# 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 June 28, 2003** |

**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**<br>*(State or other jurisdiction of incorporation or organization)* | **13-2622036**<br>*(I.R.S. Employer Identification No.)* |
| **650 Madison Avenue, New York, New York**<br>*(Address of principal executive offices)* | **10022**<br>*(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 8, 2003 49,212,342 shares of the registrant's Class A Common Stock, $.01 par value, were outstanding, 43,280,021 shares of the registrant's Class B Common Stock, $.01 par value, were outstanding and 10,570,979 shares of the registrant's Class C Common Stock, $.01 par value were outstanding.

**POLO RALPH LAUREN CORPORATION**

**INDEX TO FORM 10-Q**

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except share and per share data)**

| | June 28, 2003 | March 29, 2003 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| Cash and cash equivalents | $ 287,473 | $ 343,606 |
| Accounts receivable, net of allowances of $19,210 and $17,631 | 249,997 | 375,823 |
| Inventories, net | 430,101 | 363,771 |
| Deferred tax assets | 20,493 | 15,735 |
| Prepaid expenses and other | 84,174 | 63,615 |
| **Total current assets** | 1,072,238 | 1,162,550 |
| Property and equipment, net | 352,233 | 354,996 |
| Deferred tax assets | 54,386 | 54,386 |
| Goodwill | 330,540 | 315,559 |
| Intangibles, net | 11,070 | 11,400 |
| Other assets | 152,957 | 139,931 |
| **Total assets** | $1,973,424 | $2,038,822 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Short-term bank borrowings | $ 50,093 | $ 100,943 |
| Accounts payable | 188,222 | 181,392 |
| Income tax payable | 38,015 | 55,501 |
| Accrued expenses and other | 147,491 | 162,511 |
| **Total current liabilities** | 423,821 | 500,347 |
| Long-term debt | 265,069 | 248,494 |
| Other noncurrent liabilities | 65,627 | 81,214 |
| Commitments and Contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Common Stock | | |
| Class A, par value $.01 per share; 500,000,000 shares authorized; 49,181,708 and 48,977,119 shares issued | 496 | 489 |
| Class B, par value $.01 per share; 100,000,000 shares authorized; 43,280,021 shares issued and outstanding | 433 | 433 |
| Class C, par value $.01 per share; 70,000,000 shares authorized; 10,570,979 shares issued and outstanding | 106 | 106 |
| Additional paid-in-capital | 521,502 | 504,700 |
| Retained earnings | 776,468 | 776,359 |
| Treasury Stock, Class A, at cost (4,116,520 and 4,105,932 shares) | (78,169) | (77,928) |
| Accumulated other comprehensive income | 16,444 | 10,787 |
| Unearned compensation | (18,373) | (6,179) |
| **Total stockholders' equity** | 1,218,907 | 1,208,767 |
| **Total liabilities & stockholders' equity** | $1,973,424 | $2,038,822 |

See accompanying notes to consolidated financial statements.

## POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES

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

| | Three Months Ended | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| Net sales | $ 416,089 | $ 413,866 |
| Licensing revenue | 61,642 | 53,134 |
| **Net revenues** | 477,731 | 467,000 |
| Cost of goods sold | 228,979 | 234,396 |
| **Gross profit** | 248,752 | 232,604 |
| Selling, general and administrative expenses | 243,226 | 214,916 |
| **Income from operations** | 5,526 | 17,688 |
| Foreign currency (gains) losses | (2,299) | 3,531 |
| Interest expense | 3,863 | 5,335 |
| Interest income | (945) | (1,351) |
| **Income before provision for income taxes and other (income) expense, net** | 4,907 | 10,173 |
| Provision for income taxes | 1,791 | 3,713 |
| Other (income) expense, net | (1,939) | — |
| **Net income** | $ 5,055 | $ 6,460 |
| Net income per share — Basic | $ 0.05 | $ 0.07 |
| Net income per share — Diluted | $ 0.05 | $ 0.07 |
| Weighted average common shares outstanding — Basic | 98,377,228 | 98,161,220 |
| Weighted average common shares outstanding — Diluted | 99,544,131 | 99,333,199 |
| Dividends declared per share | $ 0.05 | — |

See accompanying notes to consolidated financial statements.

**POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES**

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

| | Three Months Ended | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| **Cash flows from operating activities** | | |
| Net income | $ 5,055 | $ 6,460 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Benefit from) provision for deferred income taxes | (4,817) | 3,384 |
| Depreciation and amortization | 21,442 | 18,462 |
| Provision for losses on accounts receivable | 630 | 446 |
| Changes in deferred liabilities | (18,051) | (12,871) |
| Foreign currency losses | — | 3,531 |
| Other | 14,397 | (11,202) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 131,480 | 152,138 |
| Inventories | (65,659) | (20,251) |
| Prepaid expenses and other | (18,281) | (7,116) |
| Other assets | (1,097) | (146) |
| Accounts payable | 3,194 | (22,726) |
| Income taxes (receivable) payable | (17,024) | 5,789 |
| Accrued expenses and other | (39,466) | 12,402 |
| **Net cash provided by operating activities** | 11,803 | 128,300 |
| **Cash flows from investing activities** | | |
| Acquisition, net of cash acquired | (4,479) | — |
| Purchases of property and equipment | (13,919) | (12,495) |
| Equity investments | (5,427) | — |
| Disposal of property and equipment | 409 | — |
| Cash surrender value — officers' life insurance | — | 775 |
| **Net cash used in investing activities** | (23,416) | (11,720) |
| **Cash flows from financing activities** | | |
| Repurchases of common stock | (241) | (309) |
| Proceeds from exercise of stock options | 3,538 | 4,067 |
| (Repayments of) proceeds from short-term bank borrowings | (50,827) | 9,314 |
| Repayments of long-term debt | — | (7,746) |
| **Net cash (used in) provided by financing activities** | (47,530) | 5,326 |
| Effect of exchange rate changes on cash | 3,010 | 4,984 |
| Net (decrease) increase in cash and cash equivalents | (56,133) | 126,890 |
| Cash and cash equivalents at beginning of period | 343,606 | 244,733 |
| Cash and cash equivalents at end of period | $287,473 | $371,623 |
| **Supplemental cash flow information** | | |
| Cash paid for interest | $ 3,298 | $ 1,667 |
| Cash paid for income taxes | $ 17,689 | $ 11,723 |

See accompanying notes to consolidated financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**(Information for June 28, 2003 and June 29, 2002 is unaudited)**
**(In thousands, except share and per share data and where otherwise indicated)**

## 1. Significant Accounting Policies

### *Principles of Consolidation*

The accompanying unaudited consolidated financial statements include the accounts of Polo Ralph Lauren Corporation ("PRLC") and its wholly and majority owned subsidiaries (collectively referred to as the "Company," "we," "us," and "our").

### *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, the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated balance sheet data for March 29, 2003 is derived from the audited financial statements which are included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission for the year ended March 29, 2003 ("Fiscal 2003"), which should be read in conjunction with these financial statements. Reference is made to such annual report on Form 10-K for a complete set of financial statement notes, including the Company's significant accounting policies. The results of operations for the three months ended June 28, 2003 are not necessarily indicative of results to be expected for the entire fiscal year ending April 3, 2004 ("Fiscal 2004").

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.

Results for our 50% interest in the Japanese master license and the 20% equity interest are reported on a one-month lag (See Note 2).

### *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 Statement of Financial Accounting Standards ("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 for awards under these plans 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 | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| Net income as reported | $5,055 | $6,460 |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | 3,528 | 3,772 |
| Pro forma net income | $1,527 | $2,688 |
| Net income per share as reported — | | |
| Basic | $ 0.05 | $ 0.07 |
| Diluted | $ 0.05 | $ 0.07 |
| Pro forma net income per share — | | |
| Basic | $ 0.02 | $ 0.03 |
| Diluted | $ 0.02 | $ 0.03 |

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 2004 and fiscal 2003, respectively: risk-free interest rates of 2.52% and 3.69%; a dividend yield of $0.20 and $0.00 per annum; expected volatility of 47.2% and expected lives of 5.2 years for all periods.

***Reclassifications***

For comparative purposes, certain prior period amounts have been reclassified to conform to the current period's presentation.

