs duties, and (ii) any transferee liability in respect of any items described in clause (i) above.

"**Tax Return**" means any and all reports, returns, declarations, claims for refund, elections, disclosures, estimates, information reports or returns or statements

required to be supplied to a Governmental Authority in connection with Taxes, including any schedule or attachment thereto or amendment thereof.

"**Third Earn-Out Eligible Period**" means the twelve (12) fiscal months immediately following the Second Earn-Out Eligible Period.

"**Third Period Cumulative Shipments**" has the meaning set forth in Section 3.5(b)(ii)(3) of this Agreement.

"**Third Period Shipments**" has the meaning set forth in Section 3.5(b)(ii)(3) of this Agreement.

"**Trade Secrets**" means any trade secrets, research records, processes, procedures, sales plans, sales strategies, manufacturing formulae, know-how, blue prints, designs, plans, inventions and databases, confidential business information and other proprietary information and rights (whether or not patentable or subject to copyright or trade secret protection), in each case related to the Business.

"**Trademarks**" means all trade names, trademarks, service marks, trade dress, brand names, designs, jingles, slogans, logos, or corporate names, whether registered or unregistered, and all registrations and applications thereof (including, in each case, the goodwill associated therewith).

"**Transaction Documents**" means, collectively, this Agreement, the Transition Services Agreement, the Lease Agreement, the Non-Compete Agreements and any ancillary documents, schedules and agreements executed in connection with, or required to be delivered by this Agreement.

"**Transfer**" has the meaning set forth in Section 2.1 of this Agreement.

"**Transferred Employees**" has the meaning set forth in Section 2.6(a) of this Agreement.

"**Transition Inventory**" means the subset of Conveyed Inventory that are first quality, readily saleable finished goods available for sale as part of the Business for the "Summer 2004" collection having the style numbers set forth on Exhibit D.

"**Transition Services Agreement**" means that certain Transition Services Agreement dated as of the date hereof between the Buyer, RL Services LLC and the Seller Affiliate Group.

"**Unaudited Financials**" has the meaning set forth in Section 4.3 of this Agreement.

"**Unresolved Claim Losses**" has the meaning set forth in Section 10.4(a) of this Agreement.

"**WARN**" has the meaning set forth in Section 2.9 of this Agreement.

ARTICLE II

TRANSFER OF THE BUSINESS

2.1 Transfer of the Business. Except for the Excluded Assets as provided in Section 2.2, at the Closing and with effect as of the Closing Date, the Seller shall sell, assign, transfer, convey and deliver to the Buyer free and clear of all Liens (other than any Lien of the type referred to in subsections (i)-(iii) of the definition of Permitted Liens) (the "**Transfer**"), and the Buyer shall acquire from the Seller, all of the right, title and interest of the Seller in and to all of the assets, properties, rights and business of the Seller as of the Closing Date used in the operation of the Business of every kind, nature, type and description, real, personal and mixed, tangible and intangible, wherever located (including, for the avoidance of doubt, at the Conveyed Leases Premise), whether known or unknown, fixed or unfixed, or otherwise, whether or not specifically referred to in this Agreement and whether or not reflected on the books and records of the Seller (collectively, the "**Purchased Assets**"), including the following:

(a) Subject to Section 6.17, the License, the Design Agreement or any side letter or other Contract related thereto;

(b) all inventories, including Salesmen Samples, Goods in Transit, finished goods, trim, work-in-process, components, raw materials and any other inventory, in each case as sold or used as part of the Business (the "**Conveyed Inventory**");

(c) all rights, title and interest in and to all or a portion of the leases as set forth on Schedule 2.1(c) (the "**Conveyed Leases**");

(d) all assets, furniture, fixtures and property physically located on the Closing Date at the premises leased pursuant to the Conveyed Leases (the "**Conveyed Leases Premises**"), of every kind and nature and description, whether tangible or intangible, real, personal or mixed;

(e) the contracts set forth on Schedule 2.1(e) (the "**Scheduled Contracts**", and together with the Excluded Contracts, the "**Contracts**");

(f) all licenses, registrations, franchises, qualifications, provider numbers, permits, approvals and authorizations issued by any Governmental Authority which relate to the Business or the Purchased Assets, in each case to the extent transferable or assignable (the "**Governmental Licenses**");

(g) all lists, documents, records, written information, computer files and other computer readable media concerning past, present and potential customers and purchasers of goods or services from the Business (the "**Customer Lists**");

(h) all lists, documents, records, written information, computer files and other computer readable media concerning past, present and potential suppliers and vendors of goods or services to the Business (the "**Supplier Lists**");

(i) all product records, customer correspondence, production records, contract files, technical, accounting, manufacturing and procedural manuals, employment records, studies, reports or summaries relating to the general condition of the Purchased Assets, and any confidential information which has been reduced to writing or electronic form, to the extent that any of the foregoing relate to or arise out of or are used in the Business ("**Records**");

(j) all rights under express or implied warranties from the suppliers and vendors (other than Seller and its Affiliates) relating to Purchased Assets and all rights, demands, claims, credit, insurance casualty proceeds, causes of action, relating to the Purchased Assets;

(k) all unfilled orders or proposals received for inventory or merchandise of the Business;

(l) all Trade Secrets owned by the Seller related to the Business;

(m) any other Intellectual Property (including the goodwill associated therewith) owned by the Seller related to the Business and all designs, prototypes, patterns and other design materials owned or used by the Seller or Seller Affiliates relating to the Licensed Products or any other line of products bearing any trademark or logo owned by the Buyer or any Affiliate of the Buyer, including the name CHAPS or any derivative thereof;

(n) all rights under any non-disclosure agreements, non-solicitation agreements and non-competition agreements entered into with any parties that relate to the Business (other than Business Employees who are not Transferred Employees) and all rights under the Employment Agreements, including, without limitation, the right to enforce the Employment Agreements from and after the Closing Date, but none of the obligations of LM Services LLC;

(o) all "in-store" displays, "shop-in-shop displays" and similar fixtures, improvements and signage related to the Business owned or used by the Seller or Seller's Affiliates located at retailers and customers of the Business and the Contracts relating thereto; and

(p) all prepaid expenses and other deposits related to the Business ("**Prepaid Assets**").

2.2 Excluded Assets. Notwithstanding the provisions of Section 2.1, the Parties acknowledge and agree that the following assets, properties, contracts and rights of the Seller are not included among the Purchased Assets and are excluded from the Transfer (collectively, the "**Excluded Assets**"):

(a) all cash of the Business held by the Seller on the Closing Date;

(b) all accounts receivable and notes receivable of any nature relating to the Business existing on the Closing Date (the "**Accounts Receivable**");

(c) all real property and leases for real property (other than the Conveyed Leases) (the "**Retained Real Property**");

(d) all assets (other than Conveyed Inventory), furniture, property and fixtures physically located on the Closing Date on the Retained Real Property of every kind and nature and description, whether tangible or intangible, real, personal or mixed;

(e) all of the machinery, computers, equipment, tools, fixtures, furniture, appliances, supplies, leasehold improvements and construction in progress owned by the Seller or the Seller's Affiliates and utilized in the distribution of the Business' licensed products (other than with respect to the Conveyed Leased Premises);

(f) the assets and contracts listed on Schedule 2.2(f) (the ("**Excluded Contracts**");

(g) all Contracts that have been performed by the parties thereto and only a product or service warranty of the Seller or a claim against the Seller is outstanding on or prior to the Closing Date or could be asserted after the Closing Date;

(h) the Seller's interest in its subsidiary, LM-RL Associates (the "**Seller Subsidiary**");

(i) all assets of the Seller and its Affiliates required to perform the services to be provided by Seller's Affiliates to Buyer under the Transition Services Agreement as in effect on the Closing Date.

2.3 Assumption of Liabilities. At the Closing, the Buyer shall assume the following (and only the following) liabilities and obligations of the Seller to the extent existing on the Closing Date, and no other liabilities or obligations of the Seller (the specific liabilities to be assumed by the Buyer pursuant to this Section 2.3 being collectively referred to as the "**Assumed Liabilities**"):

(a) all obligations of the Seller under the Conveyed Leases and Scheduled Contracts that, by the terms of such Conveyed Leases and Scheduled Contracts, relate solely to periods following the Closing or are to be observed, paid, discharged, or performed, as the case may be, in each case at any time after the Closing Date;

(b) all unpaid ordinary course, regular trade accounts payable of the Business as of the Closing Date (other than payables to Affiliates of the Seller), up

to the amount included on the Closing Statement (the "**Assumed Accounts Payable**"); and

(c) all obligations of the Seller to pay for Current Inventory that would have constituted Conveyed Inventory as of the Closing Date were they not goods-in-transit for which the Seller has not made full payment as of the Closing Date;

(d) all liabilities of the Seller or Seller's Affiliates related to accrued but unused vacation of the Transferred Employees as of the Closing Date (the "**Accrued Vacation Liabilities**") and all severance liabilities of the Seller or Seller's Affiliates under the Seller's or Seller's Affiliates' severance practice or plan described on Schedule 4.18(f) for each Business Employee who becomes a Transferred Employee; and

(e) all Accrued Expenses that are outstanding as of the Closing Date.

2.4 Liabilities Not Assumed by the Buyer. Notwithstanding anything to the contrary in this Agreement, Buyer shall not assume, or in any way be liable or responsible for any, and Seller, each member of the Seller Affiliate Group and their respective Affiliates shall pay, perform and discharge all, of their respective obligations and liabilities, direct or indirect, known or unknown, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise, except for the Assumed Liabilities (the "**Excluded Liabilities**") and Seller and the Seller Affiliate Group shall hold Buyer harmless with respect to the Excluded Liabilities pursuant to Article X hereof. For the avoidance of doubt, the term Assumed Liabilities does not include Excluded Liabilities and the term Excluded Liabilities includes all liabilities and obligations of the Seller (including without limitation liabilities and obligations imposed by operation of law) other than the liabilities and obligations expressly enumerated under Section 2.3. Without limiting the generality of the foregoing, Excluded Liabilities shall include the following obligations and liabilities:

(a) any liability or obligation of the Seller arising out of or in connection with the negotiation and preparation of any of the Transaction Documents or the consummation and performance of the transactions contemplated hereby, including any liability for Taxes so arising;

(b) any liability or obligation under the Contracts, including the Conveyed Leases and the Scheduled Contracts that were incurred on or prior to Closing or relate to periods on or prior to the Closing;

(c) any liability or obligation of the Seller arising (i) from its failure to perform, or its negligent performance of, its obligations under, or (ii) out of or relating to any breach or claim of breach of a representation, warranty, covenant or agreement of the Seller contained in, any of the Contracts;

(d) any liability, obligation or expense of any kind or nature relating to Taxes owed by the Seller or any of its Affiliates or otherwise related to the

Business (including any contractual liability with respect to Taxes of another Person) for any period or portion thereof ending on or before the Closing Date (including, without limitation, any liabilities, obligations and expenses pursuant to any tax sharing agreement, tax indemnification or similar arrangement) or arising as a result of the Closing;

(e) any liability or obligation of the Seller or otherwise of the Business to the Seller or any of its directors, officers or Affiliates;

(f) subject to Section 6.17, any liability, obligation, cost or expense of the Seller or any of its Affiliates arising out of or relating to any claim, action, suit, complaint, dispute, demand, litigation or judicial, administrative or arbitration proceeding (collectively, "**Litigation**") to which the Seller is or was a party or which relates to any time at or prior to the Closing (regardless of whether the Litigation is commenced before or after the Closing and whether or not it relates to or arises out of the Business);

(g) subject to Section 6.13, any liability or obligation of the Seller with respect to any Indebtedness or Contingent Obligations, including any accrued interest, fees and any penalties thereon;

(h) any liability or obligation of the Seller to or with respect to employees, former employees, (whether or not such employees are Business Employees) consultants and former consultants and Plans and other employee and employment-related liabilities with respect to the Business, including, without limitation, any liability under any of the Employment Agreements or any other employment or similar agreement, any liability for severance of any Business Employee who does not become a Transferred Employee, incentive, bonus or other compensation, health, welfare and other benefit plans of the Seller or any Affiliate of the Seller, whether arising prior to the Closing or otherwise except as are being explicitly assumed pursuant to Section 2.3(d) with respect to the Assumed Vacation Liabilities and any liability for severance of any Business Employee who becomes a Transferred Employee;

(i) any accounts payable of the Seller, to the extent such accounts payable of the Seller are not being assumed pursuant to Section 2.3(b);

(j) subject to Section 6.17, any product liability or product warranty with respect to any product manufactured, produced or sold by the Seller (or any successor), whether or not included in the Purchased Assets;

(k) any liability or obligation of the Seller arising out of or relating to the failure of the Seller to obtain any Governmental Licenses material to or necessary for the conduct of the Business;

(l) any liability or obligation of the Seller arising out of or relating to Environmental Laws;

(m) any liability with respect to the discharge of any Permitted Lien that does not arise out of any Assumed Liabilities; or

(n) all liabilities of the Seller under this Agreement and the other Transaction Documents.

For the avoidance of doubt, the parties agree that, except for the Assumed Liabilities, the Buyer shall not assume, or in any way be liable or responsible for, any obligations or liabilities of the Seller under the License, the Design Agreement, Contracts (including the Conveyed Leases and the Scheduled Contracts) or otherwise, direct or indirect, known or unknown, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise, that were incurred, were payable or relate to any time periods prior to the Closing or were to be observed, paid, discharged, or performed, as the case may be, at any time prior to the Closing.

2.5 Allocation of Purchase Price and Assumed Liabilities. The parties shall agree in writing upon an allocation for tax purposes of the Purchase Price between the date hereof and the Closing Date. In making such allocation: (i) the amounts allocated to the Conveyed Inventory and other tangible assets included in the Purchased Assets and to the Prepaid Expenses shall be equal to the fair value as of the Closing Date for such items; (ii) an amount shall be allocated to the Non-Compete Agreements as reasonably agreed by the parties prior to the Closing Date; and (iii) amounts allocated to the Conveyed Leases, the Scheduled Contracts, or customer purchase or other orders shall be equal to the fair value as of the Closing Date for such items.

2.6 Business Employees.

(a) The Seller shall update the list of Business Employees provided in Schedule 4.18(c) to reflect new hires, terminations and other personnel changes occurring between Date of Execution and the Closing Date in the ordinary course of business and shall deliver the same to Buyer at least two business days prior to the Closing Date. The Buyer shall offer employment, effective as of the Closing Date, to those Business Employees that (i) are Business Employees in good standing and not on an unauthorized leave of absence and are located in either the Seller's New York, New York office (other than Samuel Schwab, Tadd Schwab, Margaret A. Wood, Luis Pementel and Hugh Woltzen) or the Martinsburg, West Virginia facility and (ii) the other Business Employees in good standing and not on an unauthorized leave of absence and are located outside of New York, New York or Martinsburg, West Virginia that are listed on Schedule 2.6(a), which schedule shall be amended to reflect new hires for the Business and terminations in the ordinary course of business from the date hereof through the Closing Date and shall be delivered by Seller to Buyer two (2) business days prior to the Closing Date. Such offers of employment shall be communicated to such Business Employees as determined by the Buyer. The Seller shall provide the Buyer, following the Date of Execution but in no event later than 20 days prior to the Closing Date, with access to the Business Employees and with additional reasonable information requested by the Buyer with respect to the Business Employees. Those Business Employees who

are offered employment, accept such offers of employment and commence employment with the Buyer immediately following the Closing are referred to herein as the "**Transferred Employees**".

(b) The employment of each such Transferred Employee with the Buyer shall commence immediately upon the Closing and shall be deemed for all purposes consistent with the Requirements of Law and except as otherwise expressly provided herein, to have occurred with no interruption or break in service and without termination of employment.

(c) For purposes of payroll taxes with respect to Transferred Employees, the Seller shall treat the transaction contemplated by this Agreement, as a transaction described in Treasury Regulation Sections 31.3121(a)(1)-1(b)(2) and 31.3306(b)(1)-(b)(2).

(d) The Buyer shall provide the Transferred Employees with salary, wages and benefits that are substantially similar to that provided to similarly situated employees of the Buyer. Subject to Section 2.8, as applicable, the Buyer will cause to be recognized for purposes of participation, eligibility and vesting, but not for benefit accruals, the service of each Transferred Employee with the Seller prior to the Closing Date under each employee benefit or welfare plan, program policy or arrangement, including severance, if applicable in which such employee participates after the Closing Date.

(e) The Seller shall be responsible for satisfying obligations under Section 601 et seq. of ERISA and Section 4980B of the Code ("**COBRA**"), to provide continuation coverage to or with respect to any Business Employee (and covered dependent) with respect to any "qualifying event" occurring on or prior to the Closing Date. The Buyer shall be responsible for satisfying obligations under COBRA to provide continuation coverage to or with respect to any Transferred Employee (and covered dependent) with respect to any "qualifying event" which occurs after the Closing Date.

2.7 [Intentionally Omitted]

2.8 Vacation. Each Transferred Employee will be credited by the Buyer under the Buyer's applicable vacation policy with any accrued but unused vacation earned as of the Closing Date that is included as an Accrued Vacation Liability in the Asset-Liability Ratio under the Seller's vacation policy applicable to such Transferred Employee. The Buyer shall recognize service by each Transferred Employee with Seller for purposes of determining entitlement to vacation beginning in the calendar year following the Closing Date under the applicable vacation policy of the Buyer.

