

RALPH LAUREN CORP  
Form 10-Q  
November 10, 2016

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q  
(Mark One)

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

For the quarterly period ended October 1, 2016

or

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

Commission File Number: 001-13057

Ralph Lauren Corporation

(Exact name of registrant as specified in its charter)

Delaware 13-2622036

(State or other jurisdiction of  
incorporation or organization) (I.R.S. Employer  
Identification No.)

650 Madison Avenue,  
New York, New York 10022

(Address of principal executive offices) (Zip Code)

(212) 318-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

At November 4, 2016, 56,314,883 shares of the registrant's Class A common stock, \$.01 par value, and 25,881,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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RALPH LAUREN CORPORATION  
CONSOLIDATED BALANCE SHEETS

	October 1, 2016	April 2, 2016
	(millions)	(unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$434	\$456
Short-term investments	531	629
Accounts receivable, net of allowances of \$245 million and \$254 million	490	517
Inventories	1,173	1,125
Income tax receivable	59	58
Prepaid expenses and other current assets	289	268
Total current assets	2,976	3,053
Property and equipment, net	1,564	1,583
Deferred tax assets	118	119
Goodwill	936	918
Intangible assets, net	235	244
Other non-current assets	238	296
Total assets	\$6,067	\$6,213
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$95	\$116
Accounts payable	159	151
Income tax payable	20	33
Accrued expenses and other current liabilities	943	898
Total current liabilities	1,217	1,198
Long-term debt	597	597
Non-current liability for unrecognized tax benefits	74	81
Other non-current liabilities	581	593
Commitments and contingencies (Note 13)		
Total liabilities	2,469	2,469
Equity:		
Class A common stock, par value \$.01 per share; 101.5 million and 101.0 million shares issued; 56.3 million and 57.0 million shares outstanding	1	1
Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding	—	—
Additional paid-in-capital	2,284	2,258
Retained earnings	5,956	6,015
Treasury stock, Class A, at cost; 45.2 million and 44.0 million shares	(4,463 )	(4,349 )
Accumulated other comprehensive loss	(180 )	(181 )
Total equity	3,598	3,744
Total liabilities and equity	\$6,067	\$6,213
See accompanying notes.		

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Six Months Ended	
	October 2016	September 26, 2015	October 2016	September 26, 2015
	(millions, except per share data)			
	(unaudited)			
Net sales	\$1,773	\$ 1,923	\$3,287	\$ 3,500
Licensing revenue	48	47	86	88
Net revenues	1,821	1,970	3,373	3,588
Cost of goods sold <sup>(a)</sup>	(867	) (857	) (1,524	) (1,509
Gross profit	954	1,113	1,849	2,079
Selling, general, and administrative expenses <sup>(a)</sup>	(803	) (839	) (1,618	) (1,661
Amortization of intangible assets	(6	) (6	) (12	) (12
Impairment of assets	(27	) (7	) (46	) (15
Restructuring and other charges	(42	) (31	) (128	) (65
Total other operating expenses, net	(878	) (883	) (1,804	) (1,753
Operating income	76	230	45	326
Foreign currency gains (losses)	1	(5	) 3	(6
Interest expense	(4	) (4	) (7	) (8
Interest and other income, net	2	1	3	3
Equity in losses of equity-method investees	(2	) (3	) (4	) (6
Income before income taxes	73	219	40	309
Provision for income taxes	(28	) (59	) (17	) (85
Net income	\$45	\$ 160	\$23	\$ 224
Net income per common share:				
Basic	\$0.55	\$ 1.87	\$0.28	\$ 2.60
Diluted	\$0.55	\$ 1.86	\$0.28	\$ 2.58
Weighted average common shares outstanding:				
Basic	82.7	85.6	83.0	86.1
Diluted	83.2	86.0	83.7	86.8
Dividends declared per share	\$0.50	\$ 0.50	\$1.00	\$ 1.00
<sup>(a)</sup> Includes total depreciation expense of:	\$(70	) \$ (71	) \$(142	) \$ (139