## 2. Acquisitions

In February 2003, we acquired a 50% controlling interest in the Japanese master license for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $24.1 million. In connection with the acquisition of the Japanese master license, the Company recorded tangible assets of $11.0 million, an intangible license valued at $9.9 million and liabilities assumed of $8.5 million based on estimated fair values as determined by management utilizing information available at this time. At March 29, 2003, goodwill of $13.0 million was recognized for the excess of the purchase price plus transaction costs of $1.3 million over the preliminary estimate of fair market value of the net assets acquired. During the three months ended June 28, 2003, the Company incurred an additional $3.5 million of transaction costs and has allocated it to goodwill. The Company's accounting for the acquisition was based on preliminary valuation information, which is subject to revision. Unaudited pro forma information related to this acquisition is not included, since the impact of this transaction is not material to the consolidated results of the Company.

Results for the Japanese master license are fully consolidated in the Company's consolidated statements of operations. For the three months ended June 28, 2003, the Company has recorded minority interest expense of $11 thousand to reflect the share of earnings allocable to the 50% minority interest holder in the Japanese master license. This amount is included in Other (income) expense, net in the consolidated statements of operations.

In February 2003, we acquired an 18% equity interest in the company which holds the sublicenses for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $47.6 million. In May 2003, we paid $5.4 million to acquire an additional 2% equity interest in this company. For the three months ended June 28, 2003, the Company recorded $1.9 million of equity investment income to reflect the 20% investment. This amount in included in Other (income) expense, net in the consolidated statements of operations.

Results for our 50% interest in the Japanese master license and the 20% equity interest are reported on a one-month lag.

On October 31, 2001, the Company completed the acquisition of substantially all of the assets of PRL Fashions of Europe S.R.L. During the quarter ended June 28, 2003, an additional payment was made on the first earn-out payment calculation, resulting in an additional increase in goodwill of approximately $1.0 million.

## 3. Inventories

Inventories are valued at the lower of cost (first-in, first-out, "FIFO" method) or market and are summarized as follows:

| | June 28, 2003 | March 29, 2003 |
|---|---|---|
| Raw materials | $ 5,559 | $ 4,214 |
| Work-in-process | 6,442 | 4,536 |
| Finished goods | 418,100 | 355,021 |
| | $430,101 | $363,771 |

## 4. Goodwill and Other Intangible Assets

The carrying value of goodwill as of June 28, 2003 and March 29, 2003 by operating segment is as follows (dollars in millions):

| | Wholesale | Retail | Licensing | Total |
|---|---|---|---|---|
| Balance at March 29, 2003 | $133.7 | $69.4 | $112.5 | $315.6 |
| Purchases | 1.0 | — | 3.5 | 4.5 |
| Effect of foreign exchange and other adjustments | 7.1 | 3.3 | — | 10.4 |
| Balance at June 28, 2003 | $141.8 | $72.7 | $116.0 | $330.5 |

The carrying value of indefinite life intangible assets as of June 28, 2003 was $1.5 million and relates to the Company's owned trademark. Finite life intangible assets as of June 28, 2003 and March 29, 2003, subject to amortization, are comprised of the following:

| | June 28, 2003 | | | March 29, 2003 | | | |
|---|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accum. Amort. | Net | Gross Carrying Amount | Accum. Amort. | Net | Estimated Lives |
| Licensed trademarks | $9,900 | $330 | $9,570 | $9,900 | $ — | $9,900 | 10 years |

Intangible amortization expense was $0.3 million for the first quarter of Fiscal 2004. The estimated intangible amortization expense for each of the following five years is expected to be approximately $1.0 million per year.

## 5. Restructuring

### *(a) 2003 Restructuring Plan*

During the third quarter of Fiscal 2003, we completed a strategic review of our European businesses and formalized our plans to centralize and more efficiently consolidate its business operations. The major initiatives of the plan included the following: consolidation of our headquarters from five cities in three countries to one location; the consolidation of our European logistics operations to Italy; and the migration of all European information systems to a standard global system. In connection with the implementation of this plan, the Company has recorded a $14.4 million restructuring charge during Fiscal 2003 for severance and contract termination costs. The Company expects the remaining consolidation and migration to be completed during Fiscal 2004. The major components of the charge and the activity for the quarter ended June 28, 2003 were as follows:

| | Severance and Termination Benefits | Lease and Other Contract Termination Costs | Total |
|---|---|---|---|
| Balance at March 29, 2003 | $8,099 | $2,567 | $10,666 |
| Fiscal 2004 spending | (802) | — | (802) |
| Balance at June 28, 2003 | $7,297 | $2,567 | $ 9,864 |

Total severance and termination benefits as a result of this restructuring related to approximately 150 employees. Total cash outlays related to this plan of approximately $4.5 million have been paid through June 28, 2003. It is expected that this plan will be completed, and the remaining liabilities will be paid, in Fiscal 2004.

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

In connection with the implementation of the 2001 Operational Plan, we recorded a pre-tax restructuring charge of $128.6 million in our second quarter of Fiscal 2001. This charge was subsequently adjusted for a $5.0 million reduction of liabilities in the fourth quarter of Fiscal 2001 and a $16.0 million increase in the fourth quarter of Fiscal 2002 for lease termination costs associated with the closure of our retail stores due to market factors that were less favorable than originally estimated. The major component of the charge remaining and the activity through June 28, 2003 is as follows:

| | Lease and Contract Termination Costs |
|---|---|
| Balance at March 29, 2003 | $ 5,151 |
| Fiscal 2004 spending | (3,989) |
| Balance at June 28, 2003 | $ 1,162 |

Total severance and termination benefits as a result of the 2001 Operational Plan related to approximately 550 employees, all of whom have been terminated. Total cash outlays related to the 2001 Operational Plan are expected to be approximately $40.7 million, $39.5 million of which have been paid through June 28, 2003 and subsequently in July 2003, an additional $0.3 million was settled. We completed the implementation of the 2001 Operational Plan in Fiscal 2002 and expect to settle the remaining liabilities in Fiscal 2004 or in accordance with contract terms.

## 6. Financing Agreements

In November 2002, we terminated both our 1997 bank credit facility and our 1999 senior bank credit facility and entered into a new credit facility. The 1997 bank credit facility provided for a $225.0 million revolving line of credit and was scheduled to mature on December 31, 2002, while the 1999 senior bank credit facility consisted of a $20.0 million revolving line of credit and an $80.0 million term loan, both of which were scheduled to mature on June 30, 2003. The new credit facility is with a syndicate of banks and consists of a

$300.0 million revolving line of credit, subject to increase to $375.0 million, and is available for direct borrowings and the issuance of letters of credit. It will mature on November 18, 2005. As of June 28, 2003, we had $50.0 million outstanding under the new facility, which was subsequently paid on June 30, 2003. Borrowings under this facility bear interest, at our option, at a rate equal to (i) the higher of the Federal Funds Effective Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of JP Morgan Chase Bank in effect from time to time, or (ii) the LIBO Rate (as defined) in effect from time to time, as adjusted for the Federal Reserve Boards Eurocurrency Liabilities maximum reserve percentages and a margin based on our then current credit ratings. As of June 28, 2003, the margin was 0.75%. At June 28, 2003, we were contingently liable for $20.9 million in outstanding letters of credit related primarily to commitments for the purchase of inventory.

Our 2002 bank credit facility requires that we maintain certain financial covenants. As of June 28, 2003, we were in compliance with all financial and non-financial debt covenants.

**7. Financial Instruments**

In June 2002, we entered into a cross currency rate swap, which was scheduled to terminate in November 2006. The cross currency rate swap was being used to convert Euro 105.2 million, 6.125% fixed rate borrowings into $100.0 million, LIBOR plus 1.24% variable rate borrowings. We entered into the cross currency rate swap to minimize the impact of foreign exchange fluctuations in both principal and interest payments resulting from Euro debt, and to minimize the impact of changes in the fair value of the Euro debt due to changes in LIBOR, the benchmark interest rate. The swap had been designated as a fair value hedge under SFAS No. 133. Hedge ineffectiveness was measured as the difference between the respective gains or losses recognized in earnings from the changes in the fair value of the cross currency rate swap and the Euro debt.

In May 2003, we terminated the cross currency rate swap, and entered into an interest rate swap that terminates in November 2006. The interest rate swap was being used to convert Euro 105.2 million, 6.125% fixed rate borrowings into Euro 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 had 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 minimis for the three months ended June 28, 2003. In addition, we have designated the entire principal of the Euro debt as a hedge of our net investment in a foreign subsidiary. As a result, changes in the fair value of the Euro debt resulting from changes in the Eurodollar 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 royalty payments. Gains and losses on these contracts are deferred and recognized as adjustments to either the basis of those assets or the royalty expense incurred, as applicable. At June 23, 2003, we had foreign exchange contracts outstanding as follows: (i) to deliver 66.4 million Eurodollars in exchange for $71.0 million through Fiscal 2004 and (ii) to deliver 8,276 million Japanese Yen in exchange for $72.6 million through Fiscal 2008. At June 28, 2003, the fair value of these contracts resulted in an unrealized loss of $4.4 million and an unrealized loss of $1.2 million, respectively.