2.9 WARN. No later than five (5) days prior to the Closing Date, the Seller shall provide the Buyer with a list setting forth the number of Business Employees terminated from each site of employment of the Business during the 90-day period ending on the Closing Date for reasons qualifying the termination as "employment losses" under the Worker Adjustment and Restraining Notification Act, as amended and

the regulations promulgated thereunder **("WARN")** and the date of each such termination with respect to each termination; provided, that this sentence shall not apply with respect to any site of employment at which sufficient employees have not been employed at any time in such 90-day period for terminations of employment at such site to be subject to WARN.

2.10 Defined Contribution Plan. The Seller shall cause each Transferred Employee who was participating in any defined contribution plan sponsored or maintained by the Seller immediately prior to the Closing Date and who had an account balance in excess of $.01 in such plan as of the Closing Date to be fully vested in such account as of the Closing Date.

2.11 Severance. If a Transferred Employee who is set forth on Schedule 2.11 remains actively employed and in good standing with the Buyer after the second anniversary of the Closing Date, then Buyer shall promptly thereafter pay to the Seller an amount equal to fifty percent (50%) of the amount set forth next to such Transferred Employee's name on Schedule 2.11, which schedule shall be updated by Seller and delivered to Buyer two business days prior to the Closing Date to reflect ordinary course hires and terminations prior to the date hereof through the Closing Date, by wire transfer of immediately available funds to an account designated by Seller.

2.12 Consents to Assignment. Notwithstanding anything to the contrary in this Agreement, this Agreement shall not constitute an agreement to assign any Contract or any claim, right or benefit arising thereunder or resulting therefrom, if a consent has not been obtained or if an attempted assignment thereof would be ineffective. If any such consent has not been obtained as of the Closing Date, or if an attempted assignment of any such Contract would be ineffective, (a) the Seller shall so advise the Buyer and (b) the Seller shall cooperate with the Buyer in any reasonable arrangement designed to provide for the Buyer the benefits under such Contract, including enforcement for the benefit of the Buyer of any and all rights of the Seller against a third party arising out of any breach or cancellation by such third party or otherwise.

2.13 Name Changes. Within sixty days of the Closing Date, the Seller shall change its name to not include "RL", "Polo Ralph Lauren" or any portion or derivation thereof and during such sixty day period, Seller shall continue to use the name RL Childrenswear Company, LLC only as is necessary to collect Accounts Receivable and to wind down its existing Business operations, and on or before the Closing Date, Seller shall cause the Seller Subsidiary to change its name in a similar manner.

## ARTICLE III

## CLOSING

3.1 Payment of Purchase Price. The purchase price for the Business (including, without limitation, the Goodwill), shall be an amount equal to Two Hundred Thirty Two Million One Hundred Thousand Dollars ($232,100,000) plus the Estimated

Positive Asset-Liability Ratio Amount, if any, minus the Estimated Negative Asset-Liability Ratio Amount, if any, minus the DC Adjustment Amount, minus the Estimated Markdown Pool Amount, (the "**Estimated Closing Date Basic Purchase Price**"); provided, that the Estimated Closing Date Basic Purchase Price shall be adjusted following the Closing pursuant to Section 3.4. In addition to the adjustment to the Estimated Closing Date Basic Purchase Price, the Buyer shall also pay to the Seller the Additional Purchase Price as calculated in accordance with, and pursuant to the terms and conditions set forth in, Section 3.5.

3.2 Closing. Unless this Agreement shall have terminated pursuant to Article XI, and subject to the satisfaction or waiver of the conditions set forth in Articles VII and VIII, the closing of the sale and purchase of the Purchased Assets and the assumption and assignment of the Assumed Liabilities (the "**Closing**") shall take place at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, LLP on the second business day following the date upon which the conditions set forth in Articles VII and VIII (other than those conditions that can only be satisfied at Closing) shall be satisfied or waived in accordance with this Agreement, or at such other time, place and date as the Buyer and the Seller may mutually agree in writing (the "**Closing Date**").

3.3 Additional Transactions at Closing. At the Closing, the parties hereto shall enter into the following agreements:

(a) a bill of sale in a form reasonably satisfactory to Buyer and Seller transferring all of the Seller's rights, title and interest in and to the Purchased Assets; and

(b) an assumption and assignment agreement in a form reasonably satisfactory to Buyer and Seller.

3.4 Post-Closing Purchase Price Adjustments. The Seller and the Buyer agree that the Estimated Closing Date Basic Purchase Price shall be adjusted following the Closing as follows:

(a) Within 60 days after the Closing Date, the Buyer shall prepare and deliver to the Seller (i) a statement (the "Closing Statement") setting forth the Adjusted Inventory Amount, the amount of Prepaid Assets, the amount of the Assumed Accounts Payable, the Accrued Vacation Liability Amount, the Additional Royalty Payment Amount and the Accrued Expenses amount, in each case as of the Closing Date and (ii) the Buyer's calculation of (a) the Asset-Liability Ratio Amount, (b) the Markdown Pool Amount and (c) the Final Basic Purchase Price. The Prepaid Asset Amount, the amount of Assumed Accounts Payable shall be determined in accordance with GAAP applied on a consistent basis with the accounting principles used in the preparation of the Balance Sheet. The Accrued Expenses amount shall be determined in accordance with GAAP and reflect the amounts due and outstanding as of the Closing Date for the respective categories included in Schedule 1.1 notwithstanding the Seller's historical accounting practices therefor. The Adjusted Inventory Amount shall be determined using the agreed-upon valuation assumptions set forth in Schedule 3.4(a)

applied to the FIFO (meaning "first-in-first-out") cost of the Conveyed Inventory, determined in accordance with GAAP. The delivery of the Closing Statement shall be accompanied by all information reasonably necessary to determine the Asset-Liability Ratio, the Asset-Liability Ratio Amount, the Adjusted Inventory Amount, the Prepaid Asset amount, the Accrued Vacation Liability amount, the Accrued Expenses amount and the amount of Assumed Accounts Payable, the Additional Royalty Payment Amount and the Markdown Pool Amount (including detailed schedules of Current Inventory, Medium Term Inventory, BSRs, Transition Inventory, Scheduled 4/25 Inventory, Scheduled 5/25 Inventory, Purchase Order Scheduled 5/25 Inventory, Purchase Order Scheduled 4/25 Inventory, Prepaid Assets, Accrued Vacation Liability, Accrued Expenses and lists of Assumed Accounts Payable in each case at the Closing Date). The Seller shall cooperate with the Buyer in the preparation of the Closing Statement. Simultaneously with the delivery of the Closing Statement, the Buyer shall notify the Seller in writing of the amount, if any, that the Buyer believes is payable pursuant to Section 3.4(d) below.

(b) The Buyer, upon prior notice by the Seller, shall allow the Seller and its agents access at all reasonable times after the Closing Date to the applicable books, records and accounts of the Business reasonably related to the preparation of the Closing Statement to allow the Seller to examine the accuracy of the Closing Statement. Within 30 days after the date that the Closing Statement is delivered by the Buyer to the Seller, the Seller shall complete its examination thereof and may deliver to the Buyer a written report setting forth in reasonable detail any proposed adjustments to the Closing Statement, which may include claims that items included in the Current Inventory, Medium Term Inventory, BSRs, Transition Inventory, Scheduled 4/25 Inventory, Scheduled 5/25 Inventory, Purchase Order Scheduled 5/25 Inventory, Purchase Order Scheduled 4/25 Inventory, Prepaid Assets, Accrued Vacation Liability, Accrued Expenses or Assumed Accounts Payable are not properly included (the "**Dispute Report**"). If the Seller notifies the Buyer of its acceptance of the Adjusted Inventory Amount, Prepaid Asset amount, Accrued Vacation Liability amount, the amount of Accrued Expenses and the amount of Assumed Accounts Payable amount, the Markdown Pool Amount, the Additional Royalty Payment Amount or the Final Basic Purchase Price set forth on the Closing Statement, or if the Seller fails to deliver the Dispute Report within the 30-day period specified in the preceding sentence, the amounts set forth in the Closing Statement shall be final, conclusive and binding on the parties as of the last day of such 30-day period.

(c) If the Seller timely delivers the Dispute Report, the Buyer and the Seller shall use good faith efforts to resolve any dispute involving the Adjusted Inventory Amount, the Prepaid Asset Amount, Accrued Vacation Liability, Assumed Accounts Payable Amount, the Additional Royalty Payment Amount, the Markdown Pool Amount and/or the Final Basic Purchase Price (each, a "**Disputed Matter**"), and any resolution between them as to a Disputed Matter shall be final, binding and conclusive on the parties hereto and shall be evidenced by a written agreement to that effect. However, if, after 30 days following the receipt by the Buyer of the Dispute Report, the Seller and the Buyer are unable to resolve any Disputed Matter, such Disputed Matter shall be referred to PricewaterhouseCoopers, LLP ("**PWC**"), or if PWC is unable or unwilling to serve in such capacity, an independent nationally recognized

accounting firm mutually selected by Buyer and Seller (the "**Arbitrator**"). Each of the Seller and the Buyer may submit such written evidence and supporting documentation as they deem appropriate to the Arbitrator. The Arbitrator shall not hold any hearings or accept oral testimony. The scope of the disputes to be resolved by the Arbitrator shall be limited to the items in dispute that were timely and properly included in Dispute Report and the Arbitrator is not to make any other determination. The Arbitrator in making its determination shall not assign a value greater than the greatest value for such item claim by either party or a smaller than the smallest value for such item claimed by either party. The Arbitrator shall be instructed to use every reasonable effort to make its determination with respect to such Disputed Matter (the "**Determination**") within 30 days of the submission to it of such Disputed Matter. The Buyer and the Seller shall give the Arbitrator access at all reasonable times to the books, records and accounts of the Business used to prepare the Closing Date Balance Sheet. After completing the Determination, the Arbitrator shall deliver notice of the Determination to the Buyer and the Seller and upon receipt thereof, the Determination shall be final, binding and conclusive on the parties hereto with respect to such Disputed Matter. Judgment may be entered upon the determination of the Arbitrator in any court having jurisdiction over the party against which such determination is to be enforced.

(d) An adjustment to the Estimated Closing Date Basic Purchase Price shall be calculated as follows:

(i) If the Estimated Closing Date Basic Purchase Price exceeds the Final Basic Purchase Price as determined pursuant to Section 3.4, then the Seller shall pay over to the Buyer in cash the amount of such excess.

(ii) If the Final Basic Purchase Price as determined pursuant to Section 3.4 exceeds the Estimated Closing Date Basic Purchase Price then the Buyer shall pay over to the Seller in cash the amount of such excess.

(iii) The payment due to Buyer or Seller, as the case may be, under clauses (i) or (ii) of this Section 3.4(d) shall be paid, together with interest thereon, at the rate of 8% per annum from, and including, the Closing Date to, but excluding, the date of payment, shall be made by wire transfer of immediately available funds within five (5) business days after the date on which the Closing Statement, the Asset-Liability Ratio, the Markdown Pool Amount and the Additional Royalty Payment are finally determined in accordance with this Section 3.4.

3.5 Additional Purchase Price. The aggregate amount of the additional purchase price payable by the Buyer to the Seller shall be calculated as follows and the payment thereof under this Section 3.5 shall be subject to the provisions of Section 10.4 (Set-Off) (the aggregate amount of the Annual Deferred Payments, the Contingent Purchase Price Payments and the Supplemental Deferred Purchase Price Payments calculated pursuant to this Section 3.5, is referred to as the "**Additional Purchase Price**"):

(a) For each Earn Out Eligible Period, the Buyer shall prepare and deliver, or cause to be prepared and delivered, to the Seller within 45 days of the end of such Earn-Out Eligible Period (i) a statement of Shipments for such Earn-Out Eligible Period, which shall be prepared in good faith, and (ii) a statement of the portion of the Contingent Purchase Price payable with respect to such Earn-Out Eligible Period as determined in accordance with this Section 3.5 (each, an "**Earn-Out Report**"). The Buyer shall consult with the Seller in the preparation of each Earn-Out Report. Each Earn-Out Report shall be binding upon all parties hereto if the Seller delivers written notification to the Buyer of its acceptance of the statement of the portion of the Contingent Purchase Price payable with respect to such Earn-Out Eligible Period as set forth in the Earn-Out Report (the "**Notice of Acceptance**"), or if the Seller shall not have given to the Buyer a written notice of its disagreement with such Earn-Out Report (a "**Notice of Disagreement**") within 30 days after its receipt of such Earn-Out Report. During such 30-day period, upon prior notice by the Seller, the Buyer shall allow the Seller reasonable access during regular business hours to the books, records and accounts of the Buyer reasonably related to the preparation of the Earn-Out Report to allow them to examine each Earn-Out Report. Any such Notice of Disagreement shall specify in reasonable detail the nature of any disagreement so asserted. During the 30-day period following the delivery of any Notice of Disagreement, the parties hereto will attempt to resolve in good faith any disputed items. Failing such resolution, all matters specified in the Notice of Disagreement and not so resolved (the "**Earn-Out Disputed Matters**") shall be referred to PWC, or if PWC is unable or unwilling to serve in such capacity, an independent nationally recognized accounting firm mutually selected by Buyer and Seller (the "**Earn-Out Arbitrator**") for resolution. The Earn-Out Arbitrator shall consider only the Earn-Out Disputed Matters and the Earn-Out Arbitrator is not to make any other determination. The Earn-Out Arbitrator in making its determination shall not assign a value greater than the greatest value for such item claim by either party or smaller than the smallest value for such item claimed by either party. The Earn-Out Arbitrator shall be instructed to act promptly to resolve all Earn-Out Disputed Matters and its decision with respect to all Earn-Out Disputed Matters shall be final, binding and conclusive upon the parties hereto with respect to such Earn-Out Disputed Matters. Judgment may be entered upon the determination of the Earn-Out Arbitrator in any court having jurisdiction over the party against which such determination is to be enforced. Upon resolution by the Earn-Out Arbitrator of all Earn-Out Disputed Matters, the Earn-Out Arbitrator shall cause to be prepared and shall deliver to the Seller and the Buyer a final and definitive earn-out report (the "**Definitive Earn-Out Report**"), which shall (i) reflect the determination of the Earn-Out Arbitrator with respect to any Earn-Out Disputed Matters and (ii) be final, binding and conclusive upon the parties hereto with respect to such Earn-Out Disputed Matters. Each of the Buyer and the Seller shall bear all costs, fees and expenses incurred by it in connection with such dispute resolution, and the Seller and Buyer shall share equally all of the costs, fees and expenses of the Earn-Out Arbitrator.

(b) The Annual Deferred Payments, the Supplemental Deferred Purchase Price Payments and the Contingent Purchase Price Payments payable to the Seller shall be calculated and paid as follows, subject at all times to the limitations described in Section 3.5(b)(iv) and subject to the provisions of Section 10.4:

(i) Annual Deferred Purchase Price Payments. Seller shall be entitled to receive the following payments (the "Annual Deferred Payments"):

(1) Seller shall be entitled to receive from Buyer a deferred purchase price payment equal to $1,666,666 by wire transfer of immediately available funds to a bank account designated by Seller, which payment shall be made by Buyer on the business day immediately preceding the first anniversary of the Closing Date.

(2) Seller shall be entitled to receive from Buyer a deferred purchase price payment equal to $1,666,666 plus accrued and unpaid interest thereon from the Closing Date through the second anniversary of the Closing Date at an annual rate equal to applicable federal rate as published by the Internal Revenue Service in effect on the Closing Date for short-term obligations (based on a 360 day year of twelve 30 day months, which interest shall not compound) by wire transfer of immediately available funds to a bank account designated by Seller, which payment shall be made by Buyer on the second anniversary of the Closing Date.

(3) Seller shall be entitled to receive from Buyer a deferred purchase price payment equal to $1,666,666 plus accrued and unpaid interest thereon from the Closing Date through the third anniversary of the Closing Date at an annual rate equal to applicable federal rate as published by the Internal Revenue Service in effect on the Closing Date for short-term obligations (based on a 360 day year of twelve 30 day months, which interest shall not compound) by wire transfer of immediately available funds to a bank account designated by Seller, which payment shall be made by Buyer on the third anniversary of the Closing Date.

(ii) Contingent Purchase Price Payments. The Seller shall be entitled to receive the following payments (the "**Contingent Purchase Price Payments**"):

(1) If (A) Shipments for the First Earn-Out Eligible Period (the "**First Period Shipments**") are greater than $188,000,000, then the Seller shall be entitled to receive a payment in an amount equal to the lesser of (a) $1,666,666 and (b) the product of (x) First Period Shipments minus $188,000,000 and (y) 20%; and (B) the First Period Shipments are less than or equal to $188,000,000, no amount shall be payable to the Seller as a Contingent Purchase Price under this Section 3.5(b)(ii)(1).