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended October 1, 2016		Six Months Ended September 26, 2016	
	September 26, 2015		September 26, 2015	
	(millions)		(millions)	
	(unaudited)		(unaudited)	
Net income	\$45	\$ 160	\$23	\$ 224
Other comprehensive income (loss), net of tax:				
Foreign currency translation gains (losses)	11	(6 )	2	13
Net losses on cash flow hedges	—	(8 )	(2 )	(16 )
Net gains on defined benefit plans	1	1	1	1
Other comprehensive income (loss), net of tax	12	(13 )	1	(2 )
Total comprehensive income	\$57	\$ 147	\$24	\$ 222

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended		
	October 2016	September 26, 2015	
	(millions)		
	(unaudited)		
Cash flows from operating activities:			
Net income	\$23	\$	224
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	154	151	
Deferred income tax benefit	(9	) (38	)
Equity in losses of equity-method investees	4	6	
Non-cash stock-based compensation expense	32	54	
Non-cash impairment of assets	46	15	
Non-cash restructuring-related inventory charges	135	3	
Excess tax benefits from stock-based compensation arrangements	—	(7	)
Other non-cash charges	10	4	
Changes in operating assets and liabilities:			
Accounts receivable	22	59	
Inventories	(173	) (342	)
Prepaid expenses and other current assets	(27	) 24	
Accounts payable and accrued liabilities	60	207	
Income tax receivables and payables	(22	) (30	)
Deferred income	(12	) (10	)
Other balance sheet changes	(11	) 46	
Net cash provided by operating activities	232	366	
Cash flows from investing activities:			
Capital expenditures	(165	) (202	)
Purchases of investments	(392	) (607	)
Proceeds from sales and maturities of investments	547	515	
Acquisitions and ventures	(3	) (12	)
Change in restricted cash deposits	—	(5	)
Net cash used in investing activities	(13	) (311	)
Cash flows from financing activities:			
Proceeds from issuance of short-term debt	2,945	2,568	
Repayments of short-term debt	(2,966	) (2,672	)
Proceeds from issuance of long-term debt	—	299	
Payments of capital lease obligations	(13	) (12	)
Payments of dividends	(82	) (86	)
Repurchases of common stock, including shares surrendered for tax withholdings	(115	) (299	)
Proceeds from exercise of stock options	4	21	
Excess tax benefits from stock-based compensation arrangements	—	7	
Other financing activities	—	(2	)
Net cash used in financing activities	(227	) (176	)
Effect of exchange rate changes on cash and cash equivalents	(14	) 1	
Net decrease in cash and cash equivalents	(22	) (120	)
Cash and cash equivalents at beginning of period	456	500	
Cash and cash equivalents at end of period	\$434	\$	380

See accompanying notes.

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RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and where otherwise indicated)

(Unaudited)

1. Description of Business

Ralph Lauren Corporation ("RLC") is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. RLC's long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. RLC's brand names include Ralph Lauren, Ralph Lauren Collection, Ralph Lauren Purple Label, Polo Ralph Lauren, Double RL, Lauren Ralph Lauren, Polo Ralph Lauren Children, Denim & Supply Ralph Lauren, Chaps, and Club Monaco, among others. RLC and its subsidiaries are collectively referred to herein as the "Company," "we," "us," "our," and "ourselves," unless the context indicates otherwise.

The Company classifies its businesses into three segments: Wholesale, Retail, and Licensing. The Company's wholesale sales are made principally to major department stores and specialty stores around the world. The Company also sells directly to consumers through its integrated retail channel, which includes its retail stores, concession-based shop-within-shops, and e-commerce operations around the world. In addition, the Company licenses to unrelated third parties for specified periods the right to operate retail stores and/or to use its various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings.

2. Basis of Presentation

Interim Financial Statements

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are unaudited. In the opinion of management, these consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income, and cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended April 2, 2016 (the "Fiscal 2016 10-K").

