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 2, 2005

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, 2005, 60,857,535 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

INDEX TO FORM 10-Q

		Page
	PART I. FINANCIAL INFORMATION (Unaudited)	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of July 2, 2005 and April 2, 2005	2
	Consolidated Statements of Operations for the three months ended July 2, 2005 and July 3, 2004	3
	Consolidated Statements of Cash Flows for the three months ended July 2, 2005 and July 3, 2004	4
	Notes to Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	38
Item 4.	Controls and Procedures	38
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	40
Item 2.	Changes in Securities and Use of Proceeds	40
Item 6.	Exhibits and Reports on Form 8-K	40
Signatures		41
EX-10.1: EMPLOYMENT AGREEMENT		
EX-31.1: CERTIFICATION		
EX-31.2: CERTIFICATION		
EX-32.1: CERTIFICATION		
EX-32.2: CERTIFICATION		

Table of Contents

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

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

	July 2, 2005	April 2, 2005
ASSETS		
Cash and cash equivalents	$ 522,327	$ 350,485
Accounts receivable, net of allowances of $86,446 and $111,042	275,598	455,682
Inventories	467,610	430,082
Deferred tax assets	70,730	74,821
Prepaid expenses and other	111,220	102,693
Total current assets	1,447,485	1,413,763
Property and equipment, net	488,728	487,894
Deferred tax assets	34,634	35,973
Goodwill	547,752	558,858
Intangibles, net	46,043	46,991
Other assets	179,172	183,190
Total assets	$ 2,743,814	$ 2,726,669
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 160,324	$ 184,394
Income tax payable	55,689	72,148
Accrued expenses and other	375,744	365,868
Total current liabilities	591,757	622,410
Long-term debt	269,149	290,960
Other non-current liabilities	139,785	137,591
Commitments and contingencies (Note 12):		
Stockholders' equity:		
Common stock		
Class A, par value $.01 per share; 500,000,000 shares authorized; 65,014,942 and 64,016,034 shares issued and outstanding	666	652
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	715,784	664,279
Retained earnings	1,133,048	1,090,310
Treasury stock, Class A, at cost (4,215,908 and 4,177,600 shares)	(81,629)	(80,027)
Accumulated other comprehensive income	19,341	29,973
Unearned compensation	(44,520)	(29,912)
Total stockholders' equity	1,743,123	1,675,708
Total liabilities and stockholders' equity	$ 2,743,814	$ 2,726,669

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 2, 2005	July 3, 2004 (As restated see note 2)
Net sales	$ 694,603	$ 549,064
Licensing revenue	57,339	56,942
Net revenues	751,942	606,006
Cost of goods sold	337,514	290,478
Gross profit	414,428	315,528
Selling, general and administrative expenses	334,207	295,043
Restructuring charge	—	731
Total expenses	334,207	295,774
Income from operations	80,221	19,754
Foreign currency (gains) losses	(41)	211
Interest expense	2,510	2,435
Interest income	(2,943)	(808)
Income before provision for income taxes and other (income) expense, net	80,695	17,916
Provision for income taxes	30,343	6,316
Other (income) expense, net	(355)	(1,125)
Net income	$ 50,707	$ 12,725
Net income per share — Basic	$ 0.49	$ 0.13
Net income per share — Diluted	$ 0.48	$ 0.12
Weighted-average common shares outstanding — Basic	103,048	100,481
Weighted-average common shares outstanding — Diluted	105,491	102,802
Dividends declared per share	$ 0.05	$ 0.05

See accompanying notes to consolidated financial statements.

Table of Contents

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

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

	Three Months Ended	
	July 2, 2005	July 3, 2004 (As restated see note 2)
Cash flows from operating activities		
Net income	$ 50,707	$ 12,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Benefit from deferred income taxes	(6,964)	(1,678)
Depreciation and amortization	27,661	23,154
Stock compensation expense	4,869	1,162
Tax benefit from stock option exercises	6,490	2,142
Provision for losses on accounts receivable	207	901
Loss on disposal of property and equipment	210	693
Changes in other non-current liabilities	9,340	(325)
Foreign currency gains	(1,318)	—
Other	(2,776)	(1,923)
Changes in assets and liabilities (net of acquisitions):		
Accounts receivable	174,991	186,678
Inventories	(47,225)	(31,168)
Prepaid expenses and other	(3,546)	29,639
Other assets	(1,407)	(2,237)
Accounts payable	(22,640)	(56,354)
Income taxes payable	(16,432)	(39,553)
Accrued expenses and other	18,540	(10,934)
Net cash provided by operating activities	190,707	112,922
Cash flows from investing activities		
Acquisition, net of cash acquired	—	(239,971)
Purchases of property and equipment	(32,607)	(36,017)
Net cash used in investing activities	(32,607)	(275,988)
Cash flows from financing activities		
Payment of dividends	(5,193)	(5,023)
Repurchases of common stock	(1,602)	(369)
Payments of capital lease liability	(654)	(322)
Proceeds from exercise of stock options	25,552	13,187
Net cash provided by (used in) financing activities	18,103	7,473
Effect of exchange rate changes on cash and cash equivalents	(4,361)	683
Net increase (decrease) in cash and cash equivalents	171,842	(154,910)
Cash and cash equivalents at beginning of period	350,485	352,335
Cash and cash equivalents at end of period	$ 522,327	$ 197,425
Supplemental cash flow information		
Cash paid for interest	$ 4,137	$ 2,423
Cash paid for income taxes	$ 41,735	$ 38,734
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
(In thousands, except per share data and where otherwise indicated)
(Unaudited)

1. Fiscal Year

Our fiscal year ends on the Saturday closest to March 31. All references to “Fiscal 2006” represent the 52 week fiscal year ending April 1, 2006, references to “Fiscal 2005” represent the 52 week fiscal year ended April 2, 2005 and references to “Fiscal 2004” represent the 53 week fiscal year ended April 3, 2004. References to “Fiscal 2003” represent the 52 week year ended March 29, 2003.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Polo Ralph Lauren Corporation (“PRLC”) and its wholly and majority owned subsidiaries as well as variable interest entities, for which we are the primary beneficiary (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 2, 2005 is derived from the audited financial statements included in our annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended April 2, 2005 (“Fiscal 2005”), 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 statements. The results of operations for the three months ended July 2, 2005 are not necessarily indicative of results to be expected for the entire fiscal year ending April 1, 2006 (“Fiscal 2006”).

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 and Ralph Lauren Media are reported on a one-month lag and three-month lag, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates by their nature are based on judgements and available information. The estimates that we make are based upon historical factors, current circumstances and the experience and judgement of our management. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect our financial condition or results of operations.

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, allowances and operational chargebacks. Returns and allowances require pre-approval from management and 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 initially recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees. During the three months ending July 2, 2005 and July 3, 2004, the Company reduced revenues and credited customer accounts for end of season customer allowances, operational chargebacks and returns as follows:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Beginning reserve balance	$ 100,001	$ 90,269
Amount expensed to increase reserve	55,027	48,684
Amount credited against customer accounts	(76,967)	(69,444)
Foreign currency translation	(1,170)	254
Ending reserve balance	$ 76,891	$ 69,763

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 statutory 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. Our policy is to establish provisions for taxes that may become payable in future years as a result of these uncertainties. The Company establishes the provisions based upon management's assessment of exposure associated with permanent tax differences and tax credits. The tax provisions are analyzed periodically and adjustments are made as events occur that warrant adjustments to those provisions.

Accounts Receivable

In the normal course of business, the Company extends credit to customers that satisfy pre-defined credit criteria. Accounts receivable, net, as shown on the Consolidated Balance Sheets, is net of the following allowances and reserves:

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, 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. Expenses of $0.2 million were recorded as an allowance for uncollectible accounts during the three months ended July 2, 2005. The amounts written off against customer accounts during the three months ended July 2, 2005 totaled $1.2 million, and the balance in this reserve was $9.6 million as of July 2, 2005.

A reserve for trade discounts is established based on open invoices where trade discounts have been extended to customers and is treated as a reduction of sales.

Estimated customer end of season allowances (also referred to as customer markdowns) are included as a reduction of sales. These provisions are based on retail sales performance, seasonal negotiations with our customers as well as historic deduction trends and an evaluation of current market conditions. Our historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above)

A reserve for operational chargebacks represents various deductions by customers relating to individual shipments. This reserve, net of expected recoveries, is included as a reduction of sales. The reserve is based on chargebacks received as of the date of the financial statements and past experience. Our historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above) Costs associated with potential returns of products are included as a reduction of sales. These reserves are based on current information regarding retail performance, historical experience and an evaluation of current market conditions. The Company's historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above)

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 all 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 provisions have not differed materially from actual results.

Goodwill, Other Intangibles, Net and Long-Lived Assets

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 standard also requires 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." During the three months ended July 2, 2005, there have been no material impairment losses recorded in connection with the assessment of the carrying value of long-lived and intangible 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. In evaluating an asset for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and eventual disposition. If sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. In determining the future cash flows the Company takes various factors into account, including changes in merchandising strategy, the impact of increased local advertising and the emphasis on store cost controls. Since the determination of future cash flows is an estimate of future performance, there may be future impairments in the event the future cash flow does not meet expectations.

During the three months ended July 2, 2005, no impairment charges were recorded.

Derivative Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, requires 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.

We use foreign currency forward contracts for the specific purpose of hedging the exposure to variability in forecasted cash flows associated primarily with inventory purchases mainly for our European businesses, royalty payments from our Japanese licensee, and other specific activities. These instruments are designated as cash flow hedges and, in accordance with SFAS No. 133, to the extent the hedges are highly effective, the changes in fair value are included in Accumulated other comprehensive income (loss), net of related tax effects, with the corresponding asset or liability recorded in the balance sheet. The ineffective portion of the cash flow hedge, if any, is recognized in current-period earnings. Amounts recorded in Accumulated other comprehensive income are reflected in current-period earnings when the hedged transaction affects earnings. If the relative values of the currencies involved in the hedging activities were to move dramatically, such movement could have a significant impact on our results of operations. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect our financial condition or results of operations.

Hedge accounting requires, at inception and 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.

We hedge our net investment position in subsidiaries which conduct business in Euros 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.

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

Cash and cash equivalents include all highly liquid investments with original maturity of three months or less including investments in debt securities. Our investments in debt securities are diversified among high credit quality securities in accordance with our risk management policy and primarily include commercial paper and money market funds.