(2) If (A) Shipments for the Second Earn-Out Eligible Period (the "**Second Period Shipments**") plus First Period Shipments (such sum, the "**Second Period Cumulative Shipments**") is equal to an amount greater than $386,000,000, then the Seller shall be entitled to receive a payment in an amount equal to the lesser of (a) $3,333,333 minus the amounts, if any, paid by the Buyer to the Seller under Section 3.5(b)(ii)(1) and (b) the product of

(x) Second Period Cumulative Shipments minus $386,000,000 and (y) 20%; and (B) Second Period Cumulative Shipments are less than or equal to $386,000,000, no amount shall be payable to the Seller as a Contingent Purchase Price under this Section 3.5(b)(ii)(2).

(3) If (A) Shipments for the Third Earn-Out Eligible Period (the "**Third Period Shipments**") plus Second Period Cumulative Shipments (such sum, the "**Third Period Cumulative Shipments**") is equal to an amount greater than $594,000,000, then the Seller shall be entitled to receive a payment in an amount equal to the lesser of (a) $5,000,000 minus the amounts, if any, paid by the Buyer to the Seller under Sections 3.5(b)(ii)(1) and 3.5(b)(ii)(2), and (b) the product of (x) Third Period Cumulative Shipments minus $594,000,000 and (y) 20%; and (B) the Third Period Cumulative Shipments are less than or equal to $594,000,000, no amount shall be payable as a Contingent Purchase Price under this Section 3.5(b)(ii)(3).

Notwithstanding anything to the contrary set forth herein, in no event shall the Contingent Purchase Price Payments payable under this Section 3.5(b)(ii) exceed $5,000,000 in the aggregate.

(iii) Supplemental Deferred Purchase Price. The Seller shall be entitled to receive the following payments (the "Supplemental Deferred Purchase Price"):

(1) On the six month anniversary of the Closing Date, Seller shall be entitled to receive from Buyer a supplemental deferred purchase price equal to $5,000,000 by wire transfer of immediately available funds to a bank account designated by Seller.

(2) On the business day immediately preceding the first anniversary of the Closing Date, Seller shall be entitled to receive from Buyer a supplemental deferred purchase price equal to $5,000,000 by wire transfer of immediately available funds to a bank account designated by Seller.

(iv) Notwithstanding anything to the contrary set forth herein, if there has been a final determination by a court of competent jurisdiction that Samuel Schwab has breached the Samuel Schwab Non-Compete Agreement, then the parties hereto agree that in order to compensate the Buyer in part but not exclusively for the damages suffered as a result of such breach and not to the exclusion of any other equitable or legal remedy that the Buyer may have as a result of such breach, Section 3.5(b)(ii) shall terminate and be of no further force and effect from and after the effective date of such breach and the Seller shall immediately remit to the Buyer by wire transfer of immediately available funds any Contingent Purchase Price Payments previously paid to the Seller under Section 3.5(b)(ii), together with interest thereon at a rate of 8% per annum from the date such purchase price payments were made by the Buyer until such amounts are repaid in full.

(c) Subject to Sections 3.5(b)(iv) and 10.4, amounts payable to the Seller under Section 3.5(b)(ii), if any, will be payable (i) if the Seller delivers to the Buyer a Notice of Acceptance with respect to the applicable Earn-Out Report, on the tenth day after which the Notice of Acceptance is delivered, (ii) if the Seller shall not have given to the Buyer a Notice of Disagreement with respect to the applicable Earn-Out Report within the 30 day period after its receipt of such Earn-Out Report, on the tenth day after which the 30 day period has expired or (iii) if a Notice of Disagreement is delivered by the Seller with respect to the applicable Earn-Out Report, on the tenth day after which (x) the parties resolve the disputed items or (y) the applicable Definitive Earn-Out Report is delivered, as the case may be (each a "**Payment Date**"). Subject to Section 3.5(b)(iv) and 10.4, any amounts payable to Seller under Section 3.5(b)(ii) shall be paid by the Buyer in cash by the wire transfer of immediately available funds, to an account designated by the Seller in writing at least five days prior to the applicable Payment Date.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Buyer as of the Date of Execution and as of the Closing Date as follows:

4.1 Due Incorporation and Qualification. The Seller is a limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of formation and the Seller has all requisite limited liability company power and lawful authority to own, lease and operate the Business and Purchased Assets and to carry on the Business as now conducted. The Seller is qualified to transact business and is in good standing in each jurisdiction in which the nature of the Business or location of the Purchased Assets requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a Material Adverse Effect. For purposes of this Agreement, "**Material Adverse Effect**" shall mean a circumstance, fact, change, development or effect relating to the Business (a) that has had, or would reasonably be expected to have, individually or the aggregate, a material adverse effect on the assets, properties, business, results of operations or condition (financial or otherwise) of the Business taken as a whole or (b) that has had, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the ability of the Seller to consummate the transactions contemplated by the Transaction Documents or materially impairs or delays the ability of the Seller to effect the Closing; provided that a Material Adverse Effect shall not include any circumstances, facts, changes, developments or effects which (i) relate to the Business and are attributable primarily to the occurrence of a material adverse effect on the Buyer and its Subsidiaries or (ii) affects the childrenswear apparel industry in general and not specifically relating to the Business. The Seller has no Subsidiaries other than the Seller Subsidiary. The Seller does not conduct the Business in any jurisdiction other than its jurisdiction of formation and the jurisdictions set forth on Schedule 4.1.

4.2 Charter Documents. The copies of the certificate of formation of the Seller and the current version of the limited liability company agreement of the Seller which have been previously delivered to the Buyer, are true, correct and complete and in effect as of the Date of Execution and shall be true, correct and complete and in effect as of the Closing Date.

4.3 Financial Statements. The Seller has made available to the Buyer true, correct and complete copies of (a) the audited financial statements of the Seller, containing a consolidated balance sheet, consolidated statements of income, changes in members' equity and cash flows as at and for the Seller's fiscal years ended December 31, 2002 and December 31, 2003 together with the reports of each of Ernst & Young, LLP and BDO Seidman, LLP, respectively, on such statements, (the "**Audited Financials**") and (b) the consolidated unaudited balance sheet as of March 31, 2004 and consolidated statements of income and cash flows as at and for the Seller's three-month period ended March 31, 2004 (the "**Unaudited Financials**", and, together with the Audited Financials, the "**Financials**"). Except as set forth on Schedule 4.3, the Financials have been prepared in accordance with GAAP applied on a consistent basis and present fairly in all material respects the financial position of the Seller as of such dates, and the results of its operations and cash flows during the respective periods then ended. Since December 31, 2003, there has been no change in any accounting policy or the methods of application thereof by the Seller. The audited balance sheet as of December 31, 2003 is referred to herein as the "**Balance Sheet**" and December 31, 2003 is referred to as the "**Balance Sheet Date**".

4.4 No Material Adverse Change. Since the Balance Sheet Date, there has been no circumstance, fact, change, development or effect that, individually or together with all other circumstances, facts, changes, developments or effects, has had, or would reasonably be expected to have, a Material Adverse Effect. The Seller has no Knowledge of any such circumstances, facts, changes, developments or effects referred to in the preceding sentence that are threatened (other than those circumstances, facts, changes, developments or effects known to Buyer as of the date hereof), nor has there been any damage, destruction or loss materially affecting the assets, properties, business or condition of the Seller used in connection with the conduct of the Business, whether or not covered by insurance.

4.5 Tax Matters.

(a) Income Taxes. (i) The Seller has been treated as a pass-through entity for federal income Tax purposes and for purposes of all applicable state and local income Taxes for all times and therefore will have no liability for any income Taxes.

(i) None of the Assets constitutes "tax exempt use property" within the meaning of Section 168(h)(1) of the Code.

(ii) None of the Assets is property required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the

Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform Act of 1986.

(b) Other Taxes. Seller represents and warrants to Buyer that, with respect to all Taxes other than income taxes ("**Other Taxes**"):

(i) The Seller has properly prepared and timely filed or caused to be filed all Tax Returns required to be filed with respect to the Business and all such Tax Returns (including information provided therewith or with respect to thereto) are true, complete and correct in all respects.

(ii) The Seller has fully and timely paid all Other Taxes owed by it (whether or not shown on any Tax Return), and has made adequate provision for any Other Taxes that are not yet due and payable, for all taxable periods, or portions thereof, ending on or before the Closing Date.

(iii) Except as set forth on Schedule 4.5, no audit or other proceeding by any Governmental Authority is pending or, to the Knowledge of Seller, threatened with respect to any Other Taxes due from or with respect to the Seller, or any Tax Return of the Seller. Except as set forth on Schedule 4.5, No audit of any Tax Return has been conducted within the previous five (5) taxable years of the Seller.

(iv) No Governmental Authority has given notice of any intention to assert any deficiency or claim for additional Other Taxes against the Seller, and no claim in writing has been made by any Governmental Authority in a jurisdiction where the Seller does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, and all deficiencies for Other Taxes asserted or assessed against the Seller have been fully and timely paid, settled or properly reflected in the Financials.

(v) The Seller has provided to the Buyer copies of all Other Tax audit reports affecting the Business that have been issued with respect to the previous five (5) taxable years of the Seller.

(vi) There are no outstanding agreements extending or waiving the statutory period of limitations applicable to any claim for, or the period for the collection or assessment or reassessment of, Other Taxes due from the Seller for any taxable period and no request for any such waiver or extension is currently pending.

(vii) There are no Other Tax deficiencies or claims (including penalties and interest) of any kind asserted, assessed or to the Seller's Knowledge, that could be asserted or assessed against or relating to the Seller with respect to any taxable periods ending on or before, or including, the Closing Date of a character or nature that would result in any Lien on any of the Purchased Assets or on the Buyer's right, title or use of the Purchased Assets or that would result in any claim against the Buyer.

4.6 Compliance with Laws. The Seller is in compliance in all material respects with all Requirements of Law applicable to the Business and the Seller has not

received any written or oral notice of any actual or alleged violation of a Requirement of Law applicable to the Business.

4.7 Authority to Execute and Perform Agreements; Consents. The Seller has the full legal right and power and all authority and approval required to enter into, execute and deliver the Transaction Documents, and to perform fully its obligations under the Transaction Documents. Each of the Transaction Documents has been duly executed and delivered by the Seller and, assuming the due execution and delivery by the other parties hereto and thereto, is the legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms. Except as set forth on Schedule 4.7 and except for the filing of a notification and report form in compliance with the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended (the "**HSR Act**"), no approval or consent of any Governmental Authority is required in connection with the execution and delivery by the Seller of the Transaction Documents and the consummation and performance by the Seller of the transactions contemplated by them. Except as set forth on Schedule 4.7, the execution and delivery of the Transaction Documents by the Seller, the consummation by the Seller of the transactions contemplated by the Transaction Documents, and the performance by the Seller of the Transaction Documents in accordance with their respective terms and conditions (including the Transfer) will not give rise to any Liens (other than Permitted Liens) on any of the Purchased Assets and will not conflict with, or result in the breach or violation of, any of the terms or conditions of, or constitute (or with the passing of time or giving of notice, or both, would constitute) a default or otherwise require the consent of any Person or the delivery of any notification, alter the terms of or otherwise materially and adversely affect the Seller under: (a) the limited liability company agreement of the Seller; (b) any material Contractual Obligations of the Seller, including the Scheduled Contracts and the License; (c) any Requirements of Law material to the operation of the Business; (d) any orders, judgments, injunctions, awards, decrees or writs (collectively, "**Orders**") of any court or Governmental Authority; or (e) any Governmental License material to the operation of the Business.

4.8 Litigation. Except as set forth on Schedule 4.8, (a) the Seller is not a party to, nor to the Knowledge of the Seller, is threatened with, any Litigation (i) for which Buyer could reasonably be expected to have any liability or (ii) that is material to the Business, and (b) the Seller is not subject to any Orders.

4.9 Contracts.

(a) Schedule 4.9(a) sets forth a list of all of the Contracts (specifying in each case the name of, date of and parties to such Contract and all significant amendments, modifications and supplements thereto). Other than the Contracts, there are no Contractual Obligations that are material to the Business or by which the Purchased Assets are bound or are subject in any material respect.

(b) Except as set forth on Schedule 4.9(b):

(i) the Seller has performed each material term, covenant and condition of each Scheduled Contract and no default or event which, with the passing of time or giving of notice (or both) would constitute a default on the part of the Seller, or to the Knowledge of the Seller, any other party thereto, exists under any such Contract;

(ii) each of the Scheduled Contracts and the License is in full force and effect and constitutes the legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with its terms and, to the Knowledge of the Seller, against each other party thereto;

(iii) the Seller has furnished the Buyer with true, correct and complete copies of the Scheduled Contracts, including all significant amendments, modifications and supplements thereto;

(iv) the Scheduled Contracts do not contain any provision which provides for automatic termination upon the occurrence of the transactions contemplated hereby or for the right of any party to any Contract to terminate, accelerate or receive any payment or other more favorable terms and conditions upon occurrence of the transactions contemplated hereby; and

(v) There are no Persons holding a power of attorney on behalf of the Seller that would enable such Persons to sell, lease or otherwise encumber any of the Purchased Assets.

4.10 Real Estate. The Seller has furnished the Buyer with a true, correct and complete copy of the Conveyed Leases (including all modifications, amendments and supplements thereto). There is no material expense, payment or other Liability due pursuant to the Conveyed Leases for maintenance, repair, renovation, restoration or otherwise of the Conveyed Leases, other than in the ordinary course and consistent with past practice. The Seller holds the leasehold estate under and interest in the Conveyed Leases free and clear of all Liens for monies owed by the Seller or an Affiliate of the Seller. The Conveyed Leases are valid, binding and in full force and effect; all rent and other sums or charges payable by the Seller or an Affiliate of the Seller as tenant thereunder are current; no notice of default under the Conveyed Leases has been received by the Seller or an Affiliate of the Seller which remains uncured; and, to the Knowledge of the Seller, no material uncured default on the part of the Seller or an Affiliate of the Seller or the landlord exists under the Conveyed Leases and no event has occurred or condition exists which, with the giving of notice or the lapse of time or both, would constitute such a default. There are no leases, subleases, licenses or other agreements granting to any person other than the tenant under each Conveyed Lease any right to the possession, use, occupancy or enjoyment of the Conveyed Lease Premises or any portion thereof. Except with respect to the Martinsburg, West Virginia facility, the tenants under the Conveyed Leases neither the Seller nor any Affiliate of the Seller owns or holds, or are obligated under or party to, any option, right of first refusal or other contractual right to purchase, acquire, sell or dispose of the Conveyed Lease Premises or any portion thereof or interest therein. No portion of the Conveyed Leases Premises has suffered any

material damage by fire or other casualty which has not heretofore been completely repaired and restored to its original condition.

4.11 Intellectual Property. There are no Patents, Trademarks or any other Intellectual Property of any kind or nature owned by the Seller and used in connection with the Business, other than the IP Licenses. Schedule 4.11 sets forth a true and complete list of all material licenses, sublicenses and other agreements of the Seller relating to Intellectual Property and used in the Business (the "**IP Licenses**"). All of the IP Licenses are valid, subsisting, in full force and effect and binding upon the parties thereto and each party thereto has been in full compliance with all applicable material terms and requirements of such IP License. Upon completion of the transactions contemplated hereby, the Buyer will own all right, title and interest in and to the IP Licenses on identical terms and conditions as the Seller enjoyed immediately prior such transactions. Except as set forth on Schedule 4.11, the IP licenses, together the Intellectual Property made available to the Buyer under the Transition Services Agreement constitute all of the Intellectual Property necessary to conduct the Business as currently conducted. The License and the Design Agreement constitute all of the Contracts that the Seller or any of its Affiliates are a party to with the Buyer or any of its Affiliates with respect to the license of any trademarks or logos by the Buyer or by such Affiliate to the Seller or any of its Affiliates.

4.12 Title to Assets.

(a) Except as set forth on Schedule 4.12(a), (i) the Seller owns outright and has good and marketable title to, or has valid leasehold interests in, all of the Purchased Assets free and clear of all Liens (other than Permitted Liens), (ii) other than (A) the Excluded Assets, (B) the services being provided by the Seller and its Affiliates pursuant to the Transition Services Agreement, and (C) the services provided by the Business Employees, the Purchased Assets (including the assets that will be transferred to the Seller pursuant to Section 6.14 prior to the Closing Date) constitute all of the assets, properties, permits, rights, agreements and other Contract rights and interests which are necessary to enable Buyer after the Closing to operate the Business in a manner consistent with the manner in which such Business is currently being operated by the Seller and its Affiliates, and (iii) the Transfer will vest good and marketable title in and to the Purchased Assets in the Buyer free and clear of all Liens (other than Permitted Liens).

(b) The schedule of booked and confirmed orders from customers of Seller attached as Schedule 4.12(b), which Schedule shall be updated two (2) business days prior to the Closing Date, is true and correct and such orders represent bona fide third party arms' length transactions.

4.13 Liabilities. The Seller has no direct or indirect Indebtedness, liability, claim, loss, damage, deficiency, obligation or responsibility relating to the Business, whether known or unknown, fixed or unfixed, inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise, including liabilities on account of Taxes, whether or not of a kind required by GAAP to be set forth on a financial statement (collectively, "**Liabilities**"), other than (a) the Assumed

Liabilities, (b) Liabilities fully and adequately reflected or reserved against in the Balance Sheet (c) Liabilities incurred since the Balance Sheet Date in the ordinary course of business, (d) Liabilities which are not material, individually or in the aggregate, and (e) Liabilities under the Contracts set forth on Schedule 4.9(a).