Basis of Consolidation

These unaudited interim consolidated financial statements present the consolidated financial position, income, comprehensive income, and cash flows of the Company, including all entities in which the Company has a controlling financial interest and is determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2017 will end on April 1, 2017 and will be a 52-week period ("Fiscal 2017"). Fiscal year 2016 ended on April 2, 2016 and was a 53-week period ("Fiscal 2016"). The second quarter of Fiscal 2017 ended on October 1, 2016 and was a 13-week period. The second quarter of Fiscal 2016 ended on September 26, 2015 and was also a 13-week period.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the consolidated financial statements include reserves for bad debt, customer returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; fair value measurements; accounting for income taxes and related uncertain tax positions; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring activity; and accounting for business combinations, among others.

Reclassifications

Certain reclassifications have been made to the prior period's financial information in order to conform to the current period's presentation.

Seasonality of Business

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth fiscal quarters and higher retail sales in its second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting the Retail segment. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended October 1, 2016 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2017.

3. Summary of Significant Accounting Policies

Revenue Recognition

Revenue is recognized across all segments of the business when there is persuasive evidence of an arrangement, delivery has occurred, the price has been fixed or is determinable, and collectability is reasonably assured.

Revenue within the Company's Wholesale segment is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of estimates of returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances. Returns and allowances require pre-approval from management and discounts are based on trade terms. Estimates for end-of-season markdown reserves are based on historical trends, actual and forecasted seasonal results, an evaluation of current economic and market conditions, retailer performance, and, in certain cases, contractual terms. Estimates for operational chargebacks are based on actual customer notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on at least a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Retail store and concession-based shop-within-shop revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce revenue from sales of products ordered through the Company's e-commerce sites is recognized upon delivery of the shipment to its customers. Such revenue is also reduced by an estimate of returns. Gift cards issued by the Company are recorded as a liability until they are redeemed, at which point revenue is recognized. The Company recognizes income for unredeemed gift cards when the likelihood of redemption by a customer is remote and the Company determines that it does not have a legal obligation to remit the value of the unredeemed gift card to the relevant jurisdiction as unclaimed or abandoned property.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (i) contractually guaranteed minimum royalty levels or (ii) actual sales and royalty data, or estimates thereof, received from the Company's licensees.

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

**Shipping and Handling Costs**

The costs associated with shipping goods to customers are reflected as a component of selling, general, and administrative ("SG&A") expenses in the consolidated statements of operations. Shipping costs were \$10 million and \$19 million during each of the three-month and six-month periods ended October 1, 2016 and September 26, 2015, respectively. The costs of preparing merchandise for sale, such as picking, packing, warehousing, and order charges ("handling costs") are also included in SG&A expenses. Handling costs were \$43 million and \$84 million during the three-month and six-month periods ended October 1, 2016, respectively, and \$44 million and \$85 million during the three-month and six-month periods ended September 26, 2015, respectively. Shipping and handling costs billed to customers are included in revenue.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income attributable to common shares by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the dilutive effects of outstanding stock options, restricted stock, restricted stock units ("RSUs"), and any other potentially dilutive instruments, only in the periods in which such effects are dilutive.

The weighted-average number of common shares outstanding used to calculate basic net income per common share is reconciled to shares used to calculate diluted net income per common share as follows:

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
	(millions)			
Basic shares	82.7	85.6	83.0	86.1
Dilutive effect of stock options, restricted stock, and RSUs	0.5	0.4	0.7	0.7
Diluted shares	83.2	86.0	83.7	86.8

All earnings per share amounts have been calculated using unrounded numbers. Options to purchase shares of the Company's Class A common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding performance-based RSUs, which are included in the computation of diluted shares only to the extent that the underlying performance conditions (and applicable market condition modifiers, if any) (i) have been satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive. As of October 1, 2016 and September 26, 2015, there were 2.6 million and 2.8 million, respectively, additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs that were excluded from the diluted shares calculations.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable is recorded at carrying value, which approximates fair value, and is presented in the Company's consolidated balance sheets net of certain reserves and allowances. These reserves and allowances consist of (i) reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances (see the Revenue Recognition section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