## 8. Comprehensive Income

For the three months ended June 28, 2003 and June 29, 2002, comprehensive income was as follows:

| | Three Months Ended | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| Net Income | $ 5,055 | $ 6,460 |
| Other comprehensive income, net of taxes: | | |
| Foreign currency translation adjustments | 20,394 | 18,410 |
| Unrealized losses on cash flow and foreign currency hedges, net | (14,737) | (20,805) |
| Comprehensive Income | $ 10,712 | $ 4,065 |

The income tax effect related to foreign currency translation adjustments and unrealized gains and losses on cash flow and foreign currency hedges, net, was a benefit of $6.1 million and $1.4 million in the three months ended June 28, 2003 and June 29, 2002, respectively.

## 9. Stock Incentive Plans

In June 2003, 100,000 restricted stock units were granted under our Stock Incentive Plan. An additional 100,000 restricted stock units will be granted on each anniversary of the first grant date during the term pursuant to an employment agreement with an initial term ending on the last day of Fiscal 2008. These units vest on the fifth anniversary of the grant date and will be payable solely in shares of common stock following termination of employment. The vesting of all then outstanding and unvested units will be accelerated if termination of employment occurs after the last day of Fiscal 2008, except in the case of termination by the Company for cause. The unearned compensation in respect of the grant made during the initial term is being amortized over the period ending on that date.

## 10. Commitments & Contingencies

***Declaration of Dividend***

On May 20, 2003 the Board of Directors declared a regular quarterly cash dividend of $0.05 per share, or $0.20 per share on an annual basis, on Polo Ralph Lauren common stock. The dividend was payable to shareholders of record at the close of business on June 27, 2003 and was paid on July 11, 2003. In connection with this dividend approximately $4.9 million was recorded as a reduction to retained earnings during the quarter ended June 28, 2003.

***Legal Matters***

The Company is a party to several pending legal proceedings and claims. Although the outcome of such actions cannot be determined with certainty, management is of the opinion that the final outcome should not have a material adverse effect on the Company’s results of operations or financial position (see Note 11).

## 11. 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 the Company and Jones dated May 11, 1998, these license agreements will terminate as of December 31, 2003. The Company has advised Jones that the termination of these licenses will automatically result in the termination of the licenses between it and Jones with respect to the “Lauren” trademark pursuant to the Cross Default and Term Extension Agreement, between the

Company and Jones dated May 11, 1998. The Lauren license agreements would otherwise expire on December 31, 2006. Jones has reported that net sales of Lauren and Ralph products for the year ended December 31, 2002 were $548.0 million and $37.0 million, respectively.

On June 3, 2003, Jones filed a lawsuit against us in the Supreme Court of the State of New York alleging, among other things, that the Company breached its agreements with Jones with respect to the “Lauren” trademark by asserting its rights pursuant to the Cross Default and Term Extension Agreement and that the Company induced Ms. Jackwyn Nemerov, the former President of Jones, to breach the non-compete and confidentiality clauses in Ms. Nemerov’s employment agreement with Jones. Jones stated that it will treat the Lauren license agreements as terminated as of December 31, 2003, and is seeking compensatory damages of $550.0 million as well as punitive damages and to enforce the provisions of Ms. Nemerov’s agreement. Also on June 3, 2003, the Company filed a lawsuit against Jones in the Supreme Court of the State of New York seeking, among other things, an injunction and a declaratory judgment that the Lauren license agreements will terminate as of December 31, 2003 pursuant to the terms of the Cross Default and Term Extension Agreement. The two lawsuits have been consolidated. On July 3, 2003, the Company filed a motion to dismiss Jones’ claims regarding breach of the “Lauren” agreements and a motion to stay the claims regarding Ms. Nemerov pending the arbitration of Jones’ dispute with Ms. Nemerov. In July 2003 Jones filed a motion for summary judgment in the action filed by Polo. Oral argument on these motions has been scheduled for September 30, 2003. If Jones’ lawsuit were to be determined adversely to the Company, it could have a material adverse effect on the Company’s results of operations and financial condition; however, the Company believes that the lawsuit is without merit and that the Company will prevail.

On September 18, 2002, an employee at one of the Company’s stores, Toni Young, filed a lawsuit against Polo Retail, LLC and the Company 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 retail employees who were allegedly injured by being required to purchase and wear Polo Ralph Lauren merchandise 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. A second putative class action, Esteen v. Polo Retail, LLC was filed in the San Francisco County Superior Court on April 14, 2003. This state court action alleges virtually identical claims, to those in the Federal action, and Ms. Young is one of the purported class representatives. The state action has been stayed pending resolution of the Federal action. The Company has moved for partial summary judgement on the issue of whether the Company’s policies violated California law, and a hearing on our motion has been scheduled for August 14, 2003.

**12. Segment Reporting**

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

Our net revenues and income from operations for the three months ended June 28, 2003 and June 29, 2002 for each segment were as follows:

| | Three Months Ended | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| **Net revenues:** | | |
| Wholesale | $161,625 | $186,728 |
| Retail | 254,464 | 227,138 |
| Licensing | 61,642 | 53,134 |
| | $477,731 | $467,000 |
| **Income (Loss) from operations:** | | |
| Wholesale | $ (31,049) | $ (21,930) |
| Retail | 11,246 | 15,870 |
| Licensing | 25,329 | 23,748 |
| | $ 5,526 | $ 17,688 |

Our net revenues for the three months ended June 28, 2003 and June 29, 2002 by geographic location were as follows:

| | Three Months Ended | |
|---|---|---|
| | June 28, 2003 | June 29, 2002 |
| **Net revenues:** | | |
| United States and Canada | $386,914 | $381,365 |
| Europe | 61,174 | 69,962 |
| Other Regions | 29,643 | 15,673 |
| | $477,731 | $467,000 |

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

*The following discussion and analysis is a summary and should be read together with our Consolidated Financial Statements and related notes thereto which are included herein. We utilize a 52-53 week Fiscal year ending on the Saturday nearest March 31. Fiscal 2004 will end on April 3, 2004 ("Fiscal 2004") and reflects a 53 week period. Fiscal 2003 ended March 29, 2003 ("Fiscal 2003") and reflects a 52 week period.*

*Certain statements in this Form 10-Q and in future filings with the Securities and Exchange Commission, in our press releases and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: risks associated with a general economic downturn and other events leading to a reduction in discretionary consumer spending; risks associated with implementing our plans to enhance our worldwide luxury retail business, inventory management program and operating efficiency initiatives; risks associated with our start-up of the Lauren Line; risks associated with changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors; changes in global economic or political conditions; risks associated with our dependence on sales to a limited number of large department store customers, including risks related to extending credit to customers; risks associated with our dependence on our licensing partners for a substantial portion of our net income and risks associated with a lack of operational and financial control over licensed businesses; risks associated with financial distress of licensees, including the impact on our net income and business of one or more licensees' reorganization; risks associated with consolidations, restructurings and other ownership changes in the retail industry; risks associated with competition in the segments of the fashion and consumer product industries in which we operate, including our ability to shape, stimulate and respond to changing consumer tastes and demands by producing attractive products, brands and marketing, and our ability to remain competitive in the areas of quality and price; risks associated with uncertainty relating to our ability to implement our growth strategies; risks associated with our entry into new markets either through internal development activities or through acquisitions; risks associated with the possible adverse impact of our unaffiliated manufacturers' inability to manufacture in a timely manner, to meet quality standards or to use acceptable labor practices; risks associated with changes in social, political, economic and other conditions affecting foreign operations or sourcing and the possible adverse impact of changes in import restrictions; risks related to our ability to establish and protect our trademarks and other proprietary rights; risks related to fluctuations in foreign currency affecting our foreign subsidiaries' and foreign licensees' results of operations and the relative prices at which we and our foreign competitors sell products in the same market and our operating and manufacturing costs outside of the United States; and risks associated with our control by Lauren family members and the anti-takeover effect of multiple classes of stock. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

**Recent Developments**

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 will terminate as of December 31, 2003. We have advised Jones that the termination of these licenses will automatically result in the termination of the licenses between us and Jones with respect to the "Lauren" trademark pursuant to the Cross Default and Term Extension Agreement, between the Company and Jones dated May 11, 1998. The Lauren license agreements would otherwise expire on December 31, 2006. Jones has reported that net sales of Lauren and Ralph products for the year ended December 31, 2002 were $548.0 million and $37.0 million, respectively.