Property and Equipment, Net

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Buildings and building improvements are depreciated using the straight-line method over their estimated useful lives, of approximately 35-40 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.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains or losses on hedges and foreign currency translation adjustments. Accumulated other comprehensive income is recorded net of taxes and is reflected in the consolidated statements of stockholders' equity.

Foreign Currency Translation

The financial position and results of operations of our foreign subsidiaries are measured using the Euro in our European operations and Yen in our Japanese operations as the functional currencies. Assets and liabilities are translated at the exchange rate in effect at each quarter end. Results of operations are translated at the average rate of exchange prevailing throughout the period. Translation adjustments arising from differences in exchange rates from period to period are included in other comprehensive income, net of taxes, except for certain foreign-denominated debt. Gains and losses on translation of intercompany loans with foreign subsidiaries of a long-term investment nature are also included in this component of stockholders' equity. We have designated our Euro debt as a hedge of our net investment in a foreign subsidiary. Gains and losses from other foreign currency transactions are separately identified in the consolidated statements of income.

Cost of Goods Sold and Selling Expenses

Cost of goods sold includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, import costs as well as reserves for shrinkage and inventory obsolescence. The costs of selling the merchandise, including preparing the merchandise for sale, such as picking, packing, warehousing and order charges, are included in Selling, general and administrative expenses.

Shipping and Handling Costs

We reflect shipping and handling costs incurred as a component of selling, general & administrative expenses in the Consolidated Statements of Income. We bill our wholesale customers for shipping and handling costs and record such revenues in Net sales upon shipment.

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, no compensation cost has been recognized for fixed stock option grants. Had compensation costs for the Company's stock option grants been determined based on the fair value at the grant dates of such awards in accordance with 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 2, 2005	July 3, 2004
	(In thousands, except per share amounts)	
Net income as reported	$ 50,707	$ 12,725
Add: stock-based employee compensation expense included in reported net income, net of tax	3,058	752
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	6,749	3,849
Pro forma net income	$ 47,016	$ 9,628
Net income per share as reported —		
Basic	$ 0.49	$ 0.13
Diluted	$ 0.48	$ 0.12
Pro forma net income per share —		
Basic	$ 0.46	$ 0.10
Diluted	$ 0.45	$ 0.09

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 2006 and Fiscal 2005, respectively: risk-free interest rates of 3.66% and 2.20%; a dividend of $0.20 per annum; expected volatility of 29.1% and 47.2% and expected lives of 5.2 years for both periods.

2. Restatement of Previously Issued Financial Statements

The Company has concluded that the following restatements are necessary to our financial statements for the three months ended July 3, 2004, as described below. Our financial statements for the second and third quarters of Fiscal 2005 will also be restated for these items in future Fiscal 2006 quarterly filings. No restatement of our financial statements for the full fiscal year ended April 2, 2005 is necessary as a result of the matters discussed below.

As a result of the clarifications contained in the February 7, 2005 letter from the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") to the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants regarding specific lease accounting issues, we initiated a review of the Company's lease accounting practices. Management and the Audit Committee of the Company's Board of Directors determined that our accounting practices were incorrect with respect to rent holiday periods and the classification of landlord incentives and the related amortization. We have made all appropriate adjustments to correct these errors.

In periods prior to the fourth quarter of Fiscal 2005, we recorded straight-line rent expense for store operating leases over the related store's lease term beginning with the commencement date of store operations. Rent expense was not recognized during any build-out period. To correct this practice, we adopted a policy in which rent expense is recognized on a straight-line over the stores' lease term commencing with the build-out period (the effective lease-commencement date). In addition, prior to the fourth quarter of Fiscal 2005, we incorrectly classified tenant allowances (amount received from a landlord to fund leasehold improvements) as a reduction of property and equipment rather than as a deferred lease incentive liability. The amortization of these landlord incentives was originally recorded as a reduction in depreciation expense rather than as a reduction of rent expense. In addition, our statements of cash flows had originally reflected these incentives as a reduction of capital expenditures within cash flows from investing activities rather than as cash flows from operating activities. These corrections resulted in an increase to net property and equipment of $10.8 million and deferred lease incentive liabilities of $20.5 million, at July 3, 2004. Additionally, for the three-month period ended July 3, 2004, the reclassification of the amortization of deferred lease incentives resulted in an increase to rent expense of $1.1 million and an increase to depreciation expense of $0.7 million.

In January 2000, Ralph Lauren Media, LLC ("RL Media"), a joint venture with National Broadcasting Company, Inc. and certain affiliated companies ("NBC"), was formed. Under this 30-year joint venture agreement, RL Media is owned 50% by the Company and 50% by NBC and related affiliates. We used the equity method of accounting for this investment since inception. On December 24, 2003, the Financial Accounting Standard Board ("FASB") issued Financial Interpretation Number ("FIN") 46R, which was applicable for financial statements issued for reporting periods ending after March 15, 2004. We considered the provisions of FIN 46R for our Fiscal 2004 financial statements and made the determination that RL Media was a variable interest entity ("VIE") under FIN 46R and concluded that we were not the primary beneficiary under FIN 46R and, therefore, should not consolidate the results of RL Media. Upon subsequent review, the Company concluded that its determination in 2004 was incorrect and that consolidation of RL Media into the Company's financial statements was required as of April 3, 2004. The impact on the Company's balance sheet as of April 3, 2004 was to increase assets and liabilities. Previously, the Company accounted for this joint venture using the equity method of accounting under which we recognized our share of RL Media's operating results based on our share of ownership and the terms of the joint venture agreement.

The Company has also corrected the classification on our Balance Sheet as of July 3, 2004 of certain unapplied cash from retail credit card receivables to cash. This error was originally corrected on a cumulative basis in the third quarter of Fiscal 2005. This resulted in approximately a $10.5 million increase in cash provided by operating activities, a corresponding increase in our cash and cash equivalents balance and an approximately $10.5 million decrease in accounts receivable. The Company has also corrected the classification on our Balance Sheet as of July 3, 2004 of certain inventory amounts from prepaid expenses of approximately $2.1 million which had no impact on cash flows from operating activities.

The Company also corrected the classification within the Statement of Cash Flows for the three months ended July 3, 2004 of the net loss recorded on the disposal of property and equipment from the investing activities to the operating activities and capital lease payments from operating activities to financing activities. In addition, we corrected the classification of certain amounts from cash to accounts payable, which resulted in a $2.6 million increase in cash and accounts payable as well as cash flow from operating activities.

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the impact of the restatement to properly account for leases and to consolidate RL Media on the consolidated income statements for the three months ended July 3, 2004 is as follows:

	Three Months Ended July 3, 2004			
	As Previously Reported	Lease Accounting Adjustments	RL Media Consolidation	As Restated
Consolidated Statement of Income				
Net sales	$ 535,808	$ —	$ 13,256	$ 549,064
Net revenues	592,750	—	13,256	606,006
Cost of goods sold	285,650	—	4,828	290,478
Gross profit	307,100	—	8,428	315,528
Selling, general and administrative expenses	285,764	1,783	7,496	295,043
Income from operations	20,605	(1,783)	932	19,754
Interest expense, net	1,630	—	(3)	1,627
Income before provision for income taxes and other (income) expense, net	18,764	(1,783)	935	17,916
Provision for income taxes	6,849	(725)	192	6,316
Other (income) expense, net	(1,488)	—	363	(1,125)
Net income	13,403	(1,058)	380	12,725
Net income per share — Diluted	0.13	(0.01)	—	0.12

The corrections described above resulted in increases in cash provided by operating activities (primarily due to the correction of the classification of credit card receivables) for the three months ended July 3, 2004 of $14.1 million. A summary of the impact of the corrections to the statements of cash flows is as follows:

	As Previously Reported	Lease Accounting Adjustments	RL Media Consolidation	Credit Card Receivable and Other Cash Flow Adjustments	As Restated
Consolidated Statements of Cash Flows					
For the three months ended July 3, 2004:					
Net cash provided by operating activities	$ 98,169	$ 79	$ 574	$ 14,100	$ 112,922
Net cash used in investing activities	275,216	79	—	693	275,988
Net cash provided by financing activities	7,795	—	—	(322)	7,473
Net (decrease) increase in cash and cash equivalents	(168,569)	—	574	13,085	(154,910)

3. Acquisitions

On July 2, 2004, we completed the acquisition of certain assets of RL Childrenswear Company, LLC for a purchase price of approximately $263.5 million including transaction costs. The purchase price includes deferred payments of $15 million over the three years after the acquisition date, and we have agreed to assume

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

certain liabilities. Additionally, we agreed to pay up to an additional $5 million in contingent payments if certain sales targets were attained. During Fiscal 2005, we recorded a $5 million liability for this contingent purchase payment because we believe it is probable the sales targets will be achieved. This amount was recorded as an increase in goodwill. RL Childrenswear Company, LLC was our 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 this acquisition, we recorded fair values for assets and liabilities as follows: inventory of $26.6 million, property and equipment of $7.5 million, intangible assets, consisting of non-compete agreements, of $2.5 million and customer relationships, of $29.9 million, other assets of $1.0 million, goodwill of $208.3 million and liabilities of $12.3 million. The results of operations for the Childrenswear business for the period are included in the consolidated results of operations commencing July 2, 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 pro forma amounts reflect adjustments for purchases made by us from Childrenswear, licensing royalties paid to us by Childrenswear, amortization of the non-compete agreements, lost interest income on the cash used for the purchase and the income tax effect based upon pro forma effective tax rate of 35.5% in Fiscal 2005. The 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.

	For the Three Months Ended	
	July 2, 2005 Actual	July 3, 2004
Net revenue	$ 751,942	$ 659,759
Net income	50,707	13,881
Net income per share — Basic	$ 0.49	$ 0.14
Net income per share — Diluted	$ 0.48	$ 0.14

On October 31, 2001, we completed the acquisition of substantially all of the assets of PRL Fashions of Europe S.R.L. During Fiscal 2005, an additional payment was made on the earn-out, resulting in an increase in goodwill of approximately $1.3 million.