A rollforward of the activity in the Company's reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances is presented below:

	Three Months Ended October 1, 2016		Six Months Ended October 1, 2016	
	2016	2015	2016	2015
	(millions)			
Beginning reserve balance	\$207	\$ 210	\$240	\$ 240
Amount charged against revenue to increase reserve	196	239	328	389
Amount credited against customer accounts to decrease reserve	(174 )	(203 )	(339 )	(384 )
Foreign currency translation	—	—	—	1
Ending reserve balance	\$229	\$ 246	\$229	\$ 246

An allowance for doubtful accounts is determined through an analysis of accounts receivable aging, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors. The Company's allowance for doubtful accounts was \$16 million and \$14 million as of October 1, 2016 and April 2, 2016, respectively. The change in the allowance for doubtful accounts was not material during the three-month and six-month periods ended October 1, 2016 and September 26, 2015.

## Concentration of Credit Risk

The Company sells its wholesale merchandise primarily to major department and specialty stores around the world, and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's wholesale business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas. However, the Company has three key wholesale customers that generate significant sales volume. During Fiscal 2016, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 11% of its total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) accounted for approximately 24% of total net revenues. As of October 1, 2016, these three key wholesale customers constituted approximately 35% of total gross accounts receivable.

## Inventories

The Company holds inventory that is sold through wholesale distribution channels to major department stores and specialty retail stores. The Company also holds retail inventory that is sold in its own stores and e-commerce sites directly to consumers. Substantially all of the Company's inventories are comprised of finished goods, which are stated at the lower of cost or estimated realizable value, with cost primarily determined on a weighted-average cost basis. Inventory held by the Company totaled \$1.173 billion, \$1.125 billion, and \$1.380 billion as of October 1, 2016, April 2, 2016, and September 26, 2015, respectively.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

The Company records all derivative financial instruments on its consolidated balance sheets at fair value. For derivative instruments that qualify for hedge accounting, the effective portion of changes in their fair value is either (i) offset against the changes in fair value of the related hedged assets, liabilities, or firm commitments through earnings or (ii) recognized in equity as a component of accumulated other comprehensive income (loss) ("AOCI") until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge against changes in fair value or cash flows and net investments, respectively.

Each derivative instrument that qualifies for hedge accounting is expected to be highly effective at reducing the risk associated with the exposure being hedged. For each derivative instrument that is designated as a hedge, the Company formally documents the related risk management objective and strategy, including identification of the hedging instrument, the hedged item, and the risk exposure, as well as how hedge effectiveness will be assessed prospectively and retrospectively over the instrument's term. To assess hedge effectiveness, the Company generally uses regression analysis, a statistical method, to compare the change in the fair value of the derivative instrument to the change in fair value or cash flows of the related hedged item. The extent to which a hedging instrument has been and is expected to remain highly effective in achieving offsetting changes in fair value or cash flows is assessed and documented by the Company on at least a quarterly basis.

As a result of its use of derivative instruments, the Company is exposed to the risk that counterparties to such contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. The Company's established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of its counterparties' creditworthiness. The Company also enters into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with its derivative instruments. In the event of default or termination (as such terms are defined within the respective master netting arrangement), these arrangements allow the Company to net-settle amounts payable and receivable related to multiple derivative transactions with the same counterparty. The master netting arrangements specify a number of events of default and termination, including, among others, the failure to make timely payments.

The fair values of the Company's derivative instruments are recorded on its consolidated balance sheets on a gross basis. For cash flow reporting purposes, proceeds received or amounts paid upon the settlement of a derivative instrument are classified in the same manner as the related item being hedged, primarily within cash flows from operating activities.

Cash Flow Hedges

The Company enters into forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions, intercompany royalty payments made by certain of its international operations, and other foreign currency-denominated operational cash flows. To the extent forward foreign currency exchange contracts are designated as cash flow hedges and are highly effective in offsetting changes in the value of the hedged items, the related gains or losses are initially deferred in equity as a component of AOCI and are subsequently recognized in the consolidated statements of operations as follows:

- **Forecasted Inventory Transactions** — recognized as part of the cost of the inventory being hedged within cost of goods sold when the related inventory is sold to a third party.