4.14 Inventory. Except for the inventory that is subject to the valuation adjustments pursuant to Section 3.4, the Conveyed Inventory (including any inventory that would have constituted Conveyed Inventory were they not goods-in-transit as of the Closing Date) is first quality, readily saleable finished goods saleable in the ordinary course of business.

4.15 Environmental, Health, and Safety Matters. The Seller is in compliance in all material respects with all Environmental Laws. Without limiting the generality of the foregoing, the Seller has obtained and is in compliance in all material respects with all Governmental Licenses that are required pursuant to Environmental Laws for the operation of the Business. The Seller has not received any written or oral notice, report or other information regarding any actual or alleged material violation of Environmental Laws or any material liabilities or potential material Liabilities, including any investigatory, remedial or corrective obligations, relating to the Seller or the facilities used by the Seller in the conduct of the Business arising under Environmental Laws.

4.16 Commercial Relationships. To the Knowledge of the Seller, as of the date hereof, the relationships of the Seller with each of its top 10 (in each case as measured by dollar value for the twelve month period immediately preceding the Date of Execution) vendors, customers, suppliers and distributors in respect of the Business are good commercial working relationships. To the Knowledge of the Seller, the Seller has not received any written notice that any such primary vendor, customer, supplier or distributor intends to cancel or otherwise materially modify in a negative manner its relationship with the Seller or to materially decrease, modify or limit its services, supplies or materials to the Seller or its usage of the services or products of the Seller.

4.17 Insurance. The Seller maintains, or under contractual arrangements is named as an additional insured in, policies or binders of fire, liability, workers' compensation, vehicular and other insurance customarily maintained by Persons engaged in businesses similar to the Business. A true, correct and complete list of such policies insuring the Business is set forth on Schedule 4.17. Such policies and binders are in full force and effect.

4.18 Employment and Labor Matters.

(a) Except as set forth on Schedule 4.18(a), neither the Seller nor any of the Seller's Affiliates is a party to any collective bargaining agreements and there are no labor unions or other organizations representing, or, to the Knowledge of the Seller, purporting to represent or attempting to represent any Business Employee. No collective bargaining agreements are currently being negotiated by the Seller or any of the Seller's Affiliates.

(b) Each of the Seller and its Affiliates are in compliance in all material respects with any Requirements of Law or Orders regarding the terms and conditions of employment of employees or prospective employees of the Seller or any of the Seller's Affiliates or other labor related matters, including Requirements of Law or Orders relating to discrimination, fair labor standards, wrongful discharge or violation of the personal rights of such employees.

(c) Seller shall provide to Buyer on the date hereof as Schedule 4.18(c), a true, correct and complete list of the Business Employees as of the Date of Execution, their position and length of service, their salary, bonuses and any other employee benefits to which they are entitled, other than those provided by law. Except as disclosed in Schedule 4.18(c), no increase in any manner of the compensation or other remuneration of any nature has been made or authorized since January 1, 2004 to any Business Employees, except if such increase is required by a Requirement of Law, by collective labor agreements or pursuant to an executed employment agreement.

(d) [Intentionally Omitted]

(e) Each of the Seller and its Affiliates are in material compliance with all applicable laws and applicable labor collective agreements respecting employment and employment practices, terms and conditions of employment, pay equity and wages and hours, and all applicable laws and regulations concerning health and safety in the workplace. There is no labor strike, dispute, slowdown or stoppage actually pending or, to the Knowledge of the Seller, threatened against the Seller or any of Seller's Affiliates, with respect to the Business; and no material employment related complaint or grievance has been made to the Seller and is currently pending or, to the Knowledge of the Seller, has been threatened against, the Seller or any of Seller's Affiliates.

(f) The Seller has made available to the Buyer a list and copies (or descriptions, if not in writing) of each Plan that is maintained, administered or contributed to by the Seller or any ERISA Affiliate, or to which the Seller or ERISA Affiliate has any obligation to contribute, and that covers any Business Employee (each a the "**Benefit Plan**") and, to the extent applicable with respect thereto, the most recent summary plan description, summary of material modifications and any other written communication (or a description of any oral communications) by the Seller to the Business Employees concerning the extent of the benefits provided under each Benefit Plan. Schedule 4.18(f) contains a list of each Benefit Plan.

(g) With respect to any Business Employee, to the Seller's Knowledge, other than routine claims for benefits, no lawsuits or complaints to or by any person or governmental authority have been filed or made against any Benefit Plan or against the Seller in respect of any Benefit Plan or, to the Seller's Knowledge, against any other person or party in respect of any Benefit Plan and, to the Seller's Knowledge, no such material lawsuits or complaints are pending, threatened, or reasonably likely to occur. To the Seller's Knowledge, no individual who has performed services for the

Seller in the Business has been improperly excluded from participation in any Benefit Plan.

(h) Each Benefit Plan intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service and has been maintained in material compliance with its terms and with the applicable Requirements of Law. Neither the Seller nor any ERISA Affiliate participate in, contribute to or have any liability with respect to any Business Employee with respect to any multiemployer plan as defined in Section 3(37) of ERISA and neither the Seller nor any ERISA Affiliate have incurred any liability (including any contingent liability), to or on account of, any Benefit Plan pursuant to Title IV of ERISA, during the 6 years preceding the date of this Agreement which has not been fully paid. No Benefit Plan is subject to Title IV of ERISA.

(i) All contributions (including all employer contributions and employee salary reduction contributions) and premium payments required to have been made under the terms of any Benefit Plan, or in accordance with the Requirements of Law, as of the Date of Execution have been timely made, and all contributions or premium payments for any period ending on or prior to the Closing which are not yet due will, on or prior to the Closing, have been paid. Neither the Seller nor any of the Seller's Affiliates is or expects to be, in respect of any of the Purchased Assets, subject to any Lien pursuant to Section 412(n) of the Code or Title IV of ERISA.

(j) With respect to any Business Employee neither the execution and delivery of this Agreement or any of the Transaction Documents nor the consummation of the transactions contemplated hereby will (either alone or in combination with another event) (i) result in any payment becoming due, or increase the amount of any compensation due to any Business Employee; (ii) increase any benefits otherwise payable under any Plan; or (iii) result in the acceleration of the time of payment or vesting of any such compensation or benefits (except for any such vesting required by the Code or ERISA).

(k) Neither the Seller nor any of the Seller's Affiliates have incurred any material liability or obligation under WARN or the regulations promulgated thereunder, or any similar state or local law, which remains unsatisfied.

4.19 No Broker. The Seller has no liability or obligation to pay any fees or commissions to any broker, finder or agent with respect to the transactions contemplated by the Transaction Documents for which the Buyer could become liable or obligated.

4.20 Questionable Payments. To the Knowledge of the Seller, since June 1, 2001, neither the Seller nor any of the Seller's or current or former members, directors, officers, agents, employees, members or other persons associated with or active on behalf of the Seller has on behalf of the Seller or in connection with the Business (a) used any corporate funds for unlawful contributions, gifts, entertainment, or other unlawful expenses related to political activity; (b) made any direct or indirect unlawful

payments to foreign or domestic government officials or employees from corporate funds; (c) established or maintained any unlawful or unrecorded fund of corporate monies or other assets; or (d) made any unlawful bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature.

## ARTICLE V

## REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Seller as follows:

5.1 Due Incorporation and Qualification. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of formation. The Buyer (a) has all requisite corporate power and lawful authority to own, lease and operate the Business and Purchased Assets and to carry on the Business as now conducted, and (b) is qualified to transact business and is in good standing in each jurisdiction in which the nature of the Business or location of the Purchased Assets requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a material adverse effect on the conduct of the Business following the Closing.

5.2 Authority to Execute and Perform Agreements; Consents. The Buyer has the full legal right and power and all authority and approval required to enter into, execute and deliver the Transaction Documents, and to perform fully its obligations under the Transaction Documents. Each of the Transaction Documents has been duly executed and delivered by the Buyer and, assuming the due execution and delivery by the other Parties hereto and thereto, is the legal, valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms. Except as set forth on Schedule 5.2, and except for the filing of a notification and report form in compliance with the HSR Act, no approval or consent of any Governmental Authority is required in connection with the execution and delivery by the Buyer of the Transaction Documents and the consummation and performance by the Buyer of the transactions contemplated by them. The execution and delivery of the Transaction Documents, the consummation of the transactions contemplated by them, and the performance by the Buyer of the Transaction Documents in accordance with their respective terms and conditions (including the Transfer) will not conflict with, or result in the breach or violation of, any of the terms or conditions of, or constitute (or with the passing of time or giving of notice, or both, would constitute) a default under or otherwise require the delivery of any notification, alter the terms of or otherwise adversely affect the Buyer under: (a) the Certificate of Incorporation of the Buyer; (b) any material Contractual Obligations of the Buyer; (c) any Requirements of Law material to the business of Buyer; (d) any Orders of any court or Governmental Authority; or (e) any Governmental License material to the business of Buyer.

5.3 Broker’s, Finder’s or Similar Fees. Except for UBS Investment Bank, the Buyer does not have any liability or obligation to pay any fees or commissions

to any broker, finder or agent with respect to the transactions contemplated by the Transaction Documents for which the Seller could become liable or obligated.

5.4 Sufficient Funds. Buyer has, or will have prior to Closing, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of all amounts to be paid by it to the Seller hereunder and to pay its fees and expenses incurred in connection with the transactions contemplated by this Agreement.

## ARTICLE VI

## COVENANTS AND AGREEMENTS

The Buyer and the Seller covenant and agree as follows:

6.1 Conduct of Business. From the Date of Execution through the Closing Date, except as expressly permitted or required pursuant to this Agreement, the Seller shall (x) conduct the Business in the ordinary course consistent with past practice, (y) use its reasonable best efforts to preserve the Business intact and (z) use its reasonable best efforts to keep available to the Business the services of its present officers, employees, consultants and agents, maintain its present vendors, customers, suppliers and distributors and preserve and enhance its goodwill. Without limiting the generality of the foregoing:

(a) From the Date of Execution through the Closing Date, except as expressly required or permitted pursuant to this Agreement, the Seller shall not without the consent of the Buyer, which consent shall not be unreasonably withheld or delayed:

(i) sell, transfer or otherwise dispose of or agree to sell, transfer or otherwise dispose of, any property or asset (excluding sales of inventory in the ordinary course of business and consistent with past practice and through regular trade channels) of the Business, whether real, personal or mixed;

(ii) (x) increase or adjust in any manner the compensation (wages, salaries, bonuses or other compensation) of the Business Employees or any of its consultants or agents, unless such increase or adjustment is pursuant to the Requirements of Law or any applicable collective bargaining agreement or employment agreement as in effect prior to the date of this Agreement and except for increases in the compensation of Business Employees made consistently with past practice and in the ordinary course of business and (y) hire or dismiss (except for cause or breach) any employee or sales agent or consultant, except in the ordinary course of business consistent with past practices or as otherwise contemplated by this Agreement;

(iii) make any capital expenditures or improvements not provided for in the Seller’s current budget previously provided to the Buyer;

(iv) cause the imposition of any Lien (other than a Permitted Lien) on any of the Purchased Assets;

(v) cancel or waive any material claim or right relating to the Business;

(vi) make any change in any method of accounting or auditing practice;

(vii) cancel or reduce any of the insurance coverages;

(viii) take any action or fail to take any action which permits any Governmental License to expire, be cancelled or be amended;

(ix) modify, change or otherwise alter the fundamental nature of the Business;

(x) incur any Contractual Obligations or accounts payable (that are to be Assumed Liabilities), other than in the ordinary course of business consistent with past practice;

(xi) amend or terminate any Scheduled Contract or Governmental License to which the Seller is a party, except amendments or terminations of such Scheduled Contracts or Governmental Licenses that are in the ordinary course of business;

(xii) make any commitment to or incur liability to any labor organization which represents, purports to represent or is attempting to represent, employees of the Seller;

(xiii) subject to Section 6.19, make any change in any material respect of the Seller's policies or practices with respect to the Business, including advertising, marketing, taking customer orders, pricing, purchasing, personnel, sales, returns, budget or product acquisition policies;

(xiv) collect its accounts receivable other than in the ordinary course consistent with past practices;

(xv) agree to do any of the foregoing.

(b) From the Date of Execution through the Closing Date, the Seller shall:

(i) maintain and purchase adequate levels of inventories to carry on the Business in the ordinary course and consistent with past practice;

(ii) use its commercially reasonable efforts to preserve the possession and control of each of the properties subject to the Conveyed Leases;

(iii) make capital expenditures as are reasonably required to preserve the Business as it exists on the date hereof;

(iv) pay and discharge its Liabilities, including accounts payable; and

(v) use its commercially reasonable efforts to preserve the confidentiality of all Trade Secrets.

6.2 Employee Records. As soon as practicable after the Closing, except as prohibited by law, the Seller shall provide to the Buyer all files, including all electronic copies of any such files, related to the Transferred Employees.

6.3 Antitrust Filings; Third Party Notices and Consents.

(a) Each of the Seller and the Buyer shall as promptly as practicable following the execution and delivery of this Agreement make, or cause to be made, all filings, notices, petitions, statements, registrations, submissions of information, application or submission of other documents required by any Governmental Authority in connection with the transactions contemplated hereby, including without limitation (i) the notification and report forms required under the HSR Act and any supplemental information requested in connection therewith pursuant to the HSR Act, and (ii) any other comparable notification forms required by any Governmental Authority. Each party will cause all documents that it is responsible for filing with any Governmental Authority under this Section 6.3 to comply in all material respects with all Requirements of Law. Except as otherwise specifically provided, each such party shall furnish to the other such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of such filings or submissions. Each such party shall keep the other apprised of the status of any communications with, and any inquiries or requests for additional information from, any Governmental Authority and shall comply promptly with any such inquiry or request. Each such party shall use its commercially reasonable efforts to obtain any clearance required under Requirements of Law for the consummation of the transactions contemplated hereby. The Buyer shall be responsible for paying the HSR filing fees in connection with the transactions contemplated by this Agreement.

(b) The Seller shall use its commercially reasonable efforts to obtain, at its expense, all waivers, consents or approvals from third parties, and to give all such notices to third parties, in each case as are listed on Schedule 6.3(b) and the Buyer shall reasonably cooperate with such efforts.

6.4 Litigation. From the Date of Execution through the Closing Date, Seller shall promptly notify the Buyer of any Litigation relating to the Business known to

the Seller which is threatened or commenced after the Date of Execution against Seller, or against any of its Affiliates, officers or directors.

6.5 Continued Effectiveness of Representations and Warranties. From the Date of Execution through the Closing Date, the Seller shall use its commercially reasonable efforts to conduct the Business and the Buyer shall use its commercially reasonable efforts to conduct its affairs, in each case, in such a manner so that the representations and warranties contained in Article IV and Article V, as applicable, shall continue to be true and correct in all material respects, and each party shall promptly give notice to the other party of any circumstance, fact, change, development or effect known to such party, occurring from the Date of Execution through the Closing Date that would constitute a violation or breach of this Agreement or any of the Transaction Documents.

6.6 Examinations and Investigations. From the Date of Execution through the Closing Date, the Buyer shall be entitled, through their employees, representatives and agents, including its accountants and legal counsel, to make such investigation of the assets, properties, business and operations and such examination of the books, records and condition (financial or otherwise) of the Business as the Buyer reasonably desires. No investigation by the Buyer shall, however, diminish or obviate in any way any of the representations, warranties, covenants or agreements of the Seller under the Transaction Documents or a party's right to seek indemnification under the Transaction Documents.

6.7 Expenses of Sale.

(a) The Buyer, on the one hand, and the Seller, on the other hand, agree that each of them shall bear its own direct and indirect expenses, including the fees and expenses of their own legal and tax counsel, incurred in connection with the negotiation and preparation of the Transaction Documents and the consummation and performance of the transactions contemplated by them.

(b) All sales, use, value added, transfer, stamp, registration, documentary, excise, real property transfer or gains, or similar Taxes (but not any income or capital gains Taxes), if any, resulting from the sale, assignment, transfer and delivery hereunder of the Purchased Assets or the Business or the assumption of the Assumed Liabilities shall be paid solely by Buyer.

6.8 Further Assurances; Non-Interference. The Buyer and the Seller shall execute, prior to and following the Closing, such documents, and other papers and perform such further acts as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby. The Buyer and the Seller shall use their respective commercially reasonable efforts to fulfill or obtain the fulfillment of the conditions to the Closing set forth in Articles VII and VIII. The Seller acknowledges and agrees that, from and after the Closing, the Buyer may operate the Business as the Buyer shall determine in its sole discretion and shall be entitled to change the business plans and practices of the Business as the Buyer determines in its sole discretion.