4. Inventories

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

	July 2, 2005	April 2, 2005
Raw materials	$ 8,478	$ 5,276
Work-in-process	42,499	8,283
Finished goods	416,633	416,523
	$ 467,610	$ 430,082

5. Goodwill and Other Intangible Assets, Net

As required by 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 2005. No impairment was recognized as a result of this test. The carrying value of goodwill as of July 2, 2005 and April 2, 2005 by operating segment is as follows (dollars in millions):

	Wholesale	Retail	Licensing	Total
Balance at April 2, 2005	$ 367.9	$ 74.5	$ 116.5	$ 558.9
Purchases	—	—	—	—
Effect of foreign exchange and other adjustments	(10.7)	(0.4)	—	(11.1)
Balance at July 2, 2005	$ 357.2	$ 74.1	$ 116.5	$ 547.8

The carrying value of indefinite life intangible assets as of July 2, 2005 was $1.5 million and relates to a purchased trademark. Finite life intangible assets as of July 2, 2005 and April 2, 2005, subject to amortization, are comprised of the following:

	July 2, 2005			April 2, 2005			
	Gross Carrying Amount	Accum. Amort.	Net	Gross Carrying Amount	Accum. Amort.	Net	Estimated Lives
Licensed trademarks	$ 17,400	$ (3,560)	$ 13,840	$ 17,400	$ (3,125)	$ 14,275	10 years
Non-compete agreements	2,500	(833)	1,667	2,500	(625)	1,875	3 years
Customer relationships	29,900	(1,199)	28,701	29,900	(897)	29,003	25 years
Domain name	353	(18)	335	353	(12)	341	15 years

Intangible amortization expense was $1.0 million and $0.6 million for the three months ended July 2, 2005 and July 3, 2004, respectively. The estimated intangible amortization expense for each of the following five years is expected to be approximately $3.8 million per year for the next two fiscal years, and $3.0 million per fiscal year in the third, fourth and fifth years.

6. Restructuring

(a) 2003 Restructuring Plan

During the third quarter of Fiscal 2003, we completed a strategic review of our European business 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 $2.1 million during Fiscal 2005 and $7.9 million during Fiscal 2004 for severance and contract termination costs. The $2.1 million represents the additional liability for employees notified of their termination and properties we ceased using during Fiscal 2005. The components of the activity for the three months ended July 2, 2005 were as follows:

	Severance and Termination Benefits	Lease and Other Contract Termination Costs	Total
Balance at April 2, 2005	$ 141	$ 891	$ 1,032
Provision	—	—	—
Utilization	(60)	(313)	(373)
Balance at July 2, 2005	$ 81	$ 578	$ 659

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 $23.7 million, since inception, have been paid through July 2, 2005. It is expected that this plan will be completed, and the remaining liabilities will be paid during Fiscal 2006 or in accordance with contract terms.

(b) 2001 Operational Plan

In connection with the implementation of our Fiscal 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 certain 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 three months ended July 2, 2005 was as follows:

	Lease and Contract Termination Costs
Balance at April 2, 2005	$ 4,066
Fiscal 2006 spending	(563)
Balance at July 2, 2005	$ 3,503

Total cash outlays related to the 2001 Operational Plan are expected to be approximately $51.2 million, $47.6 million of which have been paid through July 2, 2005. We completed the implementation of the 2001 Operational Plan in Fiscal 2002 and expect to settle the remaining liabilities in accordance with contract terms.

7. Financing Agreements

Prior to October 6, 2004, we had a credit facility with a syndicate of banks consisting of a $300.0 million revolving line of credit, subject to increase to $375.0 million, which was available for direct borrowings and the issuance of letters of credit. It was scheduled to mature on November 18, 2005. On October 6, 2004, we, in substance, expanded and extended this bank credit facility by entering into a new credit agreement, dated as of that date, with JPMorgan Chase Bank, as Administrative Agent, The Bank of New York, Fleet National Bank, SunTrust Bank and Wachovia Bank National Association, as Syndication Agents, J.P. Morgan Securities Inc., as Sole Bookrunner and Sole Lead Arranger, and a syndicate of lending banks that included each of the lending banks under the prior credit agreement (the “New Credit Facility”).

Our credit facility, which is otherwise substantially on the same terms as the former credit facility, provides for a $450.0 million revolving line of credit, subject to increase to $525.0 million, which is available for direct borrowings and the issuance of letters of credit. It will mature on October 6, 2009. As of July 2, 2005, we had no direct borrowings outstanding under the credit facility and, we were contingently liable for $34.8 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. Direct borrowings under the credit facility bear interest, at our option, at a rate equal to (i) the higher of the weighted average overnight Federal funds rate, as published by the Federal Reserve Bank of New York, plus one-half of one percent, the prime commercial lending rate of JPMorgan Chase Bank in effect from time to time, or (ii) the LIBO Rate (as defined in the credit facility) in effect from time to time, as adjusted for the Federal Reserve Board’s Eurocurrency Liabilities maximum reserve percentage, and a margin based on our then current credit ratings. As of July 2, 2005, the margin was 0.625%.

Our credit facility requires us to maintain certain covenants:

- a minimum ratio of consolidated Earnings Before Interest, Taxes, Depreciation, Amortization and Rent (“EBITDAR”) to Consolidated Interest Expense (as such terms are defined in the credit facility); and
- a maximum ratio of Adjusted Debt (as defined in the credit facility) to EBITDAR.

Our credit facility also contains covenants that, subject to specified exceptions, restrict our ability to:

- incur additional debt;
- incur liens and contingent liabilities;
- sell or dispose of assets, including equity interests;
- merge with or acquire other companies, liquidate or dissolve;
- engage in businesses that are not a related line of business;
- make loans, advances or guarantees;
- engage in transactions with affiliates; and
- make investments.

Upon the occurrence of an event of default under the credit facility, the lenders may cease making loans, terminate the credit facility, and declare all amounts outstanding to be immediately due and payable. The credit facility specifies a number of events of default (many of which are subject to applicable grace periods), including, among others, the failure to make timely principal and interest payments or to satisfy the covenants, including the financial covenants described above. Additionally, the credit facility provides that an event of default will occur if Mr. Ralph Lauren and related entities as defined, fail to maintain a specified minimum percentage of the voting power of our common stock.

8. 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 2, 2005, we had the following foreign exchange contracts outstanding: (i) to deliver €77.0 million in exchange for $101.7 million through Fiscal 2006 and (ii) to deliver ¥10,468 million in exchange for $91.6 million through Fiscal 2008. At July 2, 2005, the fair value of these contracts resulted in unrealized pretax gains and losses of $9.1 million and $9.6 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. We entered into the interest rate swap 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 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 de minimus for the first quarter of Fiscal 2006. In addition, we have designated the entire 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. On April 6, 2004 and October 4, 2004, the Company executed interest rate swaps to convert the fixed interest rate on total of an additional €100.0 million of the Eurobonds to a floating rate (EURIBOR based). After the execution of these swaps, approximately €22.0 million of the Eurobonds remained at a fixed interest rate.

For the three months ended July 2, 2005, Accumulated other comprehensive income included unrealized losses of $34.7 million related to €227.3 million of foreign investment hedged. For the three months ended

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

July 3, 2004, Accumulated other comprehensive income included unrealized losses of $40.1 million related to €227.3 million of foreign investment hedged.

9. Other Comprehensive Income

For the three months ended July 2, 2005 and July 3, 2004, other comprehensive income was as follows:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Net income	$ 50,707	$ 12,725
Other comprehensive income, net of taxes:		
Foreign currency translation adjustments	(33,691)	3,022
Unrealized gains (losses) on cash flow and foreign currency hedges, net	23,058	(1,423)
Comprehensive income	$ 40,074	$ 14,324

The income tax effect related to foreign currency translation adjustments and unrealized gains and losses on cash flow and foreign currency hedges, was a benefit of $1.8 million and a charge of $10.0 million, respectively, in the three months ended July 2, 2005. The income tax effect related to foreign currency translation adjustments and unrealized gains and losses on cash flow and foreign currency hedges, was a benefit of $0.6 million and a benefit of $1.5 million, respectively, for the three months ended July 3, 2004.

The Company has several hedges in place at July 2, 2005 primarily relating to inventory purchases, royalty payments and net investment in foreign subsidiaries. All of the hedges are considered highly effective and as a result the changes in the fair market value of each hedge are recorded in unrealized gains and losses on hedging derivatives, a component of Accumulated other comprehensive income, until the hedged transaction is realized in results of operations. The following table details the changes in the unrealized losses on hedging derivatives for the three months ended July 2, 2005.

Unrealized losses on hedging derivatives are comprised of the following (dollars in millions):

	Unrealized Gains (Losses) on Hedging Derivatives as of April 2, 2005	Changes in Fair Value During the Three-Months Ended July 2, 2005	Unrealized Losses on Hedges Reclassified into Earnings	Unrealized Gains (Losses) on Hedging Derivatives as of July 2, 2005
Derivatives designated as hedges of:				
Inventory purchases	$ 1.9	$ 5.8	$ 1.4	$ 9.1
Intercompany royalty payments	(13.8)	4.1	—	(9.7)
Net investment in foreign subsidiaries	(77.4)	21.8	—	(55.6)
Before-tax totals	$ (89.3)	$ 31.7	$ 1.4	$ (56.2)
After-tax totals	$ (55.1)	$ 21.7	$ 1.3	$ (32.1)

10. Earnings Per Share

Basic Earnings per share 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

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 2, 2005	July 3, 2004
Basic	103,048	100,481
Dilutive effect of stock options, restricted stock and restricted stock units	2,443	2,321
Diluted shares	105,491	102,802

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. For the three months ended July 2, 2005 and July 3, 2004, there were no anti-dilutive options or restricted stock grants and less than 20,000 anti-dilutive options and stock grants excluded from the diluted share calculation respectively.

11. Stock Incentive Plans

In June 2005, 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 third of five annual grants pursuant to an employment agreement. Each grant vests on the fifth anniversary of the grant date, subject to acceleration in certain circumstances, including termination of the executive's employment after the end of Fiscal 2008 for any reason other than termination by the Company for cause, 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. In June 2005, an aggregate of approximately 222,000 performance based restricted stock units and approximately 1.3 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 2009, 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. In June 2005, the Company issued 187,500 restricted stock units under our Stock Incentive Plan pursuant to an employment agreement. These restricted units are performance based and will vest over the next three years, subject to the Company's satisfaction of performance goals and are entitled to dividend equivalents, and the employment agreement provides for the grant of up to an additional 375,000 performance based units that would vest, subject to the Company's achievement of performance goals for periods ending at the close of Fiscal 2009 and Fiscal 2010.

On October 1, 2004, the Company issued 75,000 restricted shares of Class A Common Stock and options to purchase 200,000 shares of Class A Common Stock pursuant to an employment agreement. The restricted stock will vest in equal installments on the first five anniversaries of the grant dates. An additional 75,000 options to purchase 75,000 shares of Class A Common Stock were granted under our Stock Incentive Plan to new hires during the first three months of Fiscal 2005.

Total stock compensation expense recorded for the three months ended July 2, 2005 was $4.9 million, compared to $1.2 million for the three months ended July 3, 2004.