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 breached our agreements with Jones with respect to the “Lauren” trademark 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 will treat the Lauren license agreements as terminated as of December 31, 2003, and is seeking compensatory damages of $550.0 million as well as punitive damages and to enforce the provisions of Ms. Nemerov’s agreement. Also on June 3, 2003, we filed a lawsuit against Jones in the Supreme Court of the State of New York seeking, among other things, an injunction and a declaratory judgment that the Lauren license agreements will terminate as of December 31, 2003 pursuant to the terms of the Cross Default and Term Extension Agreement. The two lawsuits have been consolidated. On July 3, 2003, Polo 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. In July 2003, Jones filed a motion for summary judgment in the action filed by Polo. Oral argument on these motions has been scheduled for September 30, 2003. If Jones’ lawsuit were to be determined adversely to us, it could have a material adverse effect on our results of operations and financial condition; however, the Company believes that the lawsuit is without merit and that we will prevail.

The royalties that we received pursuant to the “Lauren” license agreements and “Ralph” license agreements represented revenues in Fiscal 2003 of approximately $37.4 million and $5.3 million, respectively. We will no longer receive these royalties after the third quarter of Fiscal 2004, as a result of the termination of the Lauren and Ralph license agreements on December 31, 2003. The Company has begun production and marketing of the Lauren line, with shipments beginning in January 2004. Although we expect that the loss of the Lauren and Ralph royalties from Jones and the start-up expenses associated with the Lauren line will exceed the anticipated revenues from our sales of Lauren products in the fourth quarter in Fiscal 2004, we expect that the income from our sales of Lauren products will at least replace the royalty income previously attributable to the Lauren and Ralph license agreements for Fiscal 2005. In total, royalties received from Jones, including royalties from the “Polo Jeans” license agreements, accounted for 27.2% of our aggregate licensing revenue for Fiscal 2003. The “Polo Jeans” license agreement was not covered under the terms of the Cross Default and Term Extension agreement and continues in effect.

In June 2003, one of our licensing partners, The West Point Stevens, Inc. (“WPS”), filed a voluntary petition for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. WPS produces bedding and bath product in our home product collection, and royalties paid by WPS accounted for 15.9% of our licensing revenues in Fiscal 2003. As of June 2003, we had approximately $5.5 million in outstanding receivables with WPS. The Company anticipates that the outstanding receivables will be collected, but no assurance can be given that WPS’s bankruptcy will not affect our license arrangement.

**Recent Acquisitions**

In February 2003, we acquired a 50% controlling interest in the Japanese master license for the Polo Ralph Lauren men’s, women’s and jeans business in Japan for approximately $24.1 million. In connection with the acquisition of the Japanese master license, the Company recorded tangible assets of $11.0 million, an intangible license valued at $9.9 million and liabilities assumed of $8.5 million based on estimated fair values as determined by management utilizing information available at this time. At March 29, 2003, goodwill of $13.0 million was recognized for the excess of the purchase price plus transaction costs of $1.3 million over the preliminary estimate of fair market value of the net assets acquired. During the three months ended June 28, 2003, the Company incurred an additional $3.5 million of transaction costs and has allocated it to goodwill. The Company’s accounting for the acquisition was based on preliminary valuation information, which is subject to revision. Unaudited pro forma information related to this acquisition is not included, since the impact of this transaction is not material to the consolidated results of the Company.

Results for the Japanese master license are fully consolidated in the Company's consolidated statements of operations. For the three months ended June 28, 2003, the Company has recorded minority interest expense of $11 thousand to reflect the share of earnings allocable to the 50% minority interest holder in the Japanese master license. This amount is included in Other (income) expense, net, in the consolidated statements of operations.

In February 2003, we acquired an 18% equity interest in the company which holds the sublicenses for the Polo Ralph Lauren men's, women's and jeans business in Japan for approximately $47.6 million. In May 2003, we paid $5.4 million to acquire an additional 2% equity interest in this company. For the three months ended June 28, 2003, the Company recorded $1.9 million of equity investment income to reflect the 20% investment. This amount in included in Other (income) expense, net in the consolidated statements of operations.

Results for our 50% interest in the Japanese master license and the 20% equity interest are reported on a one-month lag.

On October 31, 2001, the Company completed the acquisition of substantially all of the assets of PRL Fashions of Europe S.R.L. During the quarter ended June 28, 2003, an additional payment was made on the first earn-out payment calculation, resulting in an additional increase in goodwill of approximately $1.0 million.

**Results of Operations**

We operate in three integrated business operation segments: wholesale, retail and licensing. The following table below sets forth the percentage relationship to net revenues of certain items in our consolidated statements of operations for the three months ended June 28, 2003 and June 29, 2002:

| | June 28, 2003 | June 29, 2002 |
|---|---|---|
| Net sales | 87.1% | 88.6% |
| Licensing revenue | 12.9 | 11.4 |
| Net revenues | 100.0 | 100.0 |
| Gross profit | 52.1 | 49.8 |
| Selling, general and administrative expenses | 50.9 | 46.0 |
| Income from operations | 1.2 | 3.8 |
| Foreign currency (gains) losses | (0.5) | 0.8 |
| Interest expense | 0.8 | 1.1 |
| Interest income | (0.2) | (0.3) |
| Income before provision for income taxes and other (income) expense, net | 1.1 | 2.2 |
| Provision for income taxes | 0.4 | 0.8 |
| Other (income) expense, net | (0.4) | — |
| Net income | 1.1% | 1.4% |

***Three Months Ended June 28, 2003 Compared to Three Months Ended June 29, 2002***

*Net Sales.* Net sales for the three months ended June 28, 2003 were $416.1 million, an increase of $2.2 million, or 0.5%, over net sales for the three months ended June 29, 2002.

Wholesale net sales decreased $25.1 million, or 13.4%, to $161.6 million, for the three months ended June 28, 2003 from $186.7 million for the three months ended June 29, 2002. This decrease was primarily driven by the elimination of the women's Ralph Lauren Sport line, which accounted for net sales of approximately $11.4 million in the prior year's comparative period, as well as decreases in the European wholesale business of $11.5 million despite a 37% favorable impact due to a stronger Eurodollar rate in the current period. Decreases in the European wholesale business were primarily due to the worsening economic conditions in Europe.

Retail net sales increased $27.4 million, or 12.1%, to $254.5 million for the three months ended June 28, 2003 from $227.1 for the three months ended June 29, 2002. This increase was primarily driven by the $9.5 million, or 13.8%, increase in comparable full-price stores and $8.8 million, or 5.8%, increase in comparable outlet store sales. Comparable store sales information includes both Polo Ralph Lauren stores and Club Monaco stores and also reflects the favorable impact of a stronger Euro and Canadian dollar. Also impacting the increase is worldwide store expansion. During the three months ended June 28, 2003, the Company added six stores, ending the period with 261 stores as compared to 237 stores in the prior year. Included in these additions were four Polo Ralph Lauren stores and two Club Monaco stores.

*Licensing Revenue.* Licensing revenue increased $8.5 million, or 16.0%, to $61.6 million for the three months ended June 28, 2003, from $53.1 million for the three months ended June 29, 2002. This increase is primarily driven by the consolidation of revenues of $5.2 million from the Japanese master license, in which we purchased a 50% controlling interest in February 2003 (see Note 2 to our consolidated financial statements), as well as increased revenues from two product licensing partners of approximately $1.2 million and $0.9 million, respectively.

*Gross Profit.* Gross profit dollars increased $16.1 million, or 6.9%, for the three months ended June 28, 2003 over the three months ended June 29, 2002. Gross profits as a percent of net sales increased to 52.1% from 49.8%, respectively, which reflects increased licensing revenues, a change in business mix, with retail sales representing over 50% of revenues in the three months ended June 28, 2003 and improved merchandise margins in our retail stores offset by decreases in gross margins in our European wholesale business.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses (“SG&A”) increased $28.3 million, or 13.2%, to $243.2 million for the three months ended June 28, 2003 from $214.9 million for the three months ended June 29, 2002. These expenses as a percent of net sales increased to 50.9% from 46.0%, respectively. The increase in SG&A was primarily driven by higher selling salaries and related costs in connection with the increase in retail sales and worldwide store expansion as well as costs associated with the consolidation of the European wholesale and retail businesses and the consolidation of expenses of the Japanese master license. Additionally, we recorded a $1.2 million charge for the lease loss related to the relocation of the Club Monaco headquarters office within Toronto.

*Foreign Currency (Gains) Losses.* The effect of foreign currency resulted in a gain of $2.3 million for the three months ended June 28, 2003, compared to a $3.5 million loss for the three months ended June 29, 2002. For the current period, these gains primarily related to transaction gains on royalty payments received resulting from increases in the Eurodollar rate. In the prior period, these losses primarily related to transaction losses on the unhedged portion of our Euro debt which resulted from increases in the Eurodollar rate until we entered into the cross currency swap in June 2002.