- **Intercompany Royalties** — recognized within foreign currency gains (losses) generally in the period in which the related payments being hedged occur.

To the extent that a derivative instrument designated as a cash flow hedge is not considered effective, any change in its fair value relating to such ineffectiveness is immediately recognized in earnings within foreign currency gains (losses). If it is determined that a derivative instrument has not been highly effective, and will continue not to be highly effective in hedging the designated exposure, hedge accounting is discontinued and further gains (losses) are immediately recognized in earnings within foreign currency gains (losses). Upon discontinuance of hedge accounting,

the cumulative change in fair value of the derivative instrument previously recorded in AOCI is recognized in earnings when the related hedged item affects earnings, consistent with the originally-

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

documented hedging strategy, unless the forecasted transaction is no longer probable of occurring, in which case the accumulated amount is immediately recognized in earnings within foreign currency gains (losses).

**Hedge of a Net Investment in a Foreign Operation**

Changes in the fair value of a derivative instrument or the carrying value of a non-derivative instrument that is designated as a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment, to the extent it is effective. In assessing the effectiveness of a derivative financial instrument that is designated as a hedge of a net investment, the Company uses a method based on changes in spot rates to measure the impact of foreign currency exchange rate changes on both its foreign subsidiary net investment and the related hedging instrument. If the notional amount of the instrument designated as the hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness is recognized immediately in earnings within foreign currency gains (losses). To the extent the instrument remains effective, changes in its value are recorded in equity as foreign currency translation gains (losses), a component of AOCI, and are recognized in earnings within foreign currency gains (losses) only upon the sale or liquidation of the hedged net investment.

**Fair Value Hedges**

Changes in the fair value of a derivative instrument that is designated as a fair value hedge, along with offsetting changes in the fair value of the related hedged item attributable to the hedged risk, are recorded in earnings. Hedge ineffectiveness is recorded in earnings to the extent that the change in the fair value of the hedged item does not offset the change in the fair value of the hedging instrument.

**Undesignated Hedges**

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk related to foreign currency-denominated balances. Changes in the fair value of undesignated derivative instruments are immediately recognized in earnings within foreign currency gains (losses). See Note 12 for further discussion of the Company's derivative financial instruments.

Refer to Note 3 of the Fiscal 2016 10-K for a summary of all of the Company's significant accounting policies.

**4. Recently Issued Accounting Standards**

**Improvements to Employee Share-Based Payment Accounting**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to how share-based payments are accounted for and presented in the financial statements, including the accounting for forfeitures and tax-effects related to share-based payments at settlement, and the classification of excess tax benefits and shares surrendered for tax withholdings in the statement of cash flows. ASU 2016-09 is effective for the Company beginning in its fiscal year 2018, with early adoption permitted. The adoption methodology (i.e., prospective, retrospective, or modified-retrospective) varies by amendment. The Company is currently in the process of evaluating the impact that ASU 2016-09 will have on its consolidated financial statements and related disclosures.

**Leases**

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires that, among other changes to current practice, a lessee's rights and obligations under almost all leases, including existing and new arrangements, be recognized as right-of-use assets and lease liabilities on the consolidated balance sheet. ASU 2016-02 is effective for the Company beginning in its fiscal year 2020, with early adoption permitted, and must be adopted using a modified retrospective approach which requires application of the guidance at the beginning of the earliest comparative period presented. The Company is currently

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in the process of evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures, but expects that it will result in a significant increase to its long-term assets and liabilities.

## Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that will supersede most existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers — Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for the Company beginning in its fiscal year 2019. The FASB also issued several additional ASUs to amend and clarify certain topics within ASU 2014-09. ASU 2014-09 may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

## 5. Property and Equipment

Property and equipment, net consists of the following:

	October 1,	April 2,
	2016	2016
	(millions)	
Land and improvements	\$17	\$17
Buildings and improvements	460	460
Furniture and fixtures	722	727
Machinery and equipment	375	359
Capitalized software	489	460
Leasehold improvements	1,261	1,248
Construction in progress	235	216
	3,559	3,487
Less: accumulated depreciation	(1,995 )	(1,904 )
Property and equipment, net	\$1,564	\$1,583



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 6. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	October 2, 2016	April 2, 2016
	(millions)	
Other taxes receivable	\$123	\$112
Prepaid rent expense	47	37
Derivative financial instruments	20	16
Tenant allowances receivable	17	13
Prepaid samples	12	9
Restricted cash	9	17
Prepaid advertising and marketing	9	7
Other prepaid expenses and current assets	52	57
Total prepaid expenses and other current assets	\$289	\$268

Other non-current assets consist of the following:

	October 2, 2016	April 2, 2016
	(millions)	
Non-current investments	\$122	\$187
Restricted cash	37	29
Security deposits	31	32
Derivative financial instruments	7	6
Other non-current assets	41	42
Total other non-current assets	\$238	\$296

Accrued expenses and other current liabilities consist of the following:

	October 2, 2016	April 2, 2016
	(millions)	
Accrued operating expenses	\$188	\$186
Accrued payroll and benefits	160	149
Accrued inventory	155	176
Other taxes payable	150	139
Restructuring reserve	102	40
Accrued capital expenditures	59	65
Dividends payable	41	41
Deferred income	38	50
Derivative financial instruments	25	26
Capital lease obligations	22	21
Other accrued expenses and current liabilities	3	5
Total accrued expenses and other current liabilities	\$943	\$898

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current liabilities consist of the following:

	October 1, 2016	April 2, 2016
	(millions)	
Capital lease obligations	\$259	\$ 266
Deferred rent obligations	218	222
Derivative financial instruments	33	33
Deferred tax liabilities	13	17
Deferred compensation	8	8
Other non-current liabilities	50	47
Total other non-current liabilities	\$581	\$ 593

#### 7. Impairment of Assets

During the three-month and six-month periods ended October 1, 2016, the Company recorded non-cash impairment charges of \$27 million and \$46 million, respectively, primarily to write off certain fixed assets related to its domestic and international stores and shop-within-shops in connection with the Way Forward Plan (see Note 8).

During the three-month and six-month periods ended September 26, 2015, the Company recorded non-cash impairment charges of \$7 million and \$15 million, respectively, primarily to write off certain fixed assets related to its domestic and international stores and shop-within-shops in connection with the Global Reorganization Plan (see Note 8).

#### 8. Restructuring and Other Charges

A description of significant restructuring and other activities and related costs is included below.

##### Way Forward Plan

On June 2, 2016, the Company's Board of Directors approved a restructuring plan with the objective of delivering sustainable, profitable sales growth and long-term value creation for shareholders (the "Way Forward Plan"). The Company plans to refocus on its core brands and evolve its product, marketing, and shopping experience to increase desirability and relevance. It also intends to evolve its operating model to enable sustainable, profitable sales growth by significantly reducing supply chain lead times, improving its sourcing, and executing a disciplined multi-channel distribution and expansion strategy. As part of the Way Forward Plan, the Company plans to rightsize its cost structure and implement a return on investment-driven financial model to free up resources to invest in the brand and drive high-quality sales. The Way Forward Plan includes strengthening the Company's leadership team and creating a more nimble organization by moving from an average of nine to six layers of management. The Way Forward Plan will result in a reduction in workforce and the closure of certain stores, and is expected to be substantially completed by the end of Fiscal 2017.