During the three months ended July 2, 2005 and July 3, 2004, the Company realized a tax benefit due to the exercise of stock options of $6.5 million and $2.1 million, respectively.

12. 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 our common stock. The first quarter Fiscal 2006 dividend of $0.05 per share was declared on June 14, 2005, payable to shareholders of record at the close of business on July 1, 2005, and was paid on July 15, 2005. During the three months ended July 2, 2005, approximately $5.2 million was recorded as a reduction to retained earnings in connection with this dividend.

13. 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 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 us 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 judgement 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 judgement in our action against Jones, and on August 12, 2003, we filed a cross-motion for summary judgement. 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 judgement in our action for declaratory judgement 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 August 24, 2004, the Court denied our motion to reconsider its orders, and on October 4, 2004, we filed our appeal of the orders.

On March 24, 2005, the Appellate Division of the Supreme Court affirmed the lower court's orders. On April 22, 2005, we filed a motion with the Appellate Division for reargument and/or permission to appeal its decision to the New York Court of Appeals. On June 23, 2005, the Appellate Division denied our request for reargument but granted our motion for leave to appeal to the Court of Appeals. If the Court of Appeals does not reverse the Appellate Division's decision, the case would go back to the lower court for a trial on damages. Although we intend to continue to defend the case vigorously, in light of the Appellate Division's decision we recorded an aggregate litigation charge to establish a reserve of $100.0 million in Fiscal 2005. This charge represents management's best estimate at this time of the loss incurred to date. No discovery has been held and the ultimate outcome of this matter could differ materially from the reserved amount.

We are subject to various claims relating to allegations of a security breach of our retail point of sale system, including fraudulent credit card charges, the cost of replacing cards and related monitoring expenses and other related claims. The Company is unable to predict whether further claims will be asserted. The Company has contested and will continue to vigorously contest the claims made against it and continues to explore its defenses and possible claims against others. The Company recorded a reserve of $6.2 million representing management's best estimate of the loss incurred in the fourth quarter of Fiscal 2005 relating to this matter.

The ultimate outcome of these matters could differ from the amounts recorded and could be material to the results of operations for any affected reporting period. Management does not expect the resolution of these matters to have a material impact on the Company's liquidity or financial position.

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 judgement on the issue of whether the Company's policies violated California law took place on August 14, 2003. The Court granted partial summary judgement 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 parties are engaged in settlement discussion, and we have recorded a liability for our best estimate of the settlement cost, which is not material.

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. and 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. 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 now 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. On July 30, 2004, the Court denied all motions for summary judgement and set a trial date for October 3, 2005.

On December 5, 2003, United States 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 judgement that USPA's so-called Horseman symbol does not infringe on Polo Ralph Lauren's trademark and other rights. No claim for damages was 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 judgement that the USPA's Horseman symbol infringes on our trademark and other rights. We also sought injunctive relief and damages in an unspecified amount.

On November 1, 2004, the arbitral panel of the International Centre for Dispute Resolution hearing the arbitration between us and the United States Polo Association, United States Polo Association Properties, Inc., Global Licensing Sverige and Atlas Design AB (collectively, "USPA") in Sweden rendered a decision rejecting the relief sought by USPA and holding that their so-called Horseman symbol infringes on our trademark and other rights. The arbitral tribunal awarded us damages in excess of 3.5 million Swedish Krona, or $0.4 million, and ordered USPA to discontinue the sale of, and destroy all remaining stock of, clothing bearing its Horseman symbol in Sweden. This amount has not yet been recorded as income.

On October 29, 2004, we filed a Demand for arbitration against the United States Polo Association and United States Polo Association Polo Properties, Inc. in the United Kingdom under the auspices of the International Centre for Dispute Resolution seeking a judgement that the Horseman symbol infringes on our trademark and other rights, as well as injunctive relief. Subsequently, the Unites States Polo Association and United States Polo Association Properties, Inc. agreed not to distribute products bearing the Horseman symbol in the United Kingdom or any other member nation of the European Community. Consequently, we withdrew our arbitration demand on December 7, 2004.

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.

14. Segment Reporting

The Company has three reportable segments: Wholesale, Retail and Licensing. The Company's reportable segments are business units that offer different products and services or similar products through different channels of distribution. The Wholesale segment consists of women's, men's and children's apparel and related products which are sold to major department stores and specialty stores and to our owned and licensed retail stores in the United States and overseas. The retail segment consists of the Company's worldwide retail operations which sells our products through our full price and outlet stores as well as Polo.com, our e-commerce site. The stores and the website sell our products purchased from our licensees, our suppliers and our wholesale segment. The Licensing segment, which consists of product, international and home, generates revenues from royalties through its licensing alliances. The licensing agreements grant the licensee rights to use our various trademarks in connection with the manufacture and sale of designated products in specified geographical areas.

The accounting policies of the segments are consistent with those described in Note 1. Intersegment sales and transfers are recorded at cost and treated as transfer of inventory. All intercompany revenues are eliminated in consolidation. We do not review these sales when evaluating segment performance. We evaluate each segment's performance based upon operating income before interest, foreign currency gains and losses, restructuring charges, one-time items and income taxes. In conjunction with an evaluation of our overall segment reporting, we have changed our method of allocating corporate expenses to each segment to more appropriately reflect those corporate expenses directly related to segments. Therefore, Corporate overhead expenses, exclusive of expenses for senior management, overall branding related expenses and certain other corporate related expenses, are allocated to the segments based upon specific usage or other allocation methods beginning with the fourth quarter of Fiscal 2005. As a result of this change, prior year segment results have been restated to reflect how management currently views the business as well as for the restatement items discussed in Note 2.

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Our net revenues and income from operations for the three months ended July 2, 2005 and July 3, 2004 for each segment were as follows:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Net revenues:		
Wholesale	$ 337,199	$ 239,024
Retail	357,404	310,040
Licensing	57,339	56,942
	$ 751,942	$ 606,006
Income (loss) from operations:		
Wholesale	$ 46,269	$ (2,633)
Retail	35,650	24,444
Licensing	35,212	31,847
	117,131	53,658
Less: Unallocated corporate expenses	36,910	33,173
Unallocated restructuring charge	—	731
	$ 80,221	$ 19,754

Our net revenues for the three months ended July 2, 2005 and July 3, 2004, by geographic location of the reporting subsidiaries, were as follows:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Net revenues:		
United States and Canada	$ 622,722	$ 506,239
Europe	104,701	86,736
Other Regions	24,519	13,031
	$ 751,942	$ 606,006

15. New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS 154, "Change in Accounting Principle." SFAS 154 generally requires that changes in accounting principle be applied retrospectively. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect SFAS 154 to have a material impact on our financial statements.

In March 2005, the FASB issued Statement of Financial Accounting Standards Interpretation Number 47 ("FIN 47"), "Accounting for Conditional Asset Retirement Obligations." FIN 47 provides clarification regarding the meaning of the term "conditional asset retirement obligation" as used in FASB 143, "Accounting for Asset Retirement Obligations." The Company is currently evaluating the impact of FIN 47 on its financial statements.

In December 2004, the FASB issued Staff Position ("FSP") No. 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP No. 109-2"). FSP No. 109-2 provides guidance under SFAS No. 109, "Accounting for Income Taxes," with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. FSP No. 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company is currently evaluating the impact of FSP No. 109-2 on its consolidated financial statements.

In December 2004, the FASB issued SFAS 123R, "Share-Based Payment," a revision of FASB Statement No. 123. Under this standard, all forms of share-based payment to employees, including stock options, would be treated as compensation and recognized in the income statement. This standard would be effective for awards granted, modified or settled in fiscal years beginning after June 15, 2005. The Company currently accounts for stock options under APB No. 25. The pro forma impact of expensing options, valued using the Black Scholes valuation model, is disclosed in Note 1 of Notes to Consolidated Financial Statements. The Company is currently researching the appropriate valuation model to use for stock options. In connection with the issuance of SFAS 123R, the Securities and Exchange Commission issued Staff Accounting Bulletin number 107 ("SAB 107") in March of 2005. SAB 107 provides implementation guidance for companies to use in their adoption of SFAS 123R. The Company is currently evaluating the effect of SFAS 123R and SAB 107 on its financial statements and will implement SFAS 123R on April 2, 2006.

In December 2004, the FASB issued SFAS 153, "Exchanges of Nonmonetary Assets." SFAS 153 is an amendment of Accounting Principles Board Opinion 29, "Accounting for Nonmonetary Transactions," and eliminates certain narrow differences between APB 29 and international accounting standards. SFAS 153 is effective for fiscal periods beginning on or after June 15, 2005. The adoption of SFAS 153 will not have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS 152, "Accounting for Real Estate Time Sharing Transactions." SFAS 152 is an amendment of SFAS 66 and 67 and generally requires that real estate time sharing transactions be accounted for as non retail land sales. SFAS 152 is effective for fiscal years beginning on or after June 15, 2005. The adoption of SFAS 152 is not expected to have a material impact on the Company's financial statements.

In November 2004, the FASB issued SFAS 151, "Inventory costs." SFAS 151 is an amendment of Accounting Research Board Opinion number 43 and sets standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. SFAS 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of SFAS 151 on its financial statements.

In October 2004, the FASB Emerging Issue Task Force issued its abstract No. 04-01 ("EITF 04-01") "Accounting for Pre-existing Relationships between the Parties to a Business Combination." EITF 04-01 addresses the appropriate accounting treatment for portions of the acquisition costs of an entity which may be deemed to apply to Elements of a pre-existing business relationship between the acquiring company and the target company. EITF 04-01 is effective for combinations consummated after October 2004. It is therefore applicable to the Footwear acquisition discussed in Note 16. Historically, the Company had not assigned any value to pre-existing business relationships reacquired in purchase transactions. The adoption of EITF 04-01 has no effect on historical financial statements.

In January 2003, the FASB issued Financial Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities" which was amended by FIN 46R in December, 2003. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46R changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46R also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46R apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities in the first fiscal year or interim period beginning after December 15, 2003. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of FIN 46R required us to consolidate the assets and liabilities of RL Media. See Note 2 regarding our interest in Ralph Lauren Media, LLC.

16. Subsequent Event

On July 15, 2005, the Company consummated its agreement to acquire from Reebok International, Ltd all the issued and outstanding shares of capital stock of Ralph Lauren Footwear Co., Inc., its global licensee for men's, women's and children's footwear, as well as certain foreign assets owned by affiliates of Reebok International Ltd (the "Footwear Business"). The purchase price for the acquisition was approximately $108 million in cash, subject to certain post closing adjustments. Payment of the Purchase Price was funded by cash on hand. In addition, the Footwear Licensee and certain of its affiliates have entered into a transition services agreement with the Company to provide a variety of operational, financial and information systems services over a period of twelve to eighteen months.