6.9 Accounts Receivable. On and after the Closing Date, the Seller agrees to promptly remit to the Buyer any amounts in respect of accounts receivable relating to the Business originating after the Closing Date that are collected or received by the Seller. On and after the Closing Date, the Buyer agrees to promptly remit to the Seller (i) any amounts in respect of Accounts Receivable that are collected or received by the Buyer (ii) any amount taken as a deduction by a customer against Accounts Receivable with respect to any inventory of the Business shipped to such customer following the Closing Date and Buyer shall provide Seller with reasonable access during normal business hours to the Customer Lists and Supplier Lists to the extent necessary to collect or determine the status of such receivables. From and after the Closing Date, the Seller (i) will ensure that all invoices delivered to customers are conspicuously marked as payable to the Buyer and (ii) will cooperate with the Buyer as it may request with respect to customer requests for allowances or discounts and the Seller will provide allowances and other customer discounts to customers with respect to accounts receivable that are Excluded Assets in the same manner and amount that is consistent with its past practices as previously identified to the Buyer. From and after the Closing Date, the Buyer and the Seller agree to use their commercially reasonable efforts to cooperate with each other with respect to the collection of accounts receivable.

6.10 [Intentionally omitted]

6.11 Inventory. On the sixth-month anniversary of the Closing Date, the Seller shall pay to the Buyer an amount equal to the Inventory Return Amount, if any, by wire transfer of immediately available funds to a bank account designated by Buyer. From and after the Closing Date, with respect to any inventory of the Business that is shipped to customers of the Business prior to the Closing and is returned by such customers (the "**Returned Inventory**"), the Buyer and the Seller agree that the Buyer shall be entitled to receive such Returned Inventory and dispose of such Returned Inventory as it determines in its sole discretion; provided, that the Buyer shall only accept Returned Inventory that is not otherwise damaged or irregular inventory as an "accommodation" (an "**Accommodation Return**") to the customer that returned such inventory so long as such customer does not deduct or take a credit against any Account Receivable in respect of such Accommodation Return. The Seller shall promptly notify Buyer in writing and provide reasonable documentation to Buyer if any amounts in respect of Returned Inventory is credited against or deducted from any Account Receivable retained by the Seller.

6.12 [Intentionally Omitted]

6.13 Letters of Credit. The Buyer shall, at Closing, replace or provide back-up letters of credit or other collateral acceptable to the applicable secured party with respect to those letters of credit issued on behalf of the Seller and set forth on Schedule 6.13, which Schedule 6.13 shall be updated from time to time by the Seller prior to the Closing Date to include any additional letters of credit that are outstanding that support Seller's obligation to purchase Conveyed Inventory, that are still open and outstanding at Closing.

6.14 Transfer. The Seller and each member of the Seller Affiliated Group shall, and shall cause each of their respective Subsidiaries, including without limitation, LM Services LLC and Schwab de Colombia, to, transfer any assets, properties, permits, Conveyed Leases, rights and other Contract rights and interests that are primarily used in or necessary for the operation of the Business (other than any asset that constitutes an Excluded Asset or is used exclusively by Business Employees who do not become Transferred Employees) to the Seller on or prior to the Closing Date, including, without limitation, the rights to enforce the Employment Agreements from and after the Closing Date and those assets set forth on Schedule 6.14. From and after the Closing, the Seller Affiliate Group shall, and shall cause each of their respective Subsidiaries to, take all action necessary to transfer to Buyer without consideration any assets owned by them that should have been transferred to Seller immediately prior to the Closing under this Section 6.14 and then to Buyer on the Closing.

6.15 Liabilities. From the Date of Execution through Closing, the Seller and the Seller Affiliate Group will pay and discharge when due all of the Excluded Liabilities consistent with past practice.

6.16 Markdowns. Following the Closing, the Seller and the Buyer agree and acknowledge that Buyer shall be solely responsible for all negotiations, in its sole discretion, for customer markdowns with respect to Licensed Products sold by the Seller prior to the Closing and nothing contained herein shall require Buyer to use or pay any portion of the Markdown Pool Amount in connection with such negotiations.

6.17 License Agreement and Design Agreement. Notwithstanding anything to the contrary in this Agreement, each party hereby agrees that no party is waiving or transferring in any respect and each party retains the right to enforce any rights, claims or set-offs such party may have prior to and on the Closing Date under the License Agreement or the Design Agreement, except that Buyer shall not be entitled to assert any claim under the License Agreement or the Design Agreement to the extent such claim is known by Douglas L. Williams or Sherry L. Jetter, Esq. on the date hereof (without any obligation by either such Person to conduct any investigation or due inquiry). On the date that is 24 months from the Closing Date, the Buyer and the Seller agree that except for any claims that have been asserted in writing and are pending on such date, the License Agreement and the Design Agreement shall each be deemed terminated, void and of no further force and effect as between the Buyer and the Seller and neither party shall have any rights or be able to assert any claim under either the License Agreement or the Design Agreement.

6.18 Employment Agreements. Assuming that the Buyer has delivered offer letters to each of the employees that are a party to the Employment Agreements that satisfy the requirements of Section 1.5 of each such respective Employment Agreement, prior to the Closing, the Seller shall, and each member of the Seller Affiliate Group shall, cause LM Services, LLC to enforce all of its rights under the Employment Agreements to cause each employee party thereto to be employed by the Buyer from and after the Closing in accordance with the Employment Agreement. Assuming that the Buyer has

delivered offer letters to each of the employees party to the Employment Agreements that satisfy the requirements of Section 1.5 of each such respective Employment Agreement and that Buyer is unable to enforce its rights under the Employment Agreement, following the Closing, the Seller and the Seller Affiliate Group will enforce the Employment Agreements as directed by the Buyer at the Buyer's expense.

6.19 Shipments. From and after the date hereof, the Seller shall use its commercially reasonable effort to make all shipments of Licensed Products on the dates set forth in its shipping schedule previously delivered to the Buyer and it shall not materially advance or materially delay in any manner the start date for the shipment of any such Licensed Products.

6.20 Additional Royalty Payment. The Buyer and Seller agree by their execution of this Agreement that they shall have been deemed to have amended the License Agreement to provide for the payment as an additional royalty for the use of the Licensed Mark (as defined in the License Agreement) on the Closing Date of the Additional Royalty Payment Amount, which amount shall be included as liability in the Asset-Liability Ratio.

## ARTICLE VII

## CONDITIONS TO THE OBLIGATION OF THE BUYER TO CLOSE

The obligation of the Buyer to enter into and complete the Closing shall be subject to the satisfaction as determined by, or waiver by, the Buyer of the following conditions on or before the Closing Date:

7.1 Representation and Warranties. The representations and warranties of the Seller contained in Article IV shall be true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties as so qualified shall be true and correct in all respects) at and on the Closing Date, as if made at and on such date.

7.2 Covenant and Agreements. The Seller shall have performed and complied in all material respects with all of its covenants and agreements set forth herein that are required to be performed by the Seller on or before the Closing Date.

7.3 Officer's Certificate. The Buyer shall have received a certificate of the Seller, in form and substance satisfactory to the Buyer, dated as of the Closing Date, and signed by the Chairman of the board of directors of the Seller, certifying as to the matters set forth in Section 7.1 and Section 7.2.

7.4 Secretary's Certificate. The Buyer shall have received a certificate from the Seller, in form and substance satisfactory to the Buyer, dated as of the Closing Date and signed by the Chairman of the board of directors of the Seller, certifying (a) that

the Seller is in good standing in the jurisdiction of its formation, (b) that attached copies of (i) the certificate of formation of the Seller, the limited liability company agreement of the Seller and the resolutions of the managing member of the Seller, in each case approving this Agreement and each of the other Transaction Documents and the transactions contemplated hereby and thereby, are all true, complete and correct and remain unamended and in full force and effect, and (c) as to the incumbency and specimen signature of each person executing this Agreement and each other Transaction Document delivered in connection herewith on behalf of the Seller.

7.5 Opinion of Counsel. The Buyer shall have received an opinion of Seller's outside counsel, dated as of the Closing Date, relating to the transactions contemplated by or referred to herein, substantially in the form attached hereto as Exhibit A and reasonably acceptable to Buyer.

7.6 Consents and Approvals. (a) All consents, exemptions, clearances, authorizations, or other actions by, or notice to, or filings with, Governmental Authorities and other Persons in respect of all Requirements of Law (other than any such consents listed on Schedule 7.6) and with respect to those Contractual Obligations of the Seller set forth on Schedule 6.3(b) (other than the Material Customers), shall have been obtained and be in full force and effect, and the Buyer shall have been furnished with appropriate evidence thereof.

(b) Each of the customers set forth on Schedule 6.3 (the "Material Customers") shall have executed and delivered a consent to the assignment of purchase orders in the form set forth on the Exhibit K hereof and each such consent shall be in full force and effect on the Closing Date.

(c) The applicable waiting period with respect to the notification and report form filed in compliance with the HSR Act (including any extension thereof by reason of a request for additional information) shall have expired or been terminated.

7.7 No Material Judgment or Order. There shall not be any Order of a court of competent jurisdiction or any ruling of any Governmental Authority or any condition imposed under any Requirement of Law which would, in the reasonable judgment of the Buyer, (a) prohibit or restrict (i) the Transfer, (ii) the purchase of the Purchased Assets, or (iii) the consummation of the transactions contemplated by this Agreement, (b) subject the Buyer to any material penalty or onerous condition under or pursuant to any Requirement of Law, or (c) restrict the operation of the Business as conducted on the date hereof in a manner that would have a Material Adverse Effect.

7.8 [Intentionally Omitted]

7.9 [Intentionally Omitted]

7.10 Transition Services Agreement. The Seller shall have not repudiated the Transition Services Agreement entered into with Buyer on the Date of

Execution and each such Transaction Services Agreement shall be in full force and effect on the Closing Date.

7.11 Release of Liens. The Buyer shall have received such documents or instruments as may be required, in the Buyer's sole discretion, to demonstrate that, effective as of the Closing Date, the Purchased Assets are released from any and all Liens (other than any Lien of the type referred to in subsections (i)-(iii) of the definition of Permitted Liens).

7.12 FIRPTA Affidavit. The Seller shall have furnished Buyer with a certificate stating that Seller is not a "foreign" person within the meaning of Section 1445 of the Code, which certificate shall set forth all information required by, and otherwise be executed in accordance with, Treasury Regulation Section 1.1445-2(b)(2).

7.13 Arbitration Release. The Buyer shall have received unconditional release from the Seller with respect to the matters set forth in that certain complaint dated April 26, 2002 captioned RL Childrenswear LLC, as claimant and PRL USA, Inc. and Polo Lauren Company, L.P., as respondents.

7.14 Lease Agreement. The Seller shall have caused its Affiliate, Panhandle Real Estate Trust, LLC, to have duly executed and delivered the Lease Agreement.

7.15 Non-Competition Agreements. Each of the parties to the Non-Compete Agreements (other than Buyer) shall have executed and delivered the Non-Compete Agreements and such agreements shall be in full force and effect.

7.16 Estoppels. The Seller shall have delivered certificates of estoppel executed by the landlords under (a) each of the Conveyed Leases, (b) that certain Lease Agreement by and between Eastern West Virginia Regional Airport Authority and West Virginia Economic Development Authority, dated as of October 22, 1998, and (c) that certain Lease Agreement by and between the West Virginia Economic Development Authority and Panhandle Real Estate Trust, LLC, dated as of October 22, 1998, each such estoppel in substantially the form of Exhibit J except as reasonably modified by the applicable landlord.

## ARTICLE VIII

## CONDITIONS TO THE OBLIGATION OF THE SELLER TO CLOSE

The obligation of the Seller to enter into and complete the Closing shall be subject to the satisfaction as determined by, or waiver by, the Seller of the following conditions on or before the Closing Date:

8.1 Representations and Warranties. The representations and warranties of the Buyer contained in Article V shall be true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse effect, which representations and warranties as so qualified shall be true and correct in all respects) at and on the Closing Date, as if made at and on such date.

8.2 Covenants. The Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied by the Buyer on or prior to the Closing Date.

8.3 Officer's Certificate. The Seller shall have received a certificate from the Buyer, in form and substance satisfactory to the Seller, dated as of the Closing Date, and signed by an executive officer of the Buyer, certifying as to the matters set forth in Section 8.1 and Section 8.2.

8.4 Secretary's Certificate. The Seller shall have received a certificate from the Buyer, in form and substance satisfactory to the Seller, dated as of the Closing Date and signed by a duly authorized officer of the Buyer, certifying (a) that the Buyer is in good standing in the jurisdiction of its incorporation, (b) that attached copies of the Certificate of Incorporation of the Buyer, the By-laws of the Buyer and the resolutions of the board of directors of approving this Agreement and each of the other Transaction Documents and the transactions contemplated hereby and thereby, are all true, complete and correct and remain unamended and in full force and effect, and (c) as to the incumbency and specimen signature of each person executing this Agreement and each other Transaction Document delivered in connection herewith on behalf of the Buyer.

8.5 [Intentionally Deleted]

8.6 No Material Judgment or Order. There shall not be any Order of a court of competent jurisdiction or any ruling of any Governmental Authority or any condition imposed under any Requirement of Law which would, in the reasonable judgment of the Seller, (a) prohibit or restrict (i) the Transfer, (ii) the purchase of the Purchased Assets or (iii) the consummation of the transactions contemplated by this Agreement, (b) subject or the Seller to any material penalty or onerous condition under or pursuant to any Requirement of Law or (c) restrict the operation of the Business as conducted on the date hereof in a manner that would have a Material Adverse Effect.

8.7 HSR Approvals. The applicable waiting period with respect to the notification and report form filed in compliance with the HSR Act (including any extension thereof by reason of a request for additional information) shall have expired or been terminated.

ARTICLE IX

SURVIVAL

9.1 Survival of Representations and Warranties of the Seller. All representations, warranties, covenants and agreements of the Seller shall survive the execution and delivery hereof and the Closing hereunder. Except for those representations and warranties in (x) Sections 4.1 (Due Incorporation and Qualification), 4.7 (Authority), 4.12(a) (Title to Assets), 4.13 (Liabilities) and 4.19 (no Broker) (all of which representations and warranties shall survive without limitation) and (y) in Sections 4.5 (Taxes) and 4.15 (Environmental) (all of which shall survive for the applicable statute of limitations), all representations and warranties of the Seller shall terminate and expire with respect to any theretofore unasserted claim, on the eighteen month anniversary of the Closing Date.

9.2 Survival of Representations and Warranties of the Buyer. All representations, warranties, covenants and agreements of the Buyer shall survive the execution and delivery hereof and the Closing hereunder. Except for the representations and warranties in Sections 5.1 and 5.2 (which shall survive without limitation), all representations and warranties of the Buyer shall terminate and expire on the eighteen month anniversary of the Closing Date.

ARTICLE X

INDEMNIFICATION

10.1 Obligation of the Seller and the Seller Affiliate Group to Indemnify. Subject to the limitations contained in Section 10.5, the Seller and the Seller Affiliate Group (collectively, the "**Seller Indemnifying Parties**", jointly and severally, agree to indemnify, defend and hold harmless the Buyer (and any of its officers, directors, employees, stockholders, Affiliates, successors and assigns) (the "**Buyer Indemnified Parties**") from and against any losses, claims, liabilities, damages, judgments, assessments, fines, costs, expenses or deficiencies (including reasonable fees, expenses and disbursements of attorneys, experts, personnel and consultants incurred by the party entitled to indemnification under this Article X), whether or not involving Litigation by a third party, (collectively, "**Losses**") based upon, arising out of, due to or otherwise in respect of:

(a) any inaccuracy in or any breach of any representation or warranty of the Seller contained in this Agreement or in any certificate delivered pursuant hereto;

(b) (i) any breach of any covenant or agreement of the Seller or any Affiliate of the Seller contained in this Agreement;

(c) the operation of the Business at any time during the period prior to and including the Closing, including the operation of the Business by the Prior Licensee (as defined in the License) (other than any Loss that constitutes an Assumed Liability); and

(d) any Liability of the Seller that is not an Assumed Liability, including without limitation, the Excluded Liabilities.

10.2 Obligation of the Buyer to Indemnify. The Buyer agrees to indemnify, defend and hold harmless the Seller (and any of its officers, directors, employees, members, Affiliates, successors and assignees) from and against any Losses actually incurred by any of them based upon, arising out of due to or otherwise in respect of:

(a) any inaccuracy in or any breach of any representation or warranty of the Buyer contained in this Agreement or in any certificate delivered pursuant thereto;

(b) any breach of any covenant or agreement of the Buyer contained in this Agreement (including Buyer's obligations to make the payments required under Section 3.4);

(c) the operation of the Business at any time after the Closing Date; and

(d) any Assumed Liability.

10.3 Notice to Indemnifying Party.

(a) Indemnified Party and Indemnifying Party. The party making a claim under this Article X is referred to as the "**Indemnified Party**," and the party against whom such claim is asserted under this Article X is referred to as the "**Indemnifying Party**." All claims by any Indemnified Party under this Article X shall be asserted and resolved in accordance with this Article X.

(b) Notice of Asserted Liability. The Indemnified Party as soon as it becomes aware of any claim, or circumstances which, with the lapse of time, would or might give rise to a claim, or the commencement (or threatened commencement) of a claim for indemnification under Section 10.1 or Section 10.2, including any action, proceeding or investigation that may result in Losses (an "**Asserted Liability**"), shall give prompt notice thereof (a "**Claims Notice**") to the Indemnifying Party; provided, however, that the failure to give notice shall not affect the Indemnifying Party's obligations hereunder except to the extent it is actually and materially prejudiced thereby. The Claims Notice shall describe the Asserted Liability in reasonable detail, and shall indicate the amount (estimated, if necessary, and to the extent feasible) of the Losses that have been or may be suffered by the Indemnified Party.