*Interest Expense.* Interest expense decreased to $3.9 million in the three months ended June 28, 2003 from $5.3 million for the three months ended June 29, 2002. This decrease was due to lower levels of borrowings and the repayment of approximately $50.8 million of short-term borrowings during the period, as well as decreased interest rates as a result of the June 2002 cross currency swap and the May 2003 interest rate swap. In addition, we repurchased Euro 8.3 million of our outstanding Euro debt during the three months ended June 29, 2002.

*Interest Income.* Interest income decreased to $0.9 million in the three months ended June 28, 2003 from $1.4 for the three months ended June 29, 2002. This decrease was due to lower levels of cash due to acquisitions and repayments of debt over the last 12 months combined with lower interest rates.

*Provision for Income Taxes.* The effective tax rate was 36.5% for the three months ended June 28, 2003 and June 29, 2002.

*Other (Income) Expense, Net.* Other (income) expense, net increased $1.9 million for the three months ended June 28, 2003, from $0 for the three months ended June 29, 2002. This reflects $1.9 million of income related to the 20% equity interest in the company which holds the sublicenses for the Polo Ralph Lauren men’s, women’s and jeans business in Japan which was acquired in February 2003, net of minority interest expense associated with our Japanese master license.

*Net Income.* Net income decreased for three months ended June 28, 2003 to $5.1 million from $6.5 million for the three months ended June 29, 2002, or 1.1% and 1.4% of net revenues, respectively.

**Liquidity and Capital Resources**

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

As of June 28, 2003, we had $287.5 million in cash and cash equivalents and $315.2 million of debt outstanding compared to $371.6 million and $350.4 million of cash and cash equivalents and debt outstanding, respectively, at June 29, 2002. This represents an increase in our debt net of cash position of $49.0 million, which is primarily attributable to the factors discussed below. In the past year, we have acquired a 50% interest in the Japanese master license, a 20% equity interest in the company which holds that sublicense for the Polo Ralph Lauren men’s, women’s and jeans business in Japan and several retail locations from certain of our licensees in Belgium, Germany and Argentina. Capital expenditures were $13.9 million for the three months ended June 28, 2003, compared to $12.5 million for the three months ended June 29, 2002.

As of June 28, 2003, we had $50.1 million outstanding in short-term bank borrowings, of which $50.0 million was repaid on June 30, 2003. Additionally, we had $265.1 million outstanding in long-term Euro debt, based on the Euro exchange rate at the end of the quarter. We were also contingently liable for $20.9 million in outstanding letters of credit primarily related to commitments for the purchase of inventory.

Accounts receivable increased to $250.0 million, or 20.0%, at June 28, 2003 compared to $208.3 million at June 29, 2002, primarily due to the timing of shipments. The increase also reflected the increases in the value of the Euro. Improvements were made in our days sales outstanding; however, the incremental effect of these improvements was offset by the additional royalty receivables recorded in the quarter ended June 28, 2003 compared to June 29, 2002.

Inventories increased $45.2 million, or 11.8%, at the end of the period compared to the prior period. This increase reflects the build up of certain inventory for increased wholesale fall bookings and to support sales trend in our domestic and European retail stores. The increase also reflected the impact of Euro currency fluctuation. These increases were partially offset by improvements in the management of the Company’s supply chain resulting in better forecasting and distribution causing increased average inventory turnover rates for the three months ended June 28, 2003 as compared to the same period in fiscal 2003.

*Net Cash Provided by Operating Activities.* Net cash provided by operating activities decreased to $11.8 million during the three-month period ended June 28, 2003 compared to $128.3 million for the three months ended June 29, 2002. This $116.5 million decrease in cash flow was driven primarily by year-over-year changes in accounts receivable, inventories, accounts payable and accrued expenses and other.

During Fiscal 2003, we completed a strategic review of our European businesses and formalized our plans to centralize and more efficiently consolidate its business operations. In connection with the implementation of this plan, we had total cash outlays of approximately $0.8 million during the three months ended June 28, 2003. It is expected that the remaining liabilities will be paid throughout fiscal 2004. During Fiscal 2001 we implemented the 2001 Operational Plan and total cash outlays related to this plan were $4.0 million during the three months ended June 28, 2003.

*Net Cash Used in Investing Activities.* Net cash used in investing activities was $23.4 million for the three months ended June 28, 2003, as compared to $11.7 million for the three months ended June 29, 2002. For both periods net cash used primarily reflected shop-within-shops and other capital expenditures related to retail expansion and upgrading our systems and facilities. Our anticipated capital expenditures for fiscal 2004 approximate $115.0 million, including $25.0 million associated with the start-up of the Lauren Line. For the three months ended June 28, 2003, net cash used also reflects an additional $3.5 million primarily for additional transaction costs to acquire a 50% interest in the Japanese master license, $5.5 million for an additional 2% equity interest in the company which holds the sublicenses for the Polo Ralph Lauren men's, women's and jeans business in Japan and $1.0 million for an additional payment on the first earn-out payment calculation in connection with the P.R.L. Fashions of Europe SRL acquisition.

*Net Cash Used in Financing Activities.* Net cash used in financing activities was $47.5 million for the three months ended June 28, 2003, compared to net cash provided by financing activities of $5.3 million for the three months ended June 29, 2002. This change is primarily due to the net repayment of short-term borrowings of $50.8 million, offset by the proceeds from the issuance of common stock of $3.5 million for the three months ended June 28, 2003; compared to $7.7 million of Euro debt repurchases, offset by proceeds from short-term bank borrowings of $9.3 million and proceeds from the issuance of common stock of $4.1 million for the three months ended June 29, 2002.

Our 2002 bank credit facility consists of a $300.0 million revolving line of credit, subject to increase to $375.0 million, which is available for direct borrowings and the issuance of letters of credit. As of June 28, 2003, we had $50 million outstanding under this facility, which was repaid in its entirety subsequent to June 28, 2003. This facility requires that we maintain certain financial covenants. As of June 28, 2003, the Company was in compliance with all financial and non-financial debt covenants.

On May 20, 2003, the Board of Directors initiated a dividend program consisting of cash dividends of $0.05 per outstanding share, or $0.20 per outstanding share on an annual basis, on Polo Ralph Lauren common stock by declaring a $0.05 per outstanding share dividend to shareholders of record at the close of business on June 27, 2003 that was paid on July 11, 2003.

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

*Derivative Instruments.* In June 2002, we entered into a cross currency rate swap, which was scheduled to terminate in November 2006. The cross currency rate swap was being used to convert Euro 105.2 million, 6.125% fixed rate borrowings into $100.0 million, LIBOR plus 1.24% variable rate borrowings. We entered into the cross currency rate swap to minimize the impact of foreign exchange fluctuations on both principal and interest payments resulting from Euro debt, and to minimize the impact of changes in the fair value of the Euro debt due to changes in LIBOR, the benchmark interest rate. The swap had been designated as a fair value hedge under SFAS No. 133. Hedge ineffectiveness was measured as the difference between the respective gains or losses recognized in earnings from the changes in the fair value of the cross currency rate swap and the Euro debt.

In May 2003, we terminated the cross currency rate swap, and entered into an interest rate swap that terminates in November 2006. The interest rate swap was being used to convert Euro 105.2 million, 6.125% fixed rate borrowings into Euro 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 had 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 minimis for the three months ended June 28, 2003. In addition, we have designated the entire principal of the Euro debt as a hedge of our net investment in a foreign subsidiary. As a result, changes in the fair value of the Euro debt resulting from changes in the Eurodollar 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 royalty payments. Gains and losses on these contracts are deferred and recognized as adjustments to either the basis of those assets or the royalty expense incurred, as applicable. At June 28, 2003, we had foreign exchange contracts outstanding as follows: (i) to deliver 66.4 million Eurodollars in exchange for $71.0 million through Fiscal 2004 and (ii) to deliver 8,276 million Japanese Yen in exchange for $72.6 million through Fiscal 2008. At June 28, 2003, the fair value of these contracts resulted in an unrealized loss of $4.4 million and an unrealized loss of $1.2 million, respectively.

**Seasonality of Business**

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

**Critical Accounting Policies 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. Estimates by their nature are based on judgments and available information and therefore, actual results could differ from those estimates.