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 the notes included elsewhere in this 10-Q. We utilize a 52-53 week fiscal year ending on the Saturday nearest March 31. Fiscal 2006 will end on April 1, 2006 ("Fiscal 2006") and reflects a 52 week period. Fiscal 2005 ended April 2, 2005 ("Fiscal 2005") and reflects a 52 week period.

Various statements in this Form 10-Q, 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 about our future operations, results or financial condition and are generally 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 and operating efficiencies; 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 mergers and acquisitions and the extending of credit; risks associated with our dependence on our licensing partners for a substantial portion of our net income and a lack of operational and financial control over licensed businesses; risks associated with financial condition 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; uncertainties relating to our ability to implement our growth strategies or successfully integrate acquired businesses; risks associated with our entry into new markets, either through internal development activities or through acquisitions; risks associated with changes in import quotas, other restrictions or tariffs; risks associated with the possible adverse impact of our unaffiliated manufacturers' inability to manufacture products 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; risks related to current or future litigation or 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, the relative prices at which we and our foreign competitors sell products in the same market and our operating and manufacturing costs outside the United States; and risks associated with our control by Lauren family members, the anti-takeover effect of our two classes of common stock and the potential impact of stock repurchases. 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 integrated segments: wholesale, retail and licensing.

Wholesale consists of women's, men's and children's apparel. Teams comprising design, merchandising, sales and production staff work together to develop product groupings that are organized to convey a variety of design concepts. This segment includes the Polo Ralph Lauren product lines as well as 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 our products through Ralph Lauren and Club Monaco full-price and outlet stores and Rugby full-price stores as well as Ralph Lauren Media, our 50% owned e-commerce joint venture, which sells products over the internet.

Licensing consists of product, international and home licensing alliances, each of which pays us royalties based upon sales of our product, and are generally 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 brands.

Our wholesale segment showed significant improvements in net sales, gross margin rates and operating income during the three month period ended July 2, 2005 as compared to the corresponding period of the prior fiscal year. These improvements were largely due to the addition of the Childrenswear line and improvements in our men's line.

Our retail segment continued to perform well during the three months ended July 2, 2005, driven by increased net sales and improved gross profit as a percentage of net sales. The increase in retail net sales was due to positive comparable store sales in both full-price and outlet stores, new store openings and, to a lesser 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, sourcing efficiencies, and higher realized sales dollars resulting from a combination of improved product mix, advertising and targeted marketing.

Our licensing segment's net revenues and operating income increased compared to the prior year's comparable period primarily as a result of increased international licensing income, which was largely offset by the loss of royalties associated with the acquired Childrenswear line.

Our international operations' results were affected by foreign exchange rate fluctuations. However, the increase in net sales due to the strengthening of the Euro was largely 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.

Restatement of Previously Issued Financial Statements

Our financial statements for the three months ended July 3, 2004 have been restated to give effect to the items discussed below. See note 2 to our consolidated financial statements included in this Form 10-Q for a summary of the effects of the restatements. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to these restatements. No restatement of our financial statements for the full Fiscal 2005 financial statements is necessary as a result of the matters discussed below. Our second and third quarter financial statements from fiscal 2005 will also be restated in future Fiscal 2006 quarterly filings for these items. The restated financial statements for the fiscal years ended April 3, 2004 and March 29, 2003 are contained in our Annual Report on Form 10-K for Fiscal 2005.

As a result of the clarifications contained in the February 7, 2005 letter from the Office of the Chief Accountant of the Securities and Exchange Commission ("SEC") to the Center for Public Company Audit Firms of the American Institute of Certified Public Accountants regarding certain specific lease accounting issues, we initiated a review of the Company's lease accounting practices. Management and the Audit Committee of the Company's Board of Directors determined that our accounting practices were incorrect with respect to rent holiday periods and the classification of landlord incentives and the related amortization.

In periods prior to the fourth quarter of Fiscal 2005, we had recorded straight-line rent expense for store operating leases over the related store's lease term beginning with the commencement date of store operations. Rent expense was not recognized during any build-out period. To correct this practice, we have adopted a policy in which rent expense is recognized on a straight-line over the stores' lease term commencing with the start of the build-out period (the effective lease-commencement date). In addition, prior to the fourth quarter of Fiscal 2005, we had classified tenant allowances (amounts received from a landlord to fund leasehold improvement) as a reduction of property and equipment rather than as a deferred lease incentive liability. The amortization of these landlord incentives was originally recorded as a reduction in depreciation expense rather than as a reduction of rent expense. In addition, our statements of cash flow had originally reflected these incentives as a reduction of capital expenditures within cash flows from investing activities rather than as cash flows from operating activities. Correcting these items resulted in an increase to each of net property and equipment and deferred lease incentive liabilities of $10.8 million and $20.5 million, respectively, at July 3, 2004. Additionally, for the three month period ended July 3, 2004, the reclassification of the amortization of deferred lease incentives resulted in an increase to rent expense of $1.1 million and an increase to depreciation expense of $0.7 million.

In January 2000, we formed Ralph Lauren Media, LLC as a joint venture. Under this 30-year joint venture agreement, Ralph Lauren Media is owned 50% by the Company, 37.5% by NBC Universal, Inc. and 12.5% by ValueVision Media, Inc. We had used the equity method of accounting for our investment in the joint venture since its inception. On December 24, 2003, the Financial Accounting Standards Board ("FASB") issued FIN 46R, which is applicable for financial statements issued for reporting periods ending after March 15, 2004. We considered the provisions of FIN 46R for our Fiscal 2004 financial statements and made the determination that Ralph Lauren Media was a variable interest entity ("VIE") under FIN 46R, and concluded that we were not the primary beneficiary under FIN 46R and, therefore, should not consolidate the results of Ralph Lauren Media. Upon subsequent review, the Company concluded that its determination in 2004 was incorrect and that consolidation of Ralph Lauren Media into the Company's financial statements was required as of April 3, 2004. The impact on our balance sheet was to increase assets and liabilities. Previously, we accounted for this joint venture using the equity method of accounting under which we recognized our share of RL Media's operating results based on our share of ownership and the terms of the joint venture agreement.

The Company has also corrected the classification on our Balance Sheet as of July 3, 2004 of certain unapplied cash from retail credit card receivables to cash. This error was originally corrected on a cumulative basis in the third quarter of Fiscal 2005. This resulted in approximately a $10.5 million increase in cash provided by operating activities, a corresponding increase in our cash and cash equivalents balance and an approximately $10.5 million decrease in accounts receivable prepaid. The Company has also corrected the classification on our Balance Sheet as of July 3, 2004 of certain inventory amounts from prepaid expenses of approximately $2.1 million which had no impact on cash flows from operating activities.

The Company also corrected the classification within the Statement of Cash Flows for the three months ended July 3, 2004 of the net loss recorded on the disposal of property and equipment from the investing activities to the operating activities and capital lease payments from operating activities to financing activities. In addition, we corrected the classification of certain amounts from cash to accounts payable, which resulted in a $2.6 million increase in cash and accounts payable as well as cash flow from operating activities.

Recent Developments

As described in Item 1 — BUSINESS — "Recent Developments" and Item 3 — "LEGAL PROCEEDINGS" of our Annual Report on Form 10-K for Fiscal 2005 and in note 13 to our consolidated financial statements included in this Form 10-Q, we have recorded a reserve of $100.0 million in connection with our litigation with Jones Apparel Group, Inc. over the termination of the Lauren product line license previously held by Jones. On March 24, 2005, the Appellate Division of the New York Supreme Court affirmed the lower Court's orders in favor of Jones. We filed a motion with the Appellate Division for reargument and/or permission to appeal its decision to the New York Court of Appeals, and on June 23, 2005, the Appellate Division denied our request for reargument but granted our motion for leave to appeal to the Court of Appeals. If the Court of Appeals does not reverse the Appellate Division's decision, the case will go back to the lower court for a trial on damages. Although we intend to continue to defend the case vigorously, in light of the Appellate Division's decision we recorded an aggregate charge of $100.0 million in Fiscal 2005 to establish a reserve for this litigation. This charge represents management's best estimate at this time of the loss incurred. No discovery has been held, and the ultimate outcome of this matter could differ materially from the reserved amount. Jones is seeking compensatory damages of $550.0 million plus punitive damages relating to our alleged tortious interference in the non-compete and confidentiality provisions of Jackwyn Nemerov's former employment agreement with Jones. If Jones were to be awarded the full amount of damages it seeks, the award would have a material adverse effect on our results of operations and financial position.

As described in more detail in Note 13 to our consolidated financial statements included in this Form 10-Q, we are subject to various claims relating to an alleged security breach of our retail point of sale system, including fraudulent credit card charges, the cost of replacing cards and related monitoring expenses and other related claims. We are unable to predict the extent to which further claims will be asserted. We have contested and will continue to vigorously contest the claims made against us and continue to explore our defenses and possible claims against others. During Fiscal 2005, we established a reserve of $6.2 million relating to this matter, representing management's best estimate at the time of the loss incurred. The ultimate outcome of this matter could differ from the amounts recorded. While that difference could be material to the results of operations for any affected reporting period, it is not expected to have a material impact on our consolidated financial position or liquidity.

In June 2003, one of our licensing partners, WestPoint Stevens, Inc., and certain of its affiliates ("WestPoint") filed a voluntary petition for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. WestPoint produces bedding and bath product in our home collection under license, and royalties paid by WestPoint accounted for 14.2% of our licensing revenues in Fiscal 2005. On June 24, 2005, American Real Estate Properties, LP, an entity controlled by investor Carl Icahn, won the U.S. Bankruptcy Court approved bidding process for WestPoint's assets, subject to final confirmation by the Court. We are currently engaged in negotiations to extend the license agreement.

Recent Acquisitions

On July 15, 2005, the Company acquired from Reebok International, Ltd all the issued and outstanding shares of capital stock of Ralph Lauren Footwear Co., Inc., its global licensee for men's, women's and children's footwear, as well as certain foreign assets owned by affiliates of Reebok International Ltd ("the Footwear Business"). The purchase price for the acquisition of the Footwear Business was approximately $108 million in cash, subject to certain post closing adjustments. Payment of the purchase price was funded by cash on hand. In addition, the Footwear Licensee and certain of its affiliates have entered into a transition services agreement with the Company to provide a variety of operational, financial and information systems services over a period of twelve to eighteen months. Licensing revenue from the Footwear Business license was $9.5 million in Fiscal 2005.