(c) Amicable Solution. The Parties shall meet to analyze, discuss and, if possible, amicably resolve (both as to the amount due and the time of payment) any Asserted Liability.

(d) Opportunity to Defend. If any Asserted Liability arises as a result of a claim made against the Indemnified Party by a third party, the Indemnifying Party shall have the right, at its own cost and expense, to control the defense (provided that such Indemnifying Party counsel shall be reasonably acceptable to the Indemnified Party and provided further that if such counsel has a conflict of interest or there later arises a conflict of interest with the Indemnified Party, the Indemnified Party shall have the right to object to such counsel and remove such counsel from the proceedings) of any legal proceeding asserted or initiated, which constitutes the subject matter of a Claims Notice so long as (i) the Asserted Liability is not, in the reasonable judgment of the Indemnified Party, likely to result in an amount of Losses (together with the sum of all Losses for all of the indemnification claims asserted against the Indemnifying Party that are then pending or have been previously resolved) that will exceed the Indemnifying Party's maximum liability, if any, under this Article X, (ii) the Indemnified Party shall have the right to participate in all proceedings and to be represented by attorneys of the Indemnified Party's own choosing at the Indemnified Party's own cost and expense and (iii) if reasonably requested to do so by the Indemnified Party, the Indemnifying Party shall have made reasonably adequate provisions to ensure the Indemnified Party of the Indemnifying Party's financial ability to satisfy in full any adverse monetary damage that may be payable in respect of such Asserted Liability (collectively, the "**Control Conditions**"). If the Indemnifying Party elects to compromise or defend such Asserted Liability, it shall, within 30 days of its receipt of a Claims Notice (or sooner, if the nature of the Asserted Liability so requires), notify the Indemnified Party of its intent to do so, and the Indemnified Party shall cooperate, at the expense of the Indemnifying Party, in the defense against, or compromise of, such Asserted Liability. If the Indemnifying Party chooses to control the defense of any Asserted Liability, the Indemnified Party shall cooperate with the Indemnifying Party and shall make available to the Indemnifying Party any books, records or other documents within its control that are necessary or appropriate for such defense (in the judgment of counsel engaged by the Indemnifying Party). If the Indemnifying Party elects not to control the defense of the Asserted Liability, fails to notify the Indemnified Party of its election within such 30-day period, or has not otherwise satisfied the Control Conditions, the Indemnified Party may pay, compromise or defend, at the expense of the Indemnifying Party, such Asserted Liability; provided that if the Indemnifying Party does not have the right to control the defense of an Asserted Liability under this Article X, the Indemnified Party shall not settle or compromise the Asserted Liability without the consent of the Indemnifying Party, such consent not to be unreasonably withheld, delayed or conditioned. Notwithstanding anything contained herein to the contrary, the Indemnified Party will have the right to employ separate counsel at the Indemnifying Party's expense and to control its own defense of such action or proceeding if the named parties to any such litigation include the Indemnified Party and the Indemnifying Party and, if the Indemnified Party has reasonably determined that the representation of both parties would be inappropriate due to actual or potential conflicts between the parties.

(e) Obligation of the Indemnified Party. The party that controls the defenses of an Asserted Liability shall diligently defend such third party claim.

(f) Consent to Settlement. If the Indemnifying Party assumes the defense of an Asserted Liability, no compromise or settlement thereof may be effected by the Indemnifying Party without the Indemnified Party's consent unless (A) there is no finding or admission of any violation of law by the Indemnified Party and no effect on any other claims that may be made against the Indemnified Party, (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party and (C) the Indemnified Party is released from all liability with respect to such Asserted Liability.

(g) Payment of the Indemnification. Subject to Section 12.13 (Late Payments), the Indemnifying Party shall pay the Indemnified Party the indemnification due under this Article X as soon as the Asserted Liability has been settled in accordance with this Article X, or, failing such agreement, the case has been concluded by a final and binding Order by any Governmental Authority.

10.4 Set-Off.

(a) Each of the Seller and the Seller Affiliate Group agrees and acknowledges that the Buyer shall have the right in accordance with the terms of this Section 10.4, but not the obligation, to set-off against all or any portion of the Additional Purchase Price payable, pursuant to Section 3.5, (i) Losses claimed by a Buyer Indemnified Party pursuant to this Article X and (ii) any amounts payable by the Seller to the Buyer under Section 3.4 ("**Purchase Price Adjustment**"). If a Buyer Indemnified Party has previously delivered one or more Claims Notices in accordance with Section 10.3(b) of this Agreement and there exists unresolved indemnification claims as set forth in the Claims Notices or the Buyer is owed a Purchase Price Adjustment at the time that any Additional Purchase Price payment is due from Buyer, the Buyer may give written notice to Seller of its election to exercise its set-off rights under this Section 10.4, which notice shall include a calculation of the Set-Off-Amount (as defined below) (the "**Set-Off Notice**"). Buyer shall be entitled to set-off an amount of any Additional Purchase Price payment then due and owing in the manner set forth in Section 10.4(b) by an amount equal to the sum of (x) amount of the Losses set forth in the Claims Notices for the unresolved claims set forth therein (the "**Unresolved Claim Losses**") and (y) the Purchase Price Adjustment amount; provided; that if no claim amount was set forth in the Claims Note for an unresolved claim, the Buyer shall determine a reasonable damage amount for such claim for purposes of determining the set-off amount (the "**Set-Off Amount**"). Any portion of the Additional Purchase Price that is not set-off under this Section 10.4 shall be paid to the Seller within the time period provided in Section 3.5.

(b) The Set-Off Amount shall be deposited by the Buyer into an escrow account with an independent escrow agent pursuant to an escrow agreement entered into by the Buyer, Seller and such escrow agent until such time as all of the unresolved claims have been finally determined and the Purchase Price Adjustment

amount, if any, has been paid to the Buyer; provided that in no event shall the Set-Off Amount deposited by the Buyer in escrow exceed the sum of the Unresolved Claim Losses and the Purchase Price Adjustment amount then due, if any, and any excess shall be promptly paid to the Seller by wire transfer of immediately available funds. The escrow agreement referred to in the immediately preceding sentence shall be in the form reasonably satisfactory to Seller and shall provide that all fees, expenses and costs of the escrow agent shall be paid by the Buyer. If the Buyer is owed a Purchase Price Adjustment or any unresolved claims are finally determined in favor of the Buyer Indemnified Parties, the Buyer shall be entitled to instruct the escrow agent to pay Buyer the portion of the Set-Off Amount being held in escrow equal to the sum of (x) the Purchase Price Adjustment amount then payable to Buyer, if any, and (y) amount of the Losses payable to the Buyer Indemnified Parties in respect of such finally determined claim. If, after the final determination of an unresolved claim, the Set-Off Amount (as reduced for amounts paid to Buyer in accordance with the prior sentence) is greater than the amount of Losses claimed in the Claims Notice for all then unresolved claims, the escrow agent shall promptly pay to Seller such excess amount by wire transfer of immediately available funds.

10.5 Limitations on Indemnification.

(a) Except in the case of fraud, the Seller Indemnifying Parties shall not be obligated to pay any amounts for indemnification for breaches of representations or warranties under Section 10.1(a), other than those based upon, arising out of or otherwise in respect of Section 4.5 (Tax Matters), Section 4.7 (Authority to Execute and Perform), Section 4.12 (a) (Title to Assets) and Section 4.15 (Environmental, Health and Safety Matters) (the "**Basket Exclusions**"), until the aggregate amount of indemnification therefor under Section 10.1(a), exclusive of those based on the Basket Exclusions, equals Two Million Five Hundred Thousand Dollars ($2,500,000) (such amount the "**Basket Amount**"), whereupon the Seller Indemnifying Parties shall be obligated to pay in full all such amounts for indemnification under Section 10.1(a).

(b) The Seller Indemnifying Parties shall be obligated, to pay any amounts for indemnification based on the Basket Exclusions without regard to the individual or aggregate amounts thereof and without regard to whether all other indemnification payments shall have exceeded, in the aggregate, the Basket Amount.

(c) Except in the case of fraud, the Seller Indemnifying Parties shall not be obligated to pay any amounts for indemnification for breaches of representations and warranties under Section 10.1(a) (other than the Basket Exclusions) in excess of Fifty-Million Dollars ($50,000,000) in the aggregate for all such claims thereunder.

(d) Notwithstanding anything to the contrary in this Agreement, except in the case of fraud, none of Seller Indemnifying Parties shall have any obligation to indemnify any of the Buyer Indemnified Parties for breaches of representations and warranties under Section 10.1(a) for incidental, consequential,

exemplary, special or punitive damages or any lost profits; provided, however, that any of the Buyer Indemnified Parties shall be entitled to recover any such damages from any of the Seller Indemnifying Parties to the extent that such damages are actually assessed against such Buyer Indemnified Parties as a result of a third party proceeding in a court of competent jurisdiction for which such Buyer Indemnified Party is entitled to indemnification under this Article X.

10.6 Sole Remedy. Except for fraud and any equitable remedy that may be available to a party under this Agreement in respect of a breach of a covenant hereunder or in any Transaction Agreement or for a breach of the Non-Compete Agreements or the non-compete provisions contained in the Employment Agreements, an Indemnified Party's rights to indemnification as provided for in this Article X shall constitute such Indemnified Party's sole remedy for a breach of a representation, warranty, covenant or obligation contained in this Agreement or in a certificate delivered pursuant to this Agreement, and an Indemnifying Party shall have no other liability to an Indemnified Party resulting from such breach.

## ARTICLE XI

## TERMINATION OF AGREEMENT

11.1 Termination. This Agreement may be terminated prior to the Closing as follows:

(a) at the election of the Seller or the Buyer, if any legal proceeding is commenced by any Governmental Authority directed against the consummation of the Closing or any other transaction contemplated under this Agreement and either the Seller or the Buyer, as the case may be, reasonably and in good faith deems it materially impractical or inadvisable to proceed in view of such legal proceeding thereof;

(b) at any time on or prior to the Closing Date, by mutual written consent of the Seller and the Buyer;

(c) at the election of the Seller or the Buyer by written notice to the other parties hereto after 5:00 p.m., New York time, on July 31, 2004, if the Closing shall not have occurred, unless such date is extended by the mutual written consent of the Seller and the Buyer; provided, however, that the right to terminate this Agreement under this Section 11.1(c) shall not be available to any party whose breach of any representation, warranty, covenant or agreement under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date;

(d) at the election of the Seller, if there has been a material breach of any representation, warranty, covenant or agreement on the part of the Buyer contained in this Agreement or any Transaction Document, which breach has not been cured within thirty (30) days of notice to the Buyer of such breach; or

(e) at the election of the Buyer, if there has been a material breach of any representation, warranty, covenant or agreement on the part of the Seller contained in this Agreement or any Transaction Document, which breach has not been cured within thirty (30) days notice to the Seller of such breach.

If this Agreement so terminates, it shall become null and void and have no further force or effect, except as provided in Section 11.2.

11.2 Survival. If this Agreement is terminated and the transactions contemplated hereby are not consummated as described above, this Agreement shall become void and of no further force and effect, except for the provisions of Article I, Section 6.7 (Expenses), this Section 11.2, Section 12.6 (Governing Law), Section 12.7 (Submission to Jurisdiction) and 12.8 (Waiver of Jury Trial) which shall survive the termination of this Agreement; provided, however, that (x) none of the parties hereto shall have any liability in respect of a termination of this Agreement pursuant to Section 11.1(b) or Section 11.1(c) and (y) nothing shall relieve any of the parties from liability for actual damages resulting from a termination of this Agreement pursuant to Section 11.1(d) or Section 11.1(e).

## ARTICLE XII

## MISCELLANEOUS

12.1 Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be delivered by facsimile transmission, by an internationally recognized courier service or by personal delivery:

if to the Seller:

RL Childrenswear Company LLC
131 West 33rd Street
New York, New York 10001
Facsimile: 212-563-3931
Attention: Samuel Schwab

with a copy to:

Neuberger, Quinn, Gielen, Rubin & Gibber, PA
One South Street
Baltimore, MD 21202
Facsimile: 410-332-8511
Attention: Isaac Neuberger, Esq.

if to the Buyer:

c/o Polo Ralph Lauren Corporation
650 Madison Avenue
New York, NY 10022
Facsimile: (212) 318-7183
Attention: Sherry L. Jetter, Esq.

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Facsimile: (212) 757-3990
Attention: Douglas A. Cifu, Esq.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by courier service; and when receipt is mechanically acknowledged, if sent by facsimile transmission. Any party may by notice given in accordance with this Section 12.1 designate another address or Person for receipt of notices hereunder.

12.2 Successors and Assigns; Third Party Beneficiaries. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. The Buyer may assign any of its rights under this Agreement or the other Transaction Documents to any of its respective Affiliates, but such assignment shall not relieve the Buyer of its obligations hereunder. Except as provided in Article X, no Person other than the parties hereto and their successors and permitted assigns is intended to be a beneficiary of this Agreement.

12.3 Amendment and Waiver.

(a) No failure or delay on the part of the Seller, or the Buyer in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

(b) Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure by any party hereto from the terms of any provision of this Agreement, shall be effective (i) only if it is made or given in writing and signed by all the parties hereto and (ii) only in the specific instance and for the specific purpose for which made or given.

12.4 Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so

executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

12.5 Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

**12.6 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CONFLICT OF LAW PRINCIPLES THEREOF.**

12.7 Consent to Jurisdiction and Service of Process. Each party (including the Seller Affiliate Group) to this Agreement hereby irrevocably agrees that any legal action or proceeding arising out of or relating to this Agreement or any agreements or transactions contemplated hereby shall only be instituted in the federal or state courts located in New York, New York and hereby expressly submits to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waives any claim of improper venue and any claim that such courts are an inconvenient forum. Each party (including the Seller Affiliate Group) hereby irrevocably consents to the service of process of any of the aforementioned courts in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address set forth or referred to in Section 12.1.

12.8 WAIVER OF JURY TRIAL. EACH PARTY (INCLUDING THE SELLER AFFILIATE GROUP) HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY (INCLUDING THE SELLER AFFILIATE GROUP) HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

12.9 Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

12.10 Rules of Construction;. Unless the context otherwise requires, references to articles, sections or subsections refer to articles, sections or subsections of this Agreement. Unless the context otherwise requires, the words “include,” “includes,” and “including” do not limit the preceding words or terms and shall be deemed to be followed by the words “without limitation.”

12.11 Entire Agreement. This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents are intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, representations, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents supersede all prior agreements and understandings between the parties with respect to such subject matter.

12.12 Publicity; Confidentiality. Except as may be required by law or the rules and regulations of the New York Stock Exchange, no publicity release or announcement concerning this Agreement or the transactions contemplated hereby shall be issued without advance approval of the form and substance thereof by the Buyer and the Seller.

12.13 Late Payments. If any amounts due to a party under this Agreement is paid at any time following the date such payment is due under this Agreement (including amounts which were otherwise due but were subject to a Set-Off Notice), interest shall accrue on the overdue amount at a rate of 8% per annum from and after the due date, to, but excluding the payment date, and the party owed such late payment shall also be paid at such time from the breaching party its reasonable out-of-pocket collection costs; (including reasonable fees and expenses of such party’s counsel); provided that if the party owing such late payment has disputed its obligation to make such payment, then the trier of fact in such dispute shall determine whether the party owed such late payment is entitled to recover such collection costs.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Agreement on the date first written above.

POLO RALPH LAUREN CORPORATION

By: /s/ GERALD M. CHANEY
Name: Gerald M. Chaney
Title: Senior Vice President of Finance and Chief Financial Officer

RL CHILDRENSWEAR COMPANY, LLC

By: /s/ SAMUEL C. SCHWAB
Name: Samuel C. Schwab
Title: President

For the purposes of Section 3.5, 6.14, 6.15, 6.18 and Article X and Article XII only:

SYLVIA COMPANY LLC

By: /s/ SAMUEL C. SCHWAB
Name: Samuel C. Schwab
Title: President

LM SERVICES LLC

By: /s/ SAMUEL C. SCHWAB
Name: Samuel C. Schwab
Title: President

CUNY ASSOCIATES LLC

By: /s/ SAMUEL C. SCHWAB
Name: Samuel C. Schwab
Title: President

S. SCHWAB COMPANY

By: /s/ SAMUEL C. SCHWAB
Name: Samuel C. Schwab
Title: President

SAMUEL SCHWAB

/s/ SAMUEL SCHWAB

DOUGLAS SCHWAB

/s/ DOUGLAS SCHWAB

TADD SCHWAB

/s/ TADD SCHWAB

AMY OWENS

/s/ AMY OWENS

Exhibit 10.2

**AMENDMENT NO. 1 TO ASSET PURCHASE AGREEMENT**

**AMENDMENT NO. 1**, dated as of July 2, 2004 (this "**Amendment**"), by and among Polo Ralph Lauren Corporation, a Delaware corporation (the "**Buyer**"), RL Childrenswear Company LLC, a Maryland limited liability company (the "**Seller**"), and Sylvia Company LLC, a Maryland limited liability company, CUNY Associates LLC, a Maryland limited liability company, LM Services LLC, a Maryland limited liability company, S. Schwab Company, Incorporated, a Maryland corporation, Samuel Schwab, Douglas Schwab, Tadd Schwab and Amy Owens (collectively, the "**Seller Affiliate Group**"), to the Asset Purchase Agreement, dated as of May 25, 2004 (the "**Asset Purchase Agreement**"), by and among the Buyer, the Seller and the Seller Affiliate Group (for the purposes specified therein).