Critical accounting policies are those that are most important to the portrayal of the Company’s financial condition and the results of operations, and require management’s most difficult, subjective and complex judgments, as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company’s most critical accounting policies pertain to revenue recognition, accounts receivable, inventories, goodwill, other intangibles and long-lived assets. In applying such policies, management must use some amounts that are based upon its informed judgments and best estimates. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods. The Company is not aware of any reasonably likely events or circumstances which would result in different amounts being reported that would materially affect its financial condition or results of operations.

**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 June 28, 2003, there were significant fluctuations in the value of the Euro to U.S. dollar exchange rate. In June 2002, we entered into a cross currency rate swap to minimize the impact of foreign exchange fluctuations on the long-term Euro debt and the impact of fluctuations in the interest rate on the fair value of the long-term Euro debt. In May 2003, we terminated the cross currency rate swap, and entered into an 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.

Since March 29, 2003, 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***

Within the 90-day period prior to the date of this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer and the Senior Vice President of Finance and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chairman and Chief Executive Officer and the Senior Vice President of Finance and Chief Financial Officer, concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-14 promulgated under the Securities Exchange Act of 1934) are effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of completion of their evaluation.

## PART II. OTHER INFORMATION

### Item 1. *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 will terminate as of December 31, 2003. We have advised Jones that the termination of these licenses will automatically result in the termination of the licenses 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 Lauren license agreements would otherwise expire on December 31, 2006. Jones has reported that net sales of Lauren and Ralph products for the year ended December 31, 2002 were $548.0 million and $37.0 million, respectively.

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 breached our agreements with Jones with respect to the “Lauren” trademark 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 has stated that it will treat the Lauren license agreements as terminated as of December 31, 2003, and is seeking compensatory damages of $550.0 million as well as punitive damages and to enforce the provisions of Ms. Nemerov’s agreement. Also on June 3, 2003, we filed a lawsuit against Jones in the Supreme Court of the State of New York seeking, among other things, an injunction and a declaratory judgment that the Lauren license agreements will terminate as of December 31, 2003 pursuant to the terms of the Cross Default and Term Extension Agreement. The two lawsuits have been consolidated. On July 3, 2003, Polo 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. In July 2003, Jones filed a motion for summary judgment in the action filed by Polo. Oral argument on these motions has been scheduled for September 30, 2003. If Jones’ lawsuit were to be determined adversely to us, it could have a material adverse effect on our results of operations and financial condition; however, we believe that the lawsuit is without merit and that we will prevail.

On September 18, 2002, an employee at one of the Company’s stores, Toni Young, filed a lawsuit against Polo Retail, LLC and the Company 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 retail employees who were allegedly injured by being required to purchase and wear Polo Ralph Lauren merchandise 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. A second putative class action, Esteen v. Polo Retail, LLC was filed in the San Francisco County Superior Court on April 14, 2003. This state court action alleges virtually identical claims, to those in the Federal action, and Ms. Young is one of the purported class representatives. The state action has been stayed pending resolution of the Federal action. We have moved for partial summary judgement on the issue of whether the Company’s policies violated California law, and a hearing on our motion has been scheduled for August 14, 2003.

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

(a) *Exhibits* —

10.1 Amended and Restated Employment Agreement between Polo Ralph Lauren Corporation and Ralph Lauren dated as of June 17, 2003.

99.1 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.

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

The certificates listed as Exhibits 99.1 and 99.2 are being furnished pursuant to interim guidance issued by the Securities and Exchange Commission in Release No. 33-8212 and shall not be deemed “filed” for the purposes of Section 18 of the Securities and Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of such section, nor shall such certificates be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of the general incorporation language of such filings, except as shall be expressly set forth by specific reference in such filing.

(b) *Reports on Form 8-K* —

(i) Report on Form 8-K dated May 21, 2003 reporting the release of the issuer’s results of operations for its fiscal quarter and year ended March 29, 2003 and attaching a copy of the press release reporting such results. The information contained in this Form 8-K, including the accompanying exhibit, was furnished under Item 12 and shall not be deemed to be “filed” for the purposes of Section 18 of the Securities and Exchange Act of 1934 (the “Exchange Act”), or otherwise subject to the liability of such section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of the general incorporation language of such filing, except as shall be expressly set forth by specific reference in such filing.

(ii) Report on Form 8-K dated June 5, 2003 reporting the filing of the lawsuits between the issuer and Jones Apparel Group, Inc. described in Item 1 of Part II of this report.

**SIGNATURES**

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

POLO RALPH LAUREN CORPORATION

By: /s/ GERALD M. CHANEY

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

Date: August 12, 2003

**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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant’s ability to record, process, summarize and report financial data and have identified for the registrant’s auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls; and

6. The registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ RALPH LAUREN

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

Date: August 12, 2003

**CERTIFICATION**

I, Gerald M. Chaney, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ GERALD M. CHANEY

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

Date: August 12, 2003

EXECUTION COPY

# AMENDED AND RESTATED
# EMPLOYMENT AGREEMENT

AGREEMENT made effective as of the 23rd day of June, 2003, between Polo Ralph Lauren Corporation, a Delaware corporation (the "Company"), and Ralph Lauren (the "Executive").

## RECITALS

The Executive is the founder of the predecessor entities of the Company and has acted as Chief Executive Officer of such entities and the Company for more than thirty-five years.

The Executive has heretofore been employed by the Company pursuant to an employment agreement made effective as of June 9, 1997, as amended and restated April 4, 1999 (the "Prior Agreement").

The Company recognizes that the Executive's talents and abilities are unique and have been integral to the success of the Company. The Company wishes to retain the services of the Executive and recognizes that the Executive's contribution to the growth and success of the Company will be substantial. The Company desires to provide for the continued employment of the Executive and to make employment arrangements that will reinforce and encourage the attention and dedication to the Company of the Executive as a member of the Company's senior management, in the best interest of the Company. The Executive is willing to commit himself to serve the Company, on the terms and conditions herein provided.

The Company and the Executive wish to amend and restate the Prior Agreement as evidenced by this Agreement effective as of the date hereof in order to provide for the modification of certain provisions of the Prior Agreement.

In order to effect the foregoing, the Company and the Executive wish to enter into an Agreement on the terms and conditions set forth below. Accordingly, in consideration of the premises and the respective covenants and agreements of the parties herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

## AGREEMENT

Employment. Effective as of June 23, 2003 (the "Effective Date"), the Executive's employment with the Company shall be governed by this Agreement, which restates and supersedes the Prior Agreement.

Term. The term of the Executive's employment hereunder shall commence as of the Effective Date and shall remain in effect through the last day of the Company's fiscal year (a "Fiscal Year") which ends in calendar year 2008, subject to earlier termination in accordance with the terms of this Agreement (the "Term"). The Term shall be automatically extended for successive one year periods thereafter unless either party notifies the other in writing of his or its intention not to so extend the Term at least ninety (90) days prior to the commencement of the next scheduled one year extension.

Position and Duties.

Title and Duties. The Executive shall serve as Chief Executive Officer of the Company and Chairman of the Board of Directors of the Company (the "Board"), and shall have such duties, authority and responsibilities as are normally associated with and appropriate for such positions. The Executive shall report directly to the Board. The Executive shall devote substantially all of his working time and efforts to the business and affairs of the Company.

Office and Facilities. The Executive shall be provided with appropriate office and secretarial facilities in each of the Company's principal executive offices in New York City and any other location that the Executive reasonably deems necessary to have an office and support services in order for the Executive to perform his duties to the Company. In addition, the Executive shall continue to be entitled to have certain employees of the Company perform services for the Executive which are non-Company related in a manner consistent with past practice; provided that the Executive reimburses the Company for the full amount of salary, benefits and other expenses relating to such employees.

Compensation.

Base Salary. During the Term, the Company shall pay to the Executive an annual base salary of $1,000,000. The Executive's base salary shall be paid in substantially equal installments on a basis consistent with the Company's payroll practices and shall be subject to such increases, if any, as may be determined in the sole discretion of the Board. The Executive's base salary, as in effect at any time, is hereinafter referred to as the "Base Salary."

Annual Bonus. For each Fiscal Year that occurs during the Term, the Executive shall be eligible to earn an annual cash bonus (the "Bonus") under the Company's Executive Officer Annual Incentive Plan, as amended from time to time (the "Bonus Plan"), based upon the achievement by the Company and its subsidiaries of performance goals for each such Fiscal Year established by the Compensation Committee of the Board of Directors (the "Compensation Committee"). The Compensation Committee shall establish objective criteria to be used to determine the extent to which such performance goals have been satisfied. The range of the Bonus opportunity for each Fiscal Year will be as determined by the Compensation Committee based upon the extent to which such performance goals are achieved, provided that the annual target Bonus opportunity shall be $8 million for the 2004 Fiscal Year, $9 million for the 2005 Fiscal

Year, $10 million for the 2006 Fiscal Year, $11 million for the 2007 Fiscal Year and $12 million for the 2008 Fiscal Year (for each such Fiscal Year, the "Target Bonus"), and provided, further that for each Fiscal Year, the maximum Bonus payable pursuant to this Section 4(b) shall not exceed the amount that is 150% of the Target Bonus for such Fiscal Year. Notwithstanding the foregoing, in no case may the Bonus for any Fiscal Year exceed the maximum annual bonus payable to any single individual pursuant to the Bonus Plan. The Bonus, if any, payable to the Executive in respect of any Fiscal Year will be paid at the same time that bonuses are paid to other executives of the Company, but in any event within seventy-five days after the conclusion of such Fiscal Year.