On July 2, 2004, we completed the acquisition of certain assets of RL Childrenswear Company, LLC for a purchase price of approximately $263.5 million including transaction costs. The purchase price includes deferred payments of $15 million over the three years subsequent to the purchase date, and we have agreed to assume certain liabilities. Additionally, we agreed to pay up to an additional $5 million in contingent payments if certain sales targets were attained. During Fiscal 2005, we recorded a $5 million liability for this contingent purchase payment because we believe it is probable the sales targets will be achieved. This amount was recorded as an increase in goodwill. RL Childrenswear Company, LLC was our 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 this acquisition, we recorded fair values for assets and liabilities as follows: inventory of $26.6 million, property and equipment of $7.5 million, intangible assets, consisting of non-compete agreements, valued at $2.5 million and customer relationships, valued at $29.9 million, other assets of $1.0 million, goodwill of $208.3 million and liabilities of $12.3 million.

The following pro forma amounts reflect adjustments for purchases made by us from Childrenswear, licensing royalties paid to us by Childrenswear, amortization of the non-compete agreements, lost interest income on the cash used for the purchase and the income tax effect based upon unaudited pro forma effective tax rate of 35.5% in Fiscal 2005. 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 (dollars in thousands, except per share amounts).

	For the Three Months Ended	
	July 2, 2005 Actual	July 3, 2004
Net revenue	$ 751,942	$ 659,759
Net income	50,707	13,881
Net income per share — Basic	$ 0.49	$ 0.14
Net income per share — Diluted	$ 0.48	$ 0.14

Results of Operations

Three Months Ended July 2, 2005 Compared to Three Months Ended July 3, 2004

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 2, 2005 and July 3, 2004:

	Three Months Ended		Three Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net sales	$ 694.6	$ 549.1	92.4%	90.6%
Licensing revenue	57.3	56.9	7.6	9.4
Net revenues	751.9	606.0	100.0	100.0
Gross profit	414.4	315.5	55.1	52.1
Selling, general and administrative expenses	334.2	295.0	44.4	48.7
Restructuring charge	—	0.7	—	0.1
Income from operations	80.2	19.8	10.7	3.3
Foreign currency (gains) losses	—	0.2	—	—
Interest expense	2.5	2.5	0.3	0.4
Interest income	(2.9)	(0.8)	(0.3)	(0.1)
Income before provision for income taxes and other (income) expense, net	80.6	17.9	10.7	3.0
Provision for income taxes	30.3	6.3	4.1	1.1
Other (income) expense, net	(0.4)	(1.1)	(0.1)	(0.2)
Net income	$ 50.7	$ 12.7	6.7%	2.1%

Net revenues. Net revenues for the first quarter of Fiscal 2006 were $751.9 million, an increase of $145.9 million over net revenues for the first quarter of Fiscal 2005. Net revenues by integrated segment were as follows (dollars in thousands):

	Three Months Ended			
	July 2, 2005	July 3, 2004	Increase/ (Decrease)	% Change
Net revenues:				
Wholesale	$ 337,199	$ 239,024	$ 98,175	41.1
Retail	357,404	310,040	47,364	15.3
Licensing	57,339	56,942	397	0.7
	$ 751,942	$ 606,006	$ 145,936	24.1

Wholesale Net Sales increased by $98.2 million, or 41.1%, primarily due to the following:

- the inclusion of sales from the acquired Childrenswear line of $58.6 million during the three months ended July 2, 2005 (acquired July 2, 2004); and
- a $27.8 million increase in our domestic men's business.

Retail Net Sales increased by $47.4 million, or 15.3%, primarily as a result of:

- 8.7% and 6.5% increases, respectively, in full price and outlet comparable store sales. Excluding the effect of foreign currency exchange rate fluctuations, comparable store sales increased 7.7% for full price and 5.7% for outlet stores, respectively;
- a $2.9 million sales increase at RL Media, our e-commerce subsidiary; and
- recent store openings, net of store closings.

Licensing Revenue increased by $0.4 million, or 0.7%, primarily due to the following:

- growth in our international and home licensing businesses, which was largely offset by
- the loss of royalties from the Childrenswear license, which terminated as of the end of the first quarter of Fiscal 2005. During the first quarter of Fiscal 2005, we received royalties of $3.3 million from this license.

Foreign exchange rate fluctuations in the value of the Euro increased recorded wholesale sales by $3.3 million and retail sales by $2.8 million.

Gross Profit. Gross profit increased $98.9 million, or 31.3%, for the three months ended July 2, 2005 over the three months ended July 3, 2004. This increase reflected higher net sales and improved merchandise margins generally across our wholesale and retail businesses.

Gross profit as a percentage of net revenues increased from 52.1% last year to 55.1%. The increased gross profit rates in the wholesale and retail businesses reflect a continued focus on inventory management and sourcing efficiencies as well as reduced markdown activity as a result of better sell through on our products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") increased $39.2 million, or 13.3%, to $334.2 million for the three months ended July 2, 2005 from $295.0 million for the three months ended July 3, 2004. SG&A as a percentage of net revenues decreased to 44.4% from 48.7%. The increase in SG&A was driven by:

- higher selling salaries and related costs of $16.7 million in connection with the store openings and the increase in retail sales;
- expenses of $9.0 million attributable to the acquired Childrenswear line.

The remainder of the increase in SG&A results from a number of factors, including higher distribution costs as a result of volume increases. Approximately $2.9 million of the increase in the quarter was due to the impact of foreign currency exchange rate fluctuations, primarily due to the strengthening of the Euro.

Income (Loss) from Operations. Income from operations increased $60.5 million, or 306.1%, for the three months ended July 2, 2005 over the three months ended July 3, 2004. Income from operations for our three business segments is provided below (dollars in thousands):

	Three Months Ended			
	July 2, 2005	July 3, 2004	Increase/ (Decrease)	% Change
Income (loss) from operations:				
Wholesale	$ 46,269	$ (2,633)	$ 48,902	1,857.3%
Retail	35,650	24,444	11,206	45.8%
Licensing	35,212	31,847	3,365	10.6%
	117,131	53,658	63,473	1,182.9%
Less: Unallocated corporate expenses	36,910	33,173	3,737	11.3%
Unallocated restructuring charge	—	731		
	$ 80,221	$ 19,754		

- The increase in the wholesale operating results was primarily the result of the inclusion of sales generated by the Childrenswear line and improvements in the gross margin rate.
- The increase in retail operating results was driven by increased net sales and improved gross margin rate, partially offset by the higher selling salaries and related costs incurred in connection with the increase in retail sales and new store openings.
- The increase in licensing operating results was primarily due to improvements in our international licensing business, partially offset by the loss of royalties from the Childrenswear license.

Foreign Currency (Gains) Losses. The effect of foreign currency exchange rate fluctuations resulted in a gain of $0.1 million for the three months ended July 2, 2005, compared to a $0.2 million loss for the three months ended July 3, 2004. These gains are unrelated to the impact of changes in the value of the dollar against the Euro when operating results of our foreign subsidiaries are converted to US dollars.

Interest Expense. Interest expense was $2.5 million for the three months ended July 2, 2005 and $2.4 million for the three months ended July 3, 2004.

Interest Income. Interest income increased to $2.9 million for the three months ended July 2, 2005 from $0.8 million for the three months ended July 3, 2004. The increase was the result of an increase in investments and higher interest rates on our investments.

Provision for Income Taxes. The effective tax rate was 37.6% for the three months ended July 2, 2005 compared to 35.3% for the three months ended July 3, 2004. The increase in the effective tax rate is due primarily to a greater portion of our profit being generated in higher tax jurisdictions.

Other (Income) Expense, Net. Other (income) expense, net was $(0.4) million for the three months ended July 2, 2005 compared to $(1.1) million for the three months ended July 3, 2004. This reflects $1.8 million and $2.0 million of income, respectively, related to the 20% equity interest in the company that holds the sublicenses for our men’s, women’s, kids, home and jeans business in Japan for three months ended July 2, 2005 and July 3, 2004, net of $0.8 million and $0.5 million of minority interest expense, respectively, for three months ended July 2, 2005 and July 3, 2004 associated with our Japanese master license, both of which were acquired in 2003. Also included is $0.6 million and $0.4 million of minority interest expense for RL Media for the three months ended July 2, 2005 and July 3, 2004, respectively.

Net Income. Net income increased to $50.7 million for three months ended July 2, 2005 from $12.7 million for the three months ended July 3, 2004, or 6.7% and 2.1% 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 for projected sales increases (primarily accounts receivable and inventory), retail store expansion, construction and renovation of shop-within-shops, investment in the technological upgrading of our information systems, 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 on hand, our credit facility and other potential sources of borrowings. We expect that cash flow from operations will continue to be sufficient to fund our current level of operations, capital requirements, cash dividends and our stock repurchase plan. However, in the event of a material acquisition, material contingencies or material adverse business developments, we may need to draw on our credit facility or other potential sources of borrowing. As noted above, we used cash on hand to purchase the Footwear Business.

On February 1, 2005, our Board of Directors approved a stock repurchase plan which allows for the purchase of up to an additional $100 million in our stock in addition to the approximately $22.5 million of authorized repurchases remaining under our original stock repurchase plan which expires in 2006. The new repurchase plan does not have a termination date.

Our ability to borrow under our credit facility is subject to our maintenance of financial and other covenants described below. As of July 2, 2005, we had no direct borrowings under the credit facility and were in compliance with our covenants.

With respect to pending litigation, the only matter which, if adversely determined, could have a material adverse effect on our liquidity and capital resources is the litigation with Jones Apparel Group, Inc. discussed above under “Recent Developments,” in which Jones is seeking, among other things, compensatory damages of $550 million and unspecified punitive damages. (See Part II, Item 1 — Legal Proceedings.) We continue to believe that we are right on the merits and intend to continue to defend the case vigorously. We do not believe that this matter is likely to have a material adverse effect on our liquidity or capital resources or our ability to borrow under the credit facility.

As of July 2, 2005, we had $522.3 million in cash and cash equivalents and $269.1 million of debt outstanding compared to $197.4 million in cash and cash equivalents and $279.0 million of debt outstanding at July 3, 2004. This represents an increase in our cash net of debt position of $334.7 million, which was primarily attributable to cash flow from operations. As of July 2, 2005, we had $269.1 million outstanding in long-term Euro denominated debt, based on the Euro exchange rate at that date, as compared to $279.0 million as of July 3, 2004, due to changes in the exchange rate. Our capital expenditures were $32.6 million for the three months ended July 2, 2005, compared to $36.0 million for the three months ended July 3, 2004.