WHEREAS, the parties hereto wish to amend the Asset Purchase Agreement upon the terms and conditions hereinafter set forth; and

WHEREAS, pursuant to Section 12.3 of the Asset Purchase Agreement, the parties hereto may amend the Asset Purchase Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and adequacy of which are hereby forever acknowledged and confessed, the parties hereto agree as follows:

1. Capitalized terms used herein but not otherwise defined herein will have the meanings set forth in the Asset Purchase Agreement.

2. Section 2.3(c) of the Asset Purchase Agreement is hereby amended and restated in its entirety as follows:

"(c) all obligations of the Seller to pay for Current Inventory that would have constituted Conveyed Inventory as of the Closing Date were they not goods-in-transit for which the Seller has not made full payment as of the Closing Date and all obligations of the Seller to pay for "seconds" Conveyed Inventory that would have constituted Conveyed Inventory as of the Closing Date were they not goods- in-transit for which the Seller has not made full payment as of the Closing Date in respect of which existing open purchase orders exist but only to the extent the purchase of such "seconds" inventory is consistent with the Seller's purchase manuals that govern the purchase of such "seconds" inventory attached hereto as Annex A."

3. Buyer and Seller agree and acknowledge that for purposes of calculating the gross wholesale price of Licensed Products that are sold by Buyer to its Affiliates following the Closing under the definition of "Shipments," the gross wholesale price will be calculated using the same sale discount such Affiliate would have received from the Seller had it purchased such Licensed Products from Seller under the License Agreement.

4. Except for allowances to Saks Inc. expressly provided for in the Asset Purchase Agreement and this Amendment, the Seller represents and warrants that as of the date hereof, other than open purchase orders, the Seller has no Contractual Obligations relating to markdowns, returns, advertising allowances, chargebacks or other discounts with Saks Department Store Group or any of its Affiliates and the Seller acknowledges that this representation shall be deemed to be included in the Basket Exclusions and not subject to the Basket Amount or the indemnification cap.

5. Attached as Exhibit A hereto is the purchase price allocation referred to in Section 2.5 of the Asset Purchase Agreement.

6. Buyer and Seller agree and acknowledge that the Seller shall be entitled to receive Net Foreign Childrenswear Royalties (as defined in the License Agreement) in respect of sales of Licensed Products made by Seller on or prior to May 31, 2004 as provided in the License Agreement and that Seller shall not be entitled to any such royalty payments for sales made after such date.

7. Buyer agrees and acknowledges that it will pay (and it will cause its Affiliates to pay) all accounts payable due to the Seller on or before the payment due date for such payment in the ordinary and normal course of business consistent with Buyer's past practice for making such payments to Seller (other than any payments due under this Agreement which payments shall be made in accordance with the terms of this Agreement) and Section 12.13 shall not apply to any late payments of such accounts payable.

8. Section 12.11 of the Asset Purchase Agreement is hereby amended and restated in its entirety as follow:

> "Section 12.11. Entire Agreement. The Agreement as amended by Amendment No. 1 dated the Closing Date, together with the exhibits and schedules hereto, and the other Transaction Documents are intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, representations, warranties or undertakings, other than those set forth or referred to herein or therein. The Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents supersede all prior agreements and understandings between the parties with respect to such subject matter."

9. Ratification of Asset Purchase Agreement. Except as otherwise expressly provided by this Amendment, all of the terms and conditions of the Asset Purchase Agreement are hereby ratified and shall remain unchanged and continue in full force and effect.

10. Headings. The headings in this Amendment are for convenience of reference only and shall not limit or otherwise affect the meanings hereof.

11. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CONFLICT OF LAW PRINCIPLES THEREOF.

12. Consent to Jurisdiction and Service of Process. Each party (including the Seller Affiliate Group) to this Amendment hereby irrevocably agrees that any legal action or proceeding arising out of or relating to this Amendment or any agreements or transactions contemplated hereby shall only be instituted in the federal or state courts located in New York, New York and hereby expressly submits to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waives any claim of improper venue and any claim that such courts are an inconvenient forum. Each party (including the Seller Affiliate Group) hereby irrevocably consents to the service of process of any of the aforementioned courts in any such suit, action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the address set forth or referred to in Section 12.1 of the Asset Purchase Agreement.

13. WAIVER OF JURY TRIAL. EACH PARTY (INCLUDING THE SELLER AFFILIATE GROUP) HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AMENDMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY (INCLUDING THE SELLER AFFILIATE GROUP) HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AMENDMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

14. Severability. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

15. Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

*[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed in multiple originals by their authorized officers, all as of the date first above written.

**POLO RALPH LAUREN CORPORATION**

By: /s/ GERALD M. CHANEY

Name: Gerald M. Chaney
Title: Senior Vice President, Finance & CFO

**RL CHILDRENSWEAR COMPANY LLC**

By: /s/ SAMUEL C. SCHWAB

Name: Samuel C. Schwab
Title: President

**SYLVIA COMPANY LLC**

By: /s/ SAMUEL C. SCHWAB

Name: Samuel C. Schwab
Title: President

**LM SERVICES LLC**

By: /s/ SAMUEL C. SCHWAB

Name: Samuel C. Schwab
Title: President

**CUNY ASSOCIATES LLC**

By: /s/ SAMUEL C. SCHWAB

Name: Samuel C. Schwab
Title: President

**S. SCHWAB COMPANY, INCORPORATED**

By: /s/ SAMUEL C. SCHWAB

Name: Samuel C. Schwab
Title: President

**SAMUEL SCHWAB**

/s/ SAMUEL SCHWAB

**DOUGLAS SCHWAB**

/s/ DOUGLAS SCHWAB

**TADD SCHWAB**

/s/ TADD SCHWAB

**AMY OWENS**

/s/ AMY OWENS

Exhibit 10.3

POLO RALPH LAUREN CORPORATION

EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), is made effective as of the 1st day of July, 2004 (the "Effective Date"), by and between POLO RALPH LAUREN CORPORATION, a Delaware corporation (the "Corporation"), and Gerald M. Chaney (the "Executive").

WHEREAS, the Executive has been employed with the Corporation pursuant to an Employment Agreement dated July 1, 2001 (the "2001 Employment Agreement"); and

WHEREAS, the Corporation and Executive wish to amend and restate such 2001 Employment Agreement effective as of the date hereof;

NOW THEREFORE, in consideration of the mutual covenants and premises contained herein, the parties hereby agree as follows:

ARTICLE I
EMPLOYMENT

1.1 Employment Term. The Corporation hereby agrees to employ the Executive, and the Executive hereby agrees to serve the Corporation, on the terms and conditions set forth herein. The employment of the Executive by the Corporation shall be effective as of the date hereof and continue until the close of business on the second anniversary of the Effective Date of this Agreement (the "Term"), unless terminated earlier in accordance with Article II hereof.

1.2 Position and Duties. During the Term the Executive shall faithfully, and in conformity with the directions of the Board of Directors of the Corporation (the "Board") or the management of the Corporation ("Management"), perform the duties of his employment, and shall devote to the performance of such duties his full time and attention. During the Term the Executive shall serve in such position as the Board or Management may from time to time direct. During the Term, the Executive may engage in outside activities provided those activities do not conflict with the duties and responsibilities enumerated hereunder, and provided further that the Executive gives written notice to the Board of any outside business activity that may require significant expenditure of the Executive's time in which the Executive plans to become involved, whether or not such activity is pursued for profit. The Executive shall be excused from performing any services hereunder during periods of temporary incapacity and during vacations in accordance with the Corporation's disability and vacation policies.

1.3 Place of Performance. The Executive shall be employed at the principal offices of the Corporation located in New York, New York, except for required travel on the Corporation's business.

1.4 Compensation and Related Matters.

(a) Base Compensation. In consideration of his services during the Term, the Corporation shall pay the Executive cash compensation at an annual rate not less than the base salary as set forth on Exhibit A hereto ("Base Compensation"). Executive's Base Compensation shall be subject to such increases as may be approved by the Board or Management. The Base Compensation shall be payable as current salary, in installments not less frequently than monthly, and at the same rate for any fraction of a month unexpired at the end of the Term.

(b) Bonus. During the Term, the Executive shall have the opportunity to earn an annual bonus in accordance with any annual bonus program the Corporation maintains that would be applicable to the Executive.

(c) Options. During the Term, the Executive shall be eligible to participate in the Polo Ralph Lauren stock option program. Stock options are granted annually in June of each year and are subject to ratification by the Compensation Committee of the Board of Directors. Stock options will vest one third each year from the date of the grant and will be fully vested after three years in accordance with the terms of the Company's stock option program.

(d) Car Allowance. During the Term, the Corporation shall pay Executive a car allowance of $1,500 per month.

(e) Expenses. During the Term, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in performing services hereunder, including all reasonable expenses of travel and living while away from home, provided that such expenses are incurred and accounted for in accordance with the policies and procedures established by the Corporation.

(f) Vacations. During the Term, the Executive shall be entitled to the number of vacation days in each calendar year, and to compensation in respect of earned but unused vacation days, determined in accordance with the Corporation's vacation program. The Executive shall also be entitled to all paid holidays given by the Corporation to its employees.

(g) Other Benefits. The Executive shall be entitled to participate in all of the Corporation's employee benefit plans and programs in effect during the Term as would by their terms be applicable to the Executive, including, without limitation, any pension and retirement plan, supplemental pension and retirement plan, deferred compensation plan, incentive plan, stock option plan, life insurance plan, medical insurance plan, dental care plan, accidental death and disability plan, and vacation, sick leave or personal leave program. After the Executive becomes employed, the Corporation shall not make any changes in such plans or programs that would adversely affect the Executive's benefits thereunder, unless such change occurs pursuant to a program applicable to other similarly situated employees of the Corporation and does not result in a proportionately greater reduction in the rights or benefits of the Executive as compared with other similarly situated employees of the Corporation. Except as otherwise specifically provided herein, nothing paid to the Executive under any plan or program

presently in effect or made available in the future shall be in lieu of the Base Compensation or any bonus payable under Sections 1.4(a) and 1.4(b) hereof.

## ARTICLE II
## TERMINATION OF EMPLOYMENT

2.1 Termination of Employment. The Executive's employment may terminate prior to the expiration of the Term under the following circumstances:

(a) Without Cause. The Executive's employment shall terminate upon the Corporation's notifying the Executive that his services will no longer be required.

(b) Death. The Executive's employment shall terminate upon the Executive's death.

(c) Disability. If, as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent and unable to perform the duties hereunder on a full-time basis for an entire period of six consecutive months, the Executive's employment may be terminated by the Corporation following such six-month period.

(d) Cause. The Corporation may terminate the Executive's employment for Cause. For purposes hereof, "Cause" shall mean:

(i) deliberate or intentional failure by the Executive to substantially perform the material duties of the Executive hereunder (other than due to Disability);

(ii) an intentional act of fraud, embezzlement, theft or any other material violation of law;

(iii) intentional wrongful damage to material assets of the Corporation;

(iv) intentional wrongful disclosure of material confidential information of the Corporation;

(v) intentional wrongful engagement in any competitive activity which would constitute a breach of this Agreement and/or of the Executive's duty of loyalty; or

(vi) intentional breach of any material employment policy of the Corporation.

No act, or failure to act, on the part of the Executive shall be deemed "intentional" if it was due primarily to an error in judgment or negligence, but shall be deemed "intentional" only if done, or omitted to be done, by the Executive not in good faith and without reasonable belief that his action or omission was in, or not opposed to, the best interest of the Corporation. Failure to meet

performance standards or objectives of the Corporation shall not constitute Cause for purposes hereof.

(e) Voluntary Termination. The Executive may voluntarily terminate the Executive's employment with the Corporation at any time, with or without Good Reason. For purposes of this Agreement, "Good Reason" shall mean (A) a material diminution in or adverse alteration to Executive's title, base salary, position or duties, (B) the relocation of the Executive's principal office outside the area which comprises a fifty (50) mile radius from New York City, or (C) a failure of the Corporation to comply with any material provision of this Agreement provided that the events described in clauses (A), (B), and (C) above shall not constitute Good Reason unless and until such diminution, change, reduction or failure (as applicable) has not been cured within thirty (30) days after notice of such noncompliance has been given by the Executive to the Corporation.

2.2 Date of Termination. The date of termination shall be:

(a) if the Executive's employment is terminated by the Executive's death, the date of the Executive's death;

(b) if the Executive's employment is terminated by reason of Executive's Disability or by the Corporation pursuant to Sections 2.1(a) or 2.1(d), the date specified by the Corporation; and

(c) if the Executive's employment is terminated by the Executive, the date on which the Executive notifies the Corporation of his termination.

2.3 Effect of Termination of Employment.

(a) If the Executive's employment is terminated by the Corporation, pursuant to Section 2.1(a), or if the Executive resigns for Good Reason pursuant to Section 2.1(e), the Executive shall only be entitled to the following:

(i) Severance. Subject to Section 4.1(a) hereof, the Corporation shall: (a) continue to pay the Executive, in accordance with the Corporation's normal payroll practice, his Base Compensation, as in effect immediately prior to such termination of employment, for the longer of the balance of the Term or the one-year period commencing on the date of such termination (whichever period is applicable shall be referred to herein as the "Severance Period"); and (b) pay to the Executive, on the last business day of the Severance Period, an amount equal to the bonus paid to the Executive for the calendar year prior to the year in which his employment is terminated. Notwithstanding the foregoing, in order to receive any severance benefits under this Section 2.3(a)(i), the Executive must sign and not timely revoke a release and waiver of claims against the Corporation, its successors, affiliates, and assigns, substantially in the form attached to this Agreement as Exhibit C.

(ii) Stock Options. The Executive's rights with respect to any stock options granted to the Executive by the Corporation shall be governed by the provisions of the Corporation's stock option plan and respective award agreements, if any, under which such stock options were granted, except as provided in Section 4.1(a).

(iii) Welfare Plan Coverages. The Executive shall continue to participate during the Severance Period in any group medical, dental or life insurance plan he participated in prior to the date of his termination, under substantially similar terms and conditions as an active employee; provided that participation in such group medical, dental and life insurance plan shall correspondingly cease at such time as the Executive (a) becomes eligible for a future employer's medical, dental and/or life insurance coverage (or would become eligible if the Executive did not waive coverage) or (b) violates any of the provisions of Article III as determined by the Corporation. Notwithstanding the foregoing, the Executive may not continue to participate in such plans on a pre-tax or tax-favored basis.

(iv) Retirement Plans. Without limiting the generality of the foregoing, it is specifically provided that the Executive shall not accrue additional benefits under any pension plan of the Corporation (whether or not qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended) during the Severance Period.

(b) If the Executive's employment is terminated by reason of the Executive's death or Disability, pursuant to Sections 2.1(b) and 2.1(c), the Executive (or the Executive's designee or estate) shall only be entitled to whatever welfare plans benefits are available to the Executive pursuant to the welfare plans the Executive participated in prior to such termination, and whatever stock options may have been granted to the Executive by the Corporation the terms of which shall be governed by the provisions of the respective award agreements under which such stock options were granted.

(c) If the Executive's employment is terminated by either the Corporation for Cause or by the Executive for other than Good Reason pursuant to Section 2.1(e) hereof**,** the Executive shall receive only that portion of the Executive's then current Base Compensation payable through the Executive's termination date. The Executive's rights with respect to any stock options granted to the Executive by the Corporation shall be governed by the provisions of the respective award agreements under which such stock options were granted. The Corporation shall have no further obligations to the Executive as a result of the termination of the Executive's employment.

## ARTICLE III
## COVENANTS OF THE EXECUTIVE

3.1 Non-Compete.

(a) The Corporation and the Executive acknowledge that: (i) the Corporation has a special interest in and derives significant benefit from the unique skills and experience of the Executive; (ii) the Executive will use and have access to proprietary and valuable Confidential Information (as defined in Section 3.2 hereof) during the course of the Executive's employment; and (iii) the agreements and covenants contained herein are essential to protect the business and goodwill of the Corporation or any of its subsidiaries, affiliates or licensees. Accordingly, except as hereinafter noted, the Executive covenants and agrees that during the Term, and for the remainder of such Term following the termination of Executive's employment, the Executive shall not provide any labor, work, services or assistance (whether as an officer, director, employee, partner, agent, owner, independent contractor, stockholder or

otherwise) to a "Competing Business." For purposes hereof, "Competing Business" shall mean any business engaged in the designing, marketing or distribution of premium lifestyle products, including but not limited to apparel, home, accessories and fragrance products, which competes in any material respects with the Corporation or any of its subsidiaries, affiliates or licensees, and shall include, without limitation, those brands and companies that the Corporation and the Executive have jointly designated in writing on the date hereof, which is incorporated herein by reference and which is attached as Exhibit B, as being in competition with the Corporation as of the date hereof. Thus, Executive specifically acknowledges that Executive understands that, except as provided in Section 3.1(b) he may not become employed by any Competing Business in any capacity during the Term.