Incentive Compensation.

Stock Options. As of the Effective Date, and annually thereafter during the Term at the same time as stock options or other equity awards are granted to other executives of the Company, the Executive will be granted an option (each, an "Annual Option") to purchase 150,000 shares of Class A Common Stock of the Company (the "Common Shares") pursuant to the terms of the Company's 1997 Long-Term Stock Incentive Plan or any successor thereto (the "Incentive Plan"). In the event that, prior to the grant of an Annual Option, there occurs any stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Shares or other similar corporate transaction or event that affects the Common Shares such that an adjustment is determined by the Committee (as defined in the Incentive Plan) in its discretion to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available hereunder, the number of Common Shares subject to such Annual Option (when granted) will be subject to equitable adjustment. Each Annual Option will have a term of ten (10) years (subject to earlier termination as described in Section 6 hereof) and will be nontransferable during the Executive's lifetime, except for transfers by the Executive to family members (or trusts for their benefit) pursuant to the terms of the Incentive Plan. Each Annual Option will vest and become exercisable ratably over three (3) years on each of the first three anniversaries of the date of grant, subject to the Executive's continued employment through each vesting date and subject to the provisions of Section 6 hereof, and will have an exercise price per Common Share equal to the fair market value per Common Share as of the date of grant.

Restricted Stock Units. As of the Effective Date, and annually thereafter during the Term at the same time as stock options or other equity awards are granted to other executives of the Company, the Executive will be granted (each, an "Annual Grant") 100,000 restricted stock units ("Units") pursuant to the terms of the Incentive Plan. Each Unit will represent a right to receive one Common Share. In the event that, prior to an Annual Grant, there occurs any stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Shares or other similar corporate transaction or event that affects the Common Shares such that an adjustment is determined by the Committee (as defined in the Incentive Plan) in its discretion to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available hereunder, the number of Units subject to such Annual Grant (when granted) will be subject to equitable adjustment. Each of the Units will vest on the fifth (5th) anniversary of the date of grant (subject to acceleration of vesting or forfeiture upon termination of employment as described in Section 6 hereof). Payment in respect of each vested Unit shall be made in Common Shares as soon as practicable following the date of the Executive's termination of employment with the Company. In the event of an issuance of a cash dividend on the Common Shares (a "Dividend"), the Executive shall be entitled to be credited with an additional number of restricted stock units (each, a "Dividend Unit") equal to the quotient obtained by dividing (a) the product of (i) the number of Units that the Executive holds at the time of the record date for such Dividend multiplied by (ii) the amount of the Dividend per Common Share, divided by (b) the fair market value per Common Share on the payment date for such Dividend. Once credited, each Dividend Unit shall be treated as a Unit hereunder and shall be subject to the same terms and conditions as those terms and conditions as the Units from which such Dividend Unit is derived, including but not limited to vesting schedule and rights to Dividend Units with respect to future Dividends. The terms and conditions of each Annual Grant will be reflected in an Award Agreement which shall be consistent with this paragraph and with the terms and conditions of the Incentive Plan.

Employee Benefits.

Benefit Plans. The Executive shall continue to participate in all existing employee benefit plans, perquisite and fringe benefit arrangements of the Company or its affiliates in which he is currently participating and shall be entitled to participate in any future employee benefit plans, perquisite and fringe benefit arrangements of the Company or its affiliates that are provided to other officers of the Company on terms no less favorable than are provided to any other senior executive of the Company.

Life Insurance. The Executive shall be solely responsible for maintaining and making premium contributions to, and the Company shall cease to have any further obligation to maintain and make premium contributions with respect to, those certain split dollar and other life insurance arrangements between the Company and the Executive, his family members and/or life insurance trusts for the benefit of any of them, that have been maintained or contributed to by the Company or its affiliates or predecessor entities (the "Insurance Policies"); provided, however, that nothing contained in this Section 5(b) shall adversely affect the Company's right to receive reimbursement in respect of any premium payments previously made by the Company under the Insurance Policies.

Expenses. The Executive shall be entitled to receive prompt reimbursement for all reasonable and customary expenses incurred by the Executive in performing services hereunder, including all expenses of travel and living expenses while away from home on business or at the request of and in the service of the Company (including hotel, travel and meal expenses for the Executive's spouse should the Executive's spouse elect to travel with Executive) (collectively, "Business Expenses"), provided that such Business Expenses are incurred and accounted for in accordance with the policies and procedures established by the Company.

Air Travel. For security purposes, the Executive and his family members shall be required to use the Executive's or other acceptable private aircraft for any travel. For any Business Expense incurred as a result of the Executive's use of his private aircraft, the Executive shall be reimbursed in accordance with past practice. For any Business Expense incurred as a result of travel on any private aircraft (other than Executive's personal aircraft), the Executive shall be entitled to reimbursement at market rates.

Perquisites. The Company shall provide the Executive with a car and driver for his use during the term of his employment with the Company.

Vacations. The Executive shall be entitled to vacations and holidays on a basis consistent with that offered to other senior executive officers of the Company.

Indemnification. The Company shall indemnify the Executive to the fullest extent permitted by applicable law against damages and expenses (including fees and disbursements of counsel) in connection with his status or performance of duties as an officer or director of the Company and its affiliates (including any predecessor entities) and shall use reasonable commercial efforts to maintain customary and appropriate directors and officers liability insurance for the benefit of the Executive's protection. The Company's obligations under this Section 5(g) shall survive any termination of the Executive's employment hereunder.

Termination of Employment. The Company and the Executive may each terminate the Executive's employment hereunder and the Term for any reason.

Termination by the Company without Cause, Non-Extension of Term by the Company or Termination by the Executive for Good Reason. If the Company shall terminate the Executive's employment without "Cause" (as defined in Section 6(e)), if the Company elects not to extend the Term, or if the Executive resigns for Good Reason (as defined in Section 6(e)):

the Executive shall be entitled to receive a lump sum cash payment equal to the sum of:

the Executive's Base Salary that would be payable for the period from the date of the Executive's termination of employment through the third (3rd) anniversary thereof (the "Severance Period");

any accrued but unpaid compensation as of the date of termination of employment; and

a Bonus equal to three (3) times the average annual bonus paid to the Executive in respect of each of the immediately preceding two Fiscal Years prior to the Fiscal Year in which the Executive's termination of employment occurs;

during the Severance Period, the Company shall (A) continue to provide the Executive with office facilities and secretarial assistance in New York City and any other location that the Executive maintained an office during the term of his employment that the Executive reasonably deems necessary, (B) permit the Executive to continue to participate in all welfare and medical plans on the same terms as active officers of the Company, and (C) continue to provide the Executive with the use of a car and driver;

any unvested stock options then held by the Executive will continue to vest on their scheduled vesting dates, subject to and conditioned upon the Executive's compliance with Section 8 hereof. In addition, subject to, and conditioned upon, the Executive's compliance with Section 8 hereof, any vested options (and any options that continue to vest as described above) will remain exercisable until the later to occur of (A) one (1) year from the date of the Executive's termination of employment or (B) thirty (30) days from the date the option becomes vested and exercisable, but in no event later than the expiration date of the option;

any unvested Units then held by the Executive shall vest in their entirety on the Executive's date of termination of employment; and

except as expressly provided above and except for the Company's obligations under Section 5(g) hereof, the Company shall have no further obligations to the Executive hereunder following the Executive's termination of employment under the circumstances described in this Section 6(a).

Termination Due to Death or Disability. If the Executive's employment is terminated due to his death or "Disability" (as defined in Section 6(e)):

the Executive (or his estate) shall be entitled to a lump sum cash payment equal to the sum of:

the Executive's Base Salary through the date on which his termination due to death or Disability occurred;

any accrued and unpaid compensation as of the date of termination of employment; and

a pro-rata portion of the Bonus he would otherwise have received for the Fiscal Year in which his termination due to death or Disability occurred;

any unvested stock options then held by the Executive will vest immediately and options held by the Executive, or his estate, will remain exercisable for three (3) years from the date of the Executive's death or termination due to Disability, but in no event later than the expiration date of the option.

any unvested Units then held by the Executive shall vest in their entirety on the Executive's date of termination of employment; and

except as expressly provided above and except for the Company's obligations under Section 5(g) hereof, the Company will have no further obligations to the Executive hereunder following the Executive's termination of employment under the circumstances described in this Section 6(b).