In connection with the Way Forward Plan, the Company currently expects to incur total estimated charges of approximately \$400 million, comprised of cash-related restructuring charges of approximately \$300 million and non-cash charges of approximately \$100 million. The Company also expects to incur an additional non-cash charge of up to \$150 million associated with the reduction of inventory out of current liquidation channels in line with its Way Forward Plan. The Company's assessment of restructuring-related activities is still ongoing and incremental charges beyond this range may be incurred.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the charges recorded in connection with the Way Forward Plan during the three-month and six-month periods ended October 1, 2016 is as follows:

	October 1, 2016	Three Six MonthMonths EndedEnded (millions)
Cash-related restructuring charges:		
Severance and benefit costs	\$25	\$ 102
Lease termination and store closure costs	13	15
Other cash charges	4	6
Total cash-related restructuring charges	42	123
Non-cash charges:		
Impairment of assets (see Note 7)	27	46
Inventory-related charges <sup>(a)</sup>	81	135
Total non-cash charges	108	181
Total charges	\$150	\$ 304

Includes charges of \$64 million and \$114 million associated with the reduction of inventory out of current

<sup>(a)</sup> liquidation channels for the three-month and six-month periods ended October 1, 2016, respectively.

Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations.

A summary of the activity in the restructuring reserve related to the Way Forward Plan is as follows:

	Severance and Benefit Costs	Lease Termination and Store Closure Costs	Other Cash Charges	Total
	(millions)			
Balance at April 2, 2016	\$—	\$ —	\$ —	\$—
Additions charged to expense	102	15	6	123
Cash payments charged against reserve	(39 )	(2 )	(5 )	(46 )
Balance at October 1, 2016	\$63	\$ 13	\$ 1	\$77

## Global Reorganization Plan

On May 12, 2015, the Company's Board of Directors approved a reorganization and restructuring plan comprised of the following major actions: (i) the reorganization of the Company from its historical channel and regional structure to an integrated global brand-based operating structure, which will streamline the Company's business processes to better align its cost structure with its long-term growth strategy; (ii) a strategic store and shop-within-shop performance review conducted by region and brand; (iii) a targeted corporate functional area review; and (iv) the consolidation of certain of the Company's luxury lines (collectively, the "Global Reorganization Plan"). Actions associated with the Global Reorganization Plan resulted in a reduction in workforce and the closure of certain stores and shop-within-shops.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of the charges recorded in connection with the Global Reorganization Plan during the three-month and six-month periods ended October 1, 2016 and September 26, 2015, as well as the cumulative charges recorded since its inception, is as follows:

	Three Months Ended October 1, 2016 (millions)	Three Months Ended September 26, 2015	Six Months Ended October 1, 2016	Six Months Ended September 26, 2015	Cumulative Charges
Cash-related restructuring charges:					
Severance and benefit costs	\$—	\$ 6	\$ 5	\$ 38	\$ 69
Lease termination and store closure costs	—	6	—	7	8
Other cash charges <sup>(a)</sup>	—	7	—	8	14
Total cash-related restructuring charges	—	19	5	53	91
Non-cash charges:					
Impairment of assets (see Note 7)	—	7	—	15	27
Accelerated stock-based compensation expense <sup>(b)</sup>	—	—	—	—	9
Inventory-related charges <sup>(c)</sup>	—	—	—	3	20
Total non-cash charges	—	7	—	18	56
Total charges	\$—	\$ 26	\$ 5	\$ 71	\$ 147

<sup>(a)</sup> Other cash charges primarily consisted of consulting fees recorded in connection with the Global Reorganization Plan.

Accelerated stock-based compensation expense, which is recorded within restructuring and other charges in the

<sup>(b)</sup> consolidated statements of operations, was recorded in connection with vesting provisions associated with certain separation agreements.

<sup>(c)</sup> Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations. Actions associated with the Global Reorganization Plan are now complete and no additional charges are expected to be incurred in relation to this plan.

A summary of current period activity in the restructuring reserve related to the Global Reorganization Plan is as follows:

	Severance and Benefit Costs (millions)	Lease Termination and Store Closure Costs	Other Cash Charges	Total
Balance at April 2, 2016	\$31	\$ 6	\$ 3	\$40
Additions charged to expense	5	—	—	5
Cash payments charged against reserve	(17 )	(1 )	(2 )	(20 )
Balance at October 1, 2016	\$19	\$ 5	\$ 1	\$25
Other Charges				

During the three months ended September 26, 2015, the Company recorded other charges of \$12 million primarily related to the settlement of certain litigation claims.