(b) The non-compete provisions of this Section shall no longer be applicable to Executive if he has been notified pursuant to Section 2.1(a) hereof that his services will no longer be required during the Term or if the Executive has terminated his employment for Good Reason pursuant to Section 2.1(e).

(c) It is acknowledged by the Executive that the Corporation has determined to relieve the Executive from any obligation of non-competition for periods after the Term, and/or if the Corporation terminates the Executive's employment under Section 2.1(a) or if the Executive has terminated his employment for Good Reason pursuant to Section 2.1(e). In consideration of that, and in consideration of all of the compensation provisions in this Agreement (including the potential for the award of stock options that may be made to the Executive), Executive agrees to the provisions of Section 3.1 and also agrees that the non-competition obligations imposed herein, are fair and reasonable under all the circumstances.

3.2 Confidential Information.

(a) The Corporation owns and has developed and compiled, and will own, develop and compile, certain proprietary techniques and confidential information as described below which have great value to its business (referred to in this Agreement, collectively, as "Confidential Information"). Confidential Information includes not only information disclosed by the Corporation and/or its affiliates and licensees to Executive, but also information developed or learned by Executive during the course of, or as a result of, employment hereunder, which information Executive acknowledges is and shall be the sole and exclusive property of the Corporation. Confidential Information includes all proprietary information that has or could have commercial value or other utility in the business in which the Corporation is engaged or contemplates engaging, and all proprietary information the unauthorized disclosure of which could be detrimental to the interests of the Corporation. Whether or not such information is specifically labeled as Confidential Information by the Corporation is not determinative. By way of example and without limitation, Confidential Information includes any and all information developed, obtained or owned by the Corporation and/or its affiliates and licensees concerning trade secrets, techniques, know-how (including designs, plans, procedures, processes and research records), software, computer programs, innovations, discoveries, improvements, research, development, test results, reports, specifications, data, formats, marketing data and plans, business plans, strategies, forecasts, unpublished financial information, orders, agreements and other forms of documents, price and cost information, merchandising opportunities, expansion plans, designs, store plans, budgets, projections, customer, supplier and subcontractor

identities, characteristics and agreements, and salary, staffing and employment information. Notwithstanding the foregoing, Confidential Information shall not in any event include (A) Executive's personal knowledge and know-how relating to merchandising and business techniques which Executive has developed over his career in the apparel business and of which Executive was aware prior to his employment, or (B) information which (i) was generally known or generally available to the public prior to its disclosure to Executive; (ii) becomes generally known or generally available to the public subsequent to disclosure to Executive through no wrongful act of any person or (iii) which Executive is required to disclose by applicable law or regulation (provided that Executive provides the Corporation with prior notice of the contemplated disclosure and reasonably cooperates with the Corporation at the Corporation's expense in seeking a protective order or other appropriate protection of such information).

(b) Executive acknowledges and agrees that in the performance of his duties hereunder the Corporation will from time to time disclose to Executive and entrust Executive with Confidential Information. Executive also acknowledges and agrees that the unauthorized disclosure of Confidential Information, among other things, may be prejudicial to the Corporation's interests, and an improper disclosure of trade secrets. Executive agrees that he shall not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any corporation, partnership, individual or other third party, other than in the course of his assigned duties and for the benefit of the Corporation, any Confidential Information, either during his term of employment or thereafter.

(c) The Executive agrees that upon leaving the Corporation's employ, the Executive shall not take with the Executive any software, computer programs, disks, tapes, research, development, strategies, designs, reports, study, memoranda, books, papers, plans, information, letters, e-mails, or other documents or data reflecting any Confidential Information of the Corporation, its subsidiaries, affiliates or licensees.

(d) During Executive's term of employment, Executive will disclose to the Corporation all designs, inventions and business strategies or plans developed for the Corporation, including without limitation any process, operation, product or improvement. Executive agrees that all of the foregoing are and will be the sole and exclusive property of the Corporation and that Executive will at the Corporation's request and cost do whatever is necessary to secure the rights thereto, by patent, copyright or otherwise, to the Corporation.

3.3 Non-Solicitation of Employees. The Executive covenants and agrees that during the Term, and for the remainder of such Term following the termination of Executive's employment for any reason whatsoever hereunder, the Executive shall not directly or indirectly solicit or influence any other employee of the Corporation, or any of its subsidiaries, affiliates or licensees, to terminate such employee's employment with the Corporation, or any of its subsidiaries, affiliates or licensees, as the case may be, or to become employed by a Competing Business.

3.4 Nondisparagement. The Executive agrees that during the Term and thereafter whether or not he is receiving any amounts pursuant to Sections 2.3 and 4.1, the Executive shall not make any statements or comments that reasonably could be considered to shed an adverse light on the business or reputation of the Corporation or any of its subsidiaries, affiliates or

licensees, the Board or any officer of the Corporation or any of its subsidiaries, affiliates or licensees; provided, however, the foregoing limitation shall not apply to (i) compliance with legal process or subpoena, or (ii) statements in response to inquiry from a court or regulatory body.

3.5 Remedies.

(a) The Executive acknowledges and agrees that in the event the Corporation reasonably determines that the Executive has breached any provision of this Article III, that such conduct will constitute a failure of the consideration for which stock options had been awarded, and notwithstanding the terms of any stock option award agreement, plan document, or other provision of this Agreement to the contrary, the Corporation may notify the Executive that he may not exercise any unexercised stock options and the Executive shall immediately forfeit the right to exercise any stock option of the Corporation that remains unexercised at the time of such notice and Executive waives any right to assert that any such conduct by the Corporation violates any federal or state statute, case law or policy.

(b) If the Corporation reasonably determines that the Executive has breached any provision contained in this Article III, the Corporation shall have no further obligation to make any payment or provide any benefit whatsoever to the Executive pursuant to this Agreement, and may also recover from the Executive all such damages as it may be entitled to at law or in equity. In addition, the Executive acknowledges that any such breach is likely to result in immediate and irreparable harm to the Corporation for which money damages are likely to be inadequate. Accordingly, the Executive consents to injunctive and other appropriate equitable relief upon the institution of proceedings therefor by the Corporation in order to protect the Corporation's rights hereunder. Such relief may include, without limitation, an injunction to prevent: (i) the breach or continuation of Executive's breach; (ii) the Executive from disclosing any trade secrets or Confidential Information (as defined in Section 3.2); (iii) any Competing Business from receiving from the Executive or using any such trade secrets or Confidential Information; and/or (iv) any such Competing Business from retaining or seeking to retain any employees of the Corporation.

3.6 The provisions of this Article III shall survive the termination of this Agreement and Executive's Term of employment.

## ARTICLE IV
## CHANGE IN CONTROL

4.1 Change in Control.

(a) Effect of a Change in Control. Notwithstanding anything contained herein to the contrary, if the Executive's employment is terminated within 12 months following a Change in Control (as defined in Section 4.1(b) hereof) during the Term by the Corporation for any reason other than Cause, then:

(i) Severance. The Corporation shall pay to the Executive, in lieu of any amounts otherwise due him under Section 2.3(a) hereof, within 15 days of the Executive's termination of employment, a lump sum amount equal to two times the sum of:

(A) the Executive's Base Compensation, as in effect immediately prior to such termination of employment; and (B) the bonus actually paid to the Executive during the year prior to the Executive's termination.

(ii) Stock Options. The Executive shall immediately become vested in any unvested stock options granted to the Executive by the Corporation prior to the Change in Control and Executive will have six (6) months from the date of termination under this circumstance to exercise all vested options.

(b) Definition. For purposes hereof, a "Change in Control" shall mean the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Corporation to any "person" or "group" (as such terms are used in Sections 13(d)(3) and 14(d)(2) of the Securities Exchange Act of 1934 ("Act")) other than Permitted Holders; (ii) any person or group, other than Permitted Holders, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Act, except that a person shall be deemed to have "beneficial ownership" of all shares that any such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50 percent of the total voting power of the voting stock of the Corporation, including by way of merger, consolidation or otherwise; (iii) during any period of two consecutive years, Present and/or New Directors cease for any reason to constitute a majority of the Board; or (iv) the Permitted Holders' beneficial ownership of the total voting power of the voting stock of the Corporation falls below 30 percent and either Ralph Lauren is not nominated for a position on the Board of Directors, or he stands for election to the Board of Directors and is not elected. For purposes of this Section 4.1(b), the following terms have the meanings indicated: "Permitted Holders" shall mean, as of the date of determination: (A) any and all of Ralph Lauren, his spouse, his siblings and their spouses, and descendants of them (whether natural or adopted) (collectively, the "Lauren Group"); and (B) any trust established and maintained primarily for the benefit of any member of the Lauren Group and any entity controlled by any member of the Lauren Group. "Present Directors" shall mean individuals who at the beginning of any such two consecutive year period were members of the Board. "New Directors" shall mean any directors whose election by the Board or whose nomination for election by the shareholders of the Corporation was approved by a vote of a majority of the directors of the Corporation who, at the time of such vote, were either Present Directors or New Directors.

(c) Excise Tax Gross-Up. If the Executive becomes entitled to one or more payments (with a "payment" including the vesting of restricted stock, a stock option, or other non-cash benefit or property), whether pursuant to the terms of this Agreement or any other plan or agreement with the Corporation or any affiliated company (collectively, "Change of Control Payments"), which are or become subject to the tax ("Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Corporation shall pay to the Executive at the time specified below such amount (the "Gross-up Payment") as may be necessary to place the Executive in the same after-tax position as if no portion of the Change of Control Payments and any amounts paid to the Executive pursuant to this paragraph 4(c) had been subject to the Excise Tax. The Gross-up Payment shall include, without limitation, reimbursement for any penalties and interest that may accrue in respect of such Excise Tax. For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed:

(A) to pay federal income taxes at the highest marginal rate of federal income taxation for the year in which the Gross-up Payment is to be made; and (B) to pay any applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. If the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Corporation at the time that the amount of such reduction in Excise Tax is finally determined (but, if previously paid to the taxing authorities, not prior to the time the amount of such reduction is refunded to the Executive or otherwise realized as a benefit by the Executive) the portion of the Gross-up Payment that would not have been paid if such Excise Tax had been used in initially calculating the Gross-up Payment, plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder at the time the Gross-up Payment is made, the Corporation shall make an additional Gross-up Payment in respect of such excess (plus any interest and penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

The Gross-up Payment provided for above shall be paid on the 30th day (or such earlier date as the Excise Tax becomes due and payable to the taxing authorities) after it has been determined that the Change of Control Payments (or any portion thereof) are subject to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Corporation shall pay to the Executive on such day an estimate, as determined by counsel or auditors selected by the Corporation and reasonably acceptable to the Executive, of the minimum amount of such payments. The Corporation shall pay to the Executive the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Corporation to the Executive, payable on the fifth day after demand by the Corporation (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code). The Corporation shall have the right to control all proceedings with the Internal Revenue Service that may arise in connection with the determination and assessment of any Excise Tax and, at its sole option, the Corporation may pursue or forego any and all administrative appeals, proceedings, hearings, and conferences with any taxing authority in respect of such Excise Tax (including any interest or penalties thereon); provided, however, that the Corporation's control over any such proceedings shall be limited to issues with respect to which a Gross-up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest any other issue raised by the Internal Revenue Service or any other taxing authority. The Executive shall cooperate with the Corporation in any proceedings relating to the determination and assessment of any Excise Tax and shall not take any position or action that would materially increase the amount of any Gross-up Payment hereunder.

## ARTICLE V
## MISCELLANEOUS

5.1 Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in the Agreement shall be in writing and shall be deemed to have

been duly given when delivered by hand or by facsimile or mailed by United States registered mail, return receipt requested, postage prepaid, addressed as follows:

| | |
|---|---|
| If to the Executive: | Gerald M. Chaney<br>125 Deertrail N.<br>Ramsey, NJ 07446 |
| If to the Corporation: | Polo Ralph Lauren Corporation<br>650 Madison Avenue<br>New York, New York 10022<br>Attn: Mitchell Kosh<br>Senior Vice President – Human Resources<br>Fax: (212) 318-7277 |

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

5.2 Modification or Waiver; Entire Agreement. No provision of this Agreement may be modified or waived except in a document signed by the Executive and the Corporation. This Agreement, along with any documents incorporated herein by reference, constitute the entire agreement between the parties regarding their employment relationship and supersede all prior agreements, promises, covenants, representations or warranties, including the Executive's 2001 Employment Agreement with the Corporation. To the extent that this Agreement is in any way inconsistent with any prior or contemporaneous stock option agreements between the parties, this Agreement shall control. No agreements or representations, oral or otherwise, with respect to the subject matter hereof have been made by either party that are not set forth expressly in this Agreement.

5.3 Governing Law. The validity, interpretation, construction, performance, and enforcement of this Agreement shall be governed by the laws of the State of New York without reference to New York's choice of law rules. In the event of any dispute, the Executive agrees to submit to the jurisdiction of any court sitting in New York State.

5.4 No Mitigation or Offset. In the event the Executive's employment with the Corporation terminates for any reason, the Executive shall not be obligated to seek other employment following such termination and there shall be no offset of the payments or benefits set forth herein.

5.5 Withholding. All payments required to be made by the Corporation hereunder to the Executive or the Executive's estate or beneficiaries shall be subject to the withholding of such amounts as the Corporation may reasonably determine it should withhold pursuant to any applicable law.

5.6 Attorney's Fees. Each party shall bear its own attorney's fees and costs incurred in any action or dispute arising out of this Agreement and/or the employment relationship.

5.7 No Conflict. Executive represents and warrants that he is not party to any agreement, contract, understanding, covenant, judgment or decree or under any obligation, contractual or otherwise, in any way restricting or adversely affecting his ability to act for the Corporation in all of the respects contemplated hereby.

5.8 Enforceability. Each of the covenants and agreements set forth in this Agreement are separate and independent covenants, each of which has been separately bargained for and the parties hereto intend that the provisions of each such covenant shall be enforced to the fullest extent permissible. Should the whole or any part or provision of any such separate covenant be held or declared invalid, such invalidity shall not in any way affect the validity of any other such covenant or of any part or provision of the same covenant not also held or declared invalid. If any covenant shall be found to be invalid but would be valid if some part thereof were deleted or the period or area of application reduced, then such covenant shall apply with such minimum modification as may be necessary to make it valid and effective. The failure of either party at any time to require performance by the other party of any provision hereunder will in no way affect the right of that party thereafter to enforce the same, nor will it affect any other party's right to enforce the same, or to enforce any of the other provisions in this Agreement; nor will the waiver by either party of the breach of any provision hereof be taken or held to be a waiver of any prior or subsequent breach of such provision or as a waiver of the provision itself.

5.9 Miscellaneous. No right or interest to, or in, any payments shall be assignable by the Executive; provided, however, that this provision shall not preclude the Executive from designating in writing one or more beneficiaries to receive any amount that may be payable after the Executive's death and shall not preclude the legal representative of the Executive's estate from assigning any right hereunder to the person or persons entitled thereto. If the Executive should die while any amounts would still be payable to the Executive hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to the Executive's written designee or, if there be no such designee, to the Executive's estate. This Agreement shall be binding upon and shall inure to the benefit of, and shall be enforceable by, the Executive, the Executive's heirs and legal representatives and the Corporation and its successors. The section headings shall not be taken into account for purposes of the construction of any provision of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date and year first above written.

POLO RALPH LAUREN CORPORATION

| | |
|---|---|
| /s/ MITCHELL KOSH | /s/ GERALD M. CHANEY |
| By: Mitchell Kosh<br>Title: Senior Vice President<br>Human Resources | Gerald M. Chaney |

**EXHIBIT A**

Base Compensation

Gerald M. Chaney

Effective July 1, 2004, annual base compensation is $500,000.

EXHIBIT 31.1

**CERTIFICATION**

I, Ralph Lauren, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polo Ralph Lauren Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ RALPH LAUREN

Ralph Lauren
*Chairman of the Board and*
*Chief Executive Officer*
*(Principal Executive Officer)*

Date: August 12, 2004

EXHIBIT 31.2

**CERTIFICATION**

I, Gerald M. Chaney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Polo Ralph Lauren Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GERALD M. CHANEY

Gerald M. Chaney
*Senior Vice President and*
*Chief Financial Officer*
*(Principal Financial Officer)*

Date: August 12, 2004

EXHIBIT 32.1

**Certification of Ralph Lauren Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Polo Ralph Lauren Corporation (the "Company") on Form 10-Q for the period ended July 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ralph Lauren, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ RALPH LAUREN

Ralph Lauren

August 12, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Polo Ralph Lauren Corporation and will be retained by Polo Ralph Lauren Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**Certification of Gerald M. Chaney Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Polo Ralph Lauren Corporation (the "Company") on Form 10-Q for the period ended July 3, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald M. Chaney, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GERALD M. CHANEY

Gerald M. Chaney

August 12, 2004

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Polo Ralph Lauren Corporation and will be retained by Polo Ralph Lauren Corporation and furnished to the Securities and Exchange Commission or its staff upon request.