Termination by the Company for Cause, by the Executive other than for Good Reason or Due to the Executive's Election Not to Extend the Term. If the Executive's employment is terminated by the Company for Cause, by the Executive other than for Good Reason, or due to the Executive's election not to extend the Term:

the Executive shall be entitled to receive an immediate lump sum cash payment equal to the sum of:

his Base Salary through the date of termination; and any accrued but unpaid compensation for any prior Fiscal Year;

any accrued and unpaid compensation as of the date of termination of employment; and

a pro-rata portion of his Bonus for the Fiscal Year in which the termination occurred, to be paid when bonuses are paid to other executives of the Company;

any stock options then held by the Executive that have not previously been exercised shall be forfeited.

any unvested Units shall be forfeited and the Executive shall be entitled to payment in respect of those Units that have vested as of the date of the Executive's termination of employment with the Company, provided, however, that for the purposes of this clause (iii), if the Executive terminates his employment without Good Reason after the last day of Fiscal Year which ends in calendar year 2008, any unvested Units will vest and the Executive shall be entitled to payment in respect of such Units; and except as expressly provided above and except for the Company's obligations under Section 5(g) hereof, the Company will have no further obligations to the Executive hereunder following the Executive's termination of employment under the circumstances described in this Section 6(c).

Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive (other than termination pursuant to the Executive's death) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 10 hereof. If the Company terminates the Executive's employment for Cause or due to Disability or if the Executive resigns for Good Reason, the "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

Definitions. For purpose of this Agreement:

"Cause" shall mean (A) the willful and continued failure by the Executive to substantially perform his duties hereunder after demand for substantial performance is delivered by the Company that specifically identifies the manner in which the Company believes the Executive has not substantially performed his duties; or (B) the Executive's conviction of, or plea of nolo contendere to, a crime (whether or not involving the Company) constituting a felony; or (C) willful engaging by the Executive in gross misconduct relating to the Executive's employment that is materially injurious to the Company or subjects the Company, monetarily or otherwise (including, but not limited to, conduct that constitutes competitive activity, in violation of Section 9) or which subjects, or if generally known, would subject the Company to public ridicule or embarrassment. For purposes of this paragraph, no act, or failure to act, on the Executive's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company. Notwithstanding the forgoing, the Executive shall not be deemed to have been terminated for Cause without (x) reasonable written notice to the Executive setting forth the reasons for the Company's intention to terminate for Cause, (y) an opportunity for the Executive, together with his counsel, to be heard before the Board, and (z) delivery to the Executive of a Notice of Termination, as defined in Section 6(d) hereof, from the Board finding that in the good faith opinion of the Board the Executive was guilty of conduct set forth above in clauses (A) through (C) hereof, and specifying the particulars thereof in detail. In the event that the Board has so determined in good faith that Cause exists, the Board shall have no obligation to terminate the Executive's employment if the Board determines in its sole discretion that such a decision not to terminate the Executive's employment is in the best interest of the Company.

"Good Reason" shall mean (A) a material diminution in the

Executive's duties or the assignment to the Executive of a title or duties inconsistent with his position as Chairman of the Board and Chief Executive Officer of the Company, (B) a reduction in the Executive's salary or annual incentive bonus opportunity, or (C) a failure of the Company 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, 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 Company.

For purposes of this Agreement, "Disability" shall mean that as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from his duties hereunder on a full-time basis for the entire period of six (6) consecutive months, and within thirty (30) days after written Notice of Termination is given by the Company (which may occur before or after the end of such six month period) the Executive shall not have returned to the performance of his duties hereunder on a full-time basis.

No Mitigation. The Executive shall have no duty to mitigate the payments provided for hereunder by seeking other employment or otherwise and such payment shall not be subject to reduction for any compensation received by the Executive from employment in any capacity following the termination of the Executive's employment with the Company.

Non-Solicitation/Non-Competition.

The Executive agrees that for the duration of his employment and for a period of three (3) years from the date of termination thereof, he will not, on his own behalf or on behalf of any other person or entity, hire, solicit, or encourage to leave the employ of the Company or its subsidiaries or affiliates any person who is an employee of any of such companies.

The Executive agrees that for the duration of his employment and for a period of three (3) years from the date of termination thereof, the Executive will take no action which is intended, or would reasonably be expected, to harm (e.g., making public derogatory statements or misusing confidential Company information, it being acknowledged that the Executive's employment with a competitor in and of itself shall not be deemed to be harmful to the Company for purposes of this Section 8(b)) the Company or any of its subsidiaries or affiliates of their reputation.

The Executive agrees that during the duration of his employment and for a period of two (2) years following the date of the Executive's termination of employment for any reason other than death, the Executive shall not, directly or indirectly, (A) engage in any "Competitive Business" (as defined below) for his own account, (B) enter into the employ of, or render any services to, any person engaged in a Competitive Business, or (C) become interested in any entity engaged in a Competitive Business, directly or indirectly as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, consultant, or in any other relationship or capacity; provided that the Executive may own, solely as an investment, securities of any entity which are traded on a national securities exchange if the Executive is not a controlling person of, or a member of a group that controls such entity and does not, directly or indirectly, own 2% or more of any class of securities of such entity.

For purposes of this Agreement, the term "Competitive Business" shall include the design, manufacture, sale, marketing or distribution of branded or designer apparel and other products in the categories of products sold by, or under license from, the Company or its affiliates within the United States.

The Executive will not at any time (whether during or after his employment with the Company) disclose or use for his own benefit or purposes or the benefit or purposes of any other person, entity or enterprise, other than the Company or any of its affiliates, any trade secrets, information, data, or other confidential information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company generally, or any affiliate of the Company; provided that the foregoing shall not apply to information which is not unique to the Company or which is generally known to the industry or the public other than as a result of the Executive's breach of this covenant. The Executive agrees that upon termination of his employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company and its affiliates.

If the Executive breaches, or threatens to commit a breach of, any of the provisions of this Section 8 (the "Restrictive Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or equity:

The right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company;

The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively, "Benefits") derived or received by the Executive as the result of any transactions constituting a breach of any of the Restrictive Covenants, and the Executive shall account for and pay over such Benefits to the Company; and

The right to discontinue the payment of any amounts owing to the Executive under the Agreement.

If any court determines that any of the Restrictive Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Restrictive Covenants shall not thereby be affected and shall be given full effect, without regard to the invalid portion. In addition, if any court construes any of the Restrictive Covenants, or any part thereof, to be unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

Successors; Binding Agreement.

The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as herein defined and any successor to its business and/or assets as aforesaid which executes and delivers the agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts are payable to him hereunder all such amounts unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered with receipt acknowledged or five business days after having been mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Mr. Ralph Lauren
c/o Polo Ralph Lauren Corporation
650 Madison Avenue
New York, New York 10022

If to the Company:

Polo Ralph Lauren Corporation

650 Madison Avenue
New York, New York 10022
Attention: Corporate Counsel

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.

Miscellaneous. No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by the Executive and such officer of the Company as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles.

Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

Arbitration. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in the City of New York in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction; provided, however, that the Company shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any continuation of any violation of the provisions of Section 8 of this Agreement and the Executive hereby consents that such restraining order or injunction may be granted without the necessity of the Company's posting any bond, and provided further that the Executive shall be entitled to seek specific performance of his right to be paid until the date of termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

Withholding. The Company may withhold from any amounts payable under this Agreement such federal, state and local taxes as may be required to be withheld pursuant to applicable law or regulation.

Prior Agreements; Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and canceled.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed and the Executive has hereunto set his hand, effective as of the Effective Date.

POLO RALPH LAUREN CORPORATION

By: /s/ JOEL L. FLEISHMAN

Joel L. Fleishman, Chairperson of the Compensation Committee

/s/ RALPH LAUREN

Executive: Ralph Lauren

**EXHIBIT 99.1**

**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 June 28, 2003 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 result of operations of the Company.

/s/ RALPH LAUREN

Ralph Lauren

August 12, 2003

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 99.2**

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

In connection with the Quarterly Report of Polo Ralph Lauren Corporation (the “Company”) on Form 10-Q for the period ended June 28, 2003 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerald M. Chaney, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ GERALD M. CHANEY

Gerald M. Chaney

August 12, 2003

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.