Accounts receivable increased to $275.6 million, or 9.2%, at July 2, 2005 compared to $252.4 million at July 3, 2004. Inventories increased to $467.6 million, or 8.2%, at July 2, 2005 compared to $432.3 million at July 3, 2004, which primarily reflects the addition of inventory for our Men’s line due to strong summer sales. Accounts payable and accrued expenses and other increased to a total of $536.1 million, or 39.2% at July 2, 2005 compared to $385.1 million at July 3, 2004. This increase is primarily the result of the addition of payables associated with our increased inventory balance and the accrual of $106.2 million in litigation reserves during Fiscal 2005.

Net Cash Provided by Operating Activities. Net cash provided by operating activities increased to $190.7 million during the three-month period ended July 2, 2005, compared to $112.9 million for the three-month period ended July 3, 2004. This $77.8 million increase in cash flow was driven primarily by changes in working capital and the increase in net income.

During Fiscal 2003, we completed a strategic review of our European operations and implemented a plan to centralize and more efficiently consolidate these operations. In connection with the implementation of this plan, we had total cash outlays of approximately $0.4 million during the three months ended July 2, 2005. During Fiscal 2001, we implemented the 2001 Operational Plan, and total cash outlays related to this plan were $0.6 million during the three months ended July 2, 2005. We expect that the remaining liabilities under these plans will be paid during Fiscal 2006.

Net Cash Used in Investing Activities. Net cash used in investing activities was $32.6 million for the three months ended July 2, 2005, as compared to $276.0 million for the three months ended July 3, 2004. For the three months ended July 2, 2004, net cash used reflected $240.0 million for the acquisition of certain assets of RL Childrenswear, LLC. 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 2006 approximate $160 million. The Fiscal 2005 amounts also include $1.3 million for an earn-out payment in connection with the P.R.L. Fashions of Europe SRL acquisition.

Net Cash Provided by Financing Activities. Net cash provided by financing activities was $18.1 million for the three months ended July 2, 2005, compared to $7.5 million in the three months ended July 3, 2004. Cash provided by financing activities during the three months ended July 2, 2005 consists of $25.6 million received from the exercise of stock options, partially offset by the payment of $5.2 million of dividends.

Prior to October 6, 2004, we had a credit facility with a syndicate of banks consisting of a $300.0 million revolving line of credit, subject to increase to $375.0 million, which was available for direct borrowings and the issuance of letters of credit. It was scheduled to mature on November 18, 2005. On October 6, 2004, we, in substance, expanded and extended this credit facility by entering into a new Credit Agreement, dated as of that date, with JPMorgan Chase Bank, as Administrative Agent, The Bank of New York, Fleet National Bank, SunTrust Bank and Wachovia Bank National Association, as Syndication Agents, J.P. Morgan Securities Inc., as sole Bookrunner and Sole Lead Arranger, and a syndicate of lending banks that included each of the lending banks under the prior credit agreement (the “New Credit Facility”).

Our current credit facility, which is otherwise substantially on the same terms as the former credit facility, provides for a $450.0 million revolving line of credit, subject to increase to $525.0 million, which is available for direct borrowings and the issuance of letters of credit. It will mature on October 6, 2009. As of July 2, 2005, we had no direct borrowings outstanding under the credit facility. Direct borrowings under the credit facility bear interest, at our option, at a rate equal to (i) the higher of (x) the weighted average overnight Federal funds rate, as published by the Federal Reserve Bank of New York, plus one-half of one percent, and (y) the prime commercial lending rate of JPMorgan Chase Bank in effect from time to time, or (ii) the LIBO Rate (as defined in the credit facility) in effect from time to time, as adjusted for the Federal Reserve Board’s Eurocurrency Liabilities maximum reserve percentage, and a margin based on our then current credit ratings. At July 2, 2005, we were contingently liable for $34.8 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 Credit Facility requires us to maintain certain covenants:

- a minimum ratio of consolidated Earnings Before Interest, Taxes, Depreciation, Amortization and Rent (“EBITDAR”) to Consolidated Interest Expense (as such terms are defined in the credit facility); and
- a maximum ratio of Adjusted Debt (as defined in the credit facility) to EBITDAR.

Our credit facility also contains covenants that, subject to specified exceptions, restrict our ability to:

- incur additional debt;
- incur liens and contingent liabilities;
- sell or dispose of assets, including equity interests;
- merge with or acquire other companies, liquidate or dissolve;

- engage in businesses that are not a related line of business;
- make loans, advances or guarantees;
- engage in transactions with affiliates; and
- make investments.

Upon the occurrence of an event of default under the credit facility, the lenders may cease making loans, terminate the credit facility, and declare all amounts outstanding to be immediately due and payable. The credit facility specifies a number of events of default (many of which are subject to applicable grace periods), including, among others, the failure to make timely principal and interest payments or to satisfy the covenants, including the financial covenants described above. Additionally, the credit facility provides that an event of default will occur if Mr. Ralph Lauren and related entities fail to maintain a specified minimum percentage of the voting power of our common stock.

Fiscal 2005 dividends of $0.05 per outstanding share declared to stockholders of record at the close of business on July 2, 2004, October 1, 2004, December 20, 2004 and April 1, 2005 were paid on July 16, 2004, October 15, 2004, January 14, 2005 and April 15, 2005, respectively. The first quarter Fiscal 2006 dividend was declared on June 14, 2005 payable to shareholders of record at the close of business on July 1, 2005 and was paid on July 15, 2005.

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 and October 4, 2004 the Company executed interest rate swaps to convert the fixed interest rate on a total of €100 million of the Eurobonds to a EURIBOR plus 3.14% variable rate borrowing. After the execution of these swaps, approximately €22 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 fair value hedges under SFAS No. 133. Hedge ineffectiveness is measured as the difference between the respective gains or losses recognized resulting from changes in the benchmark interest rate, and were immaterial in Fiscal 2005 and for the three months ended July 2, 2005. In addition, we have designated all of the principal of the Euro debt as a hedge of our net investment in certain foreign subsidiaries. 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.

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 2, 2005, we had the following foreign exchange contracts outstanding: (i) to deliver €77.0 million in exchange for $101.7 million through Fiscal 2006 and (ii) to deliver ¥10,468 million in exchange for $91.6 million through Fiscal 2008. At July 2, 2005, the fair value of these contracts resulted in unrealized pretax gains and losses of $9.1 million and $9.6 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 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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting policies employed by the Company, including the use of estimates, are presented in Note 1 to the Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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 judgements 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, accounts receivable, inventories, goodwill, other long-lived intangible assets, income taxes, accrued expenses and derivative instruments. In applying such policies, management must use some amounts that are based upon its informed judgements and best estimates. Estimates, by their nature, are based on judgements and available information. The estimates that we make are based upon historical factors, current circumstances and the experience and judgement of our management. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations.

Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect our financial condition or results of operations.

Revenue Recognition

Revenue within our 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, allowances and operational chargebacks. 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.

We review and refine these estimates on a quarterly basis based on current experience, trends and retailer performance. Our 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 initially recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees. During the three months ending July 2, 2005 and July 3, 2004, the Company reduced revenues and credited customer accounts for end of season customer allowances, operational chargebacks and returns as follows:

	Three Months Ended	
	July 2, 2005	July 3, 2004
Beginning reserve balance	$ 100,001	$ 90,269
Amount expensed to increase reserve	55,027	48,684
Amount credited against customer accounts	(76,967)	(69,444)
Foreign currency translation	(1,170)	254
Ending reserve balance	$ 76,891	$ 69,763

The Company's provisions for, and write offs against, the reserves offsetting accounts receivable increased in Fiscal 2006 compared to Fiscal 2005 due to the large increase in wholesale sales. Ending reserve balances have increased for substantially the same reasons.

We require that a store be open a full fiscal year before we include it in the computation of same store sales change. Stores that are closed during the fiscal year are excluded. Stores that are relocated or enlarged are also excluded until they have been in their new location for a full fiscal year.

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 statutory 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 judgement 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 our policy to establish provisions for taxes that may become payable in future years as a result of these uncertainties. We establish the provisions based upon management's assessment of exposure associated with permanent tax differences and tax credits. The tax provisions are analyzed periodically and adjustments are made as events occur that warrant adjustments to those provisions.

Accounts Receivable

In the normal course of business, the Company extends credit to its wholesale customers that satisfy pre-defined credit criteria. Accounts receivable as shown on the Consolidated Balance Sheets, is net of the following allowances and reserves.

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. Expenses of $0.2 million were recorded as an allowance for uncollectible accounts during the first three months of fiscal 2006. The amounts written off against customer accounts during the first three months of fiscal 2006 totaled $1.2 million, and the balance in this reserve was $9.6 million as of July 2, 2005.

A reserve for trade discounts is established based on open invoices where trade discounts have been extended to customers and is treated as a reduction of sales.

Estimated customer end of season allowances (also referred to as customer markdowns) are included as a reduction of sales. These provisions are based on retail sales performance, seasonal negotiations with the Company's customers as well as historic deduction trends and an evaluation of current market conditions. Our historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above)

A reserve for operational chargebacks represents various deductions by customers relating to individual shipments. This reserve, net of expected recoveries, is included as a reduction of sales. The reserve is based on chargebacks received as of the date of the financial statements and past experience. Our historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above)

Costs associated with potential returns of product are included as a reduction of sales. These reserves are based on current information regarding retail performance, historical experience and an evaluation of current market conditions. The Company's historical estimates of these costs have not differed materially from actual results. (See Revenue Recognition above)

Inventories

Inventories are valued at the lower of cost First-in, First-out, ("FIFO"), method, or market. We continually evaluate the composition of our 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 the category of inventory involved, the impact of market trends and economic conditions. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. We review our inventory position on a quarterly basis at a minimum and adjust our estimates based on revised projections and current market conditions. If economic conditions worsen, we incorrectly anticipate trends or unexpected events occur, our estimates could be proven overly optimistic, and required adjustments could materially adversely affect future results of operations. Our historical estimates of these costs have not differed materially from actual results.

Goodwill, Other Intangibles, Net and Long-Lived Assets

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." During the months ended July 2, 2005, there have been no material impairment losses recorded in connection with the assessment of the carrying value of long-lived and intangible 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. In evaluating an asset for recoverability, we use our best estimate of the future cash flows expected to result from the use of the asset and eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair value of the asset, is recognized. In determining the future cash flows, we take various factors into account, including changes in merchandising strategy, the impact of increased local advertising and the emphasis on store cost controls. Since the determination of future cash flows is an estimate of future performance, there may be future impairments in the event the future cash flows do not meet expectations.

During the three months ended July 2, 2005, no impairment charges were recorded.

Accrued Expenses

Accrued expenses for employee insurance, workers' compensation, profit sharing, contracted advertising, professional fees and other outstanding obligations are assessed based on claims experience and statistical trends, open contractual obligations, and estimates based on projections and current requirements. If these trends change significantly, then actual results would likely be impacted. Our historical estimates of these costs and our provisions have not differed materially from actual results.

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.

We use foreign currency forward contracts for the specific purpose of hedging the exposure to variability in forecasted cash flows associated primarily with inventory purchases mainly for our European businesses, royalty payments from our Japanese licensee, and other specific activities. These instruments are designated as cash flow hedges and, in accordance with SFAS No. 133, to the extent the hedges are highly effective, the changes in fair value are included in Accumulated other comprehensive income (loss), net of related tax effects, with the corresponding asset or liability recorded in the balance sheet. The ineffective portion of the cash flow hedge, if any, is recognized in current-period earnings. Amounts recorded in Accumulated other comprehensive income are reflected in current-period earnings when the hedged transaction affects earnings. If the relative values of the currencies involved in the hedging activities were to move dramatically, such movement could have a significant impact on our results of operations. We are not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect our financial condition or results of operations.

Hedge accounting requires that at inception and at the beginning of each hedge period, we 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.

We hedge our net investment position in subsidiaries which conduct business in Euros by borrowing directly in foreign currency and designating a portion of our Euro denominated debt as a hedge of net investments. Under SFAS No. 133, changes in the fair value of these instruments are immediately recognized in foreign currency translation, a component of Accumulated other comprehensive income (loss), to offset the change in the value of the net investment being hedged.

Inflation

The rate of inflation over the past few years has not had a significant impact on our sales or profitability.

Our significant accounting policies are more fully described in Note 1 to Our Consolidated Financial Statements.

Alternative Accounting Methods

In certain instances, accounting principles generally accepted in the United States allow for the selection of alternative accounting methods. Our significant policies that involve the selection of alternative methods are accounting for stock options and inventories.

- Two alternative methods for accounting for stock options are available, the intrinsic value method and the fair value method. We use the intrinsic value method of accounting for stock options, and accordingly, no compensation expense has been recognized. Beginning in Fiscal 2007, we will be required to expense the fair value of stock options granted to employees. Under the fair value method, the determination of the pro forma amounts involves several assumptions including option life and future volatility. If the fair value method were used, diluted earnings per share for Fiscal 2004 would decrease. See Note 1 to the Consolidated Financial Statements.
- Two alternative methods for accounting for wholesale inventories are the First-In, First-Out (“FIFO”) method and the Last-in, First-out (“LIFO”) method. We account for all wholesale inventories under the FIFO method. Two alternative methods for accounting for retail inventories are the retail method and the cost method. We account for all retail inventories under the cost method.

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 2, 2005, there were significant fluctuations in the Euro to U.S. dollar exchange rate.

In May 2003, we entered into an interest rate swap for €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 and October 2004, we entered into additional interest rate swaps of €50 million each for the same purpose. 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 $0.2 million change in interest expense during the three months ended July 2, 2005.

Since April 2, 2005, 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*

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

As of July 2, 2005, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to the Securities and Exchange Act Rule 13a-15(b). Our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of July 2, 2005 due to the material weakness in our internal control over financial reporting with respect to income taxes identified during the Company's assessment of internal control over financial reporting as of April 2, 2005, which has not yet been remediated and which was reported in our Fiscal 2005 Annual Report on Form 10K, and the additional material weakness identified during the first quarter of Fiscal 2006 relating to inadequacies in the controls over the period-end financial closing and reporting process as described below.

During the financial closing and reporting process for the first quarter of Fiscal 2006, accounting errors were identified that resulted in adjustments to present the financial statements for the quarter ended July 2, 2005, in accordance with generally accepted accounting principles and in the restatement of the previously issued financial statements for the first quarter of Fiscal 2005, as more fully disclosed in Note 2 to the Notes to Consolidated Financial Statements. These errors resulted from inadequacies in our controls over the financial closing and reporting process. Specifically, the Company has an inadequate number of accounting personnel with sufficient training, which results in the inadequate review, monitoring and analysis of selected account balances and the lack of resolution of unusual or reconciling items in a timely manner. Based on these facts, and because of the significance of the financial closing and reporting process to the preparation of reliable financial statements, our Chief Executive Officer and Chief Financial Officer have concluded that these inadequacies in our controls as described in this paragraph constituted a material weakness as of July 2, 2005.

To compensate for these material weaknesses, the Company performed additional analysis and other procedures in order to prepare the unaudited quarterly consolidated financial statements in accordance with generally accepted accounting principles in the United States of America. Accordingly, management believes that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

To begin the remediation process for the matters described above, we have developed plans that include:

i) Hiring additional finance staff including tax staff with significant tax accounting experience;

ii) Instituting formal training of finance and tax personnel;

iii) Conducting a review of accounting and tax processes to incorporate technology enhancements and strengthen the design and operation of controls and;

iv) Implementing policies to ensure the accuracy of accounting and tax calculations supporting the amounts reflected in our financial statements and to ensure all significant accounts are properly reconciled on a frequent and timely basis.

These remediation plans will be implemented during the third and fourth quarter of this fiscal year. In addition, we hired a new vice president of Tax in the first quarter of Fiscal 2006. Neither material weakness will be considered remediated until the applicable remedial procedures operate for a period of time, such procedures are tested and management has concluded that the procedures are operating effectively.

Except for the material weakness identified relating to inadequacies in the controls over the period-end financial closing and reporting process described above there were no changes in its internal control over financial reporting during the quarter covered by this report that would materially affect its internal control over financial reporting.

Table of Contents

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 ending April 2, 2005.

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

The following table sets forth the repurchases of our common stock during the first fiscal quarter ended July 2, 2005.

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 2, 2005 to April 30, 2005	10,248(1)	$ 38.43	—	(2)
May 1, 2005 to May 28, 2005	—	—	—	—
May 29, 2005 to July 2, 2005	28,060(1)	43.04	—	—
Total	38,308	$ 41.81	—	—

(1) Represents shares surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company’s 1997 Long Term Incentive Plan, as amended and restated.

(2) In March 1998, we announced a $100 million Class A Common Stock repurchase plan. Approximately $22.5 million in share repurchases remain available under this plan. On February 2, 2005, we announced a second stock repurchase plan under which up to an additional $100 million of Class A Common Stock may be purchased. No shares have been repurchased under this plan, which does not have a termination date.

Item 6. *Exhibits*

3.1	Amended and restated Certificate of Incorporation of Polo Ralph Lauren Corporation (filed as exhibit 3.1 to the Polo Ralph Lauren Registration Statement on Form S-1 (file no. 333-24733) (the “S-1”)).
3.2	Amended and Restated By-Laws of Polo Ralph Lauren Corporation (filed as exhibit 3.2 to the S-1).
10.1	Employment Agreement, effective as of April 3, 2005, between Polo Ralph Lauren Corporation and Mitchell A. Kosh, Senior Vice President, Human Resources and Legal.
31.1	Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 17 CFR 240.13a-14(a).
31.2	Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 17 CFR 24013a-14(a).
32.1	Certification of Ralph Lauren, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Tracey T. Travis, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

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/ TRACEY T. TRAVIS

Tracey T. Travis
Senior Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Date: August 11, 2005

EXHIBIT 10.1

POLO RALPH LAUREN CORPORATION

EMPLOYMENT AGREEMENT

AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement"), is made effective as of the 3rd day of April, 2005 (the "Effective Date"), by and between POLO RALPH LAUREN CORPORATION, a Delaware corporation (the "Corporation"), and Mitchell Kosh (the "Executive").

WHEREAS, the Executive has been employed with the Corporation pursuant to an Employment Agreement dated September 8, 2003 (the "2003 Employment Agreement"); and

WHEREAS, the Corporation and Executive wish to amend and restate such 2003 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 third 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 $600,000 (“Base Compensation”) upon the Effective Date. 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 as specified in Executive’s Terms of Employment Sheet dated April 14, 2005 (“Term Sheet”).

(c) Stock Awards. During the Term, the Executive shall be eligible to participate in the Polo Ralph Lauren Long-Term Stock Incentive Plan (the “Incentive Plan”). Stock awards are normally granted annually in June of each year. All grants of stock options and Restricted Performance Share Units (“RPSU”) are governed by the terms of the Incentive Plan and subject to approval by the Compensation Committee of the Board of Directors.

(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, position or duties, including no longer reporting to Ralph Lauren, Chief Executive Officer, or Roger Farah, Chief Operating Officer, (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 <u>Date of Termination</u>. 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 <u>Effect of Termination of Employment</u>.

(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) <u>Severance</u>. 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, in a form acceptable to the Corporation.

(ii) <u>Stock Awards</u>. The Executive's rights with respect to any stock awards provided to the Executive by the Corporation shall be governed by the provisions of the Corporation's Incentive Plan and the 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 awards may have been provided to the Executive by the Corporation the terms of which shall be governed by the provisions of the Corporation's Incentive Plan and the respective award agreements, if any, under which such stock awards were provided.

(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 awards provided to the Executive by the Corporation shall be governed by the provisions of the Corporation's Incentive Plan and the respective award agreements, if any, under which such stock awards were provided. 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 Schedule A, 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 Awards. 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. Any RPSU awards which are unvested shall be deemed vested immediately prior to such Change in Control.

(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:	Mitchell Kosh 14 Hemmelskamp Road Wilton, CT 06897
If to the Corporation:	Polo Ralph Lauren Corporation 650 Madison Avenue New York, New York 10022 Attn: Roger Farah President & Chief Operating Officer Fax: (212) 318-7529

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, including Executive's Term Sheet, 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 2003 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/ Roger Farah	/s/ Mitchell Kosh
By: Roger Farah	Mitchell Kosh

Title: President & Chief Operating Officer

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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 and
Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2005

EXHIBIT 31.2

CERTIFICATION

I, Tracey T. Travis, 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)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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/ TRACEY T. TRAVIS

Tracey T. Travis
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 11, 2005

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 2, 2005 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 11, 2005

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 Tracey T. Travis 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 2, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tracey T. Travis, 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/ TRACEY T. TRAVIS

Tracey T. Travis

August 11, 2005

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.