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. Income Taxes

## Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's provision for income taxes by pretax income, was 38.0% and 42.2% during the three-month and six-month periods ended October 1, 2016, respectively, and 27.1% and 27.6% during the three-month and six-month periods ended September 26, 2015, respectively. The effective tax rates for the three-month and six-month periods ended October 1, 2016 were higher than the U.S. federal statutory income tax rate of 35% as a result of state and local taxes and additional tax reserves largely associated with certain income tax audits, partially offset by the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S. The effective tax rate for the six months ended October 1, 2016 was also unfavorably impacted by additional tax reserves associated with an income tax settlement. The effective tax rates for the three-month and six-month periods ended September 26, 2015 were lower than the statutory income tax rate as a result of the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S. The effective tax rate for the six months ended September 26, 2015 was also lower than the statutory income tax rate due to the reversal of certain tax reserves as a result of the expiration of statutes of limitations and a change in estimate related to the assessment period of certain tax liabilities.

During the three months ended September 26, 2015, the Company concluded, with the assistance of a third-party consultant, that based on recent audit settlements and taxpayer audit trends, the assessment period associated with certain tax liabilities established under ASC Topic 740, "Income Taxes," should be reduced. This change was considered a change in estimate for accounting purposes and the related impact was recorded during the second quarter of Fiscal 2016. This change lowered the Company's provision for income taxes by \$8 million, including interest and penalties, and net of deferred tax asset reversals, and increased basic and diluted earnings per share by \$0.09 for each of the three-month and six-month periods ended September 26, 2015.

## Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. The total amount of unrecognized tax benefits, including interest and penalties, was \$74 million and \$81 million as of October 1, 2016 and April 2, 2016, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The net reduction of \$7 million in unrecognized tax benefits, including interest and penalties, primarily related to state reserve releases of \$3 million, as well as settlements of \$12 million, partially offset by an increase of \$8 million related to an income tax settlement and an income tax audit during the fiscal year.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$55 million and \$60 million as of October 1, 2016 and April 2, 2016, respectively.

## Future Changes in Unrecognized Tax Benefits

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, settlements of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, the Company does not anticipate that the balance of gross unrecognized tax benefits, excluding interest and penalties, will change significantly during the next twelve months. However, changes in the occurrence, expected outcomes, and timing of such events could cause the Company's current estimate to change materially in the future.

The Company files a consolidated U.S. federal income tax return, as well as tax returns in various state, local, and foreign jurisdictions. The Company is generally no longer subject to examinations by the relevant tax authorities for years prior to its fiscal year ended April 1, 2006.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Debt

Debt consists of the following:

	October 1, 2016	April 2, 2016
	(millions)	
\$300 million 2.125% Senior Notes <sup>(a)</sup>	\$300	\$ 301
\$300 million 2.625% Senior Notes <sup>(b)</sup>	297	296
Commercial paper notes	95	90
Borrowings outstanding under credit facilities	—	26
Total debt	692	713
Less: short-term debt	95	116
Total long-term debt	\$597	\$ 597

(a) During Fiscal 2016, the Company entered into an interest rate swap contract which it designated as a hedge against changes in the fair value of its fixed-rate 2.125% Senior Notes (see Note 12). Accordingly, the carrying value of the 2.125% Senior Notes as of October 1, 2016 and April 2, 2016 reflects adjustments of \$1 million and \$2 million, respectively, for the change in fair value attributable to the benchmark interest rate. The carrying value of the 2.125% Senior Notes is also net of unamortized debt issuance costs and discount of \$1 million as of both October 1, 2016 and April 2, 2016.

(b) During Fiscal 2016, the Company entered into an interest rate swap contract which it designated as a hedge against changes in the fair value of its fixed-rate 2.625% Senior Notes (see Note 12). Accordingly, the carrying value of the 2.625% Senior Notes as of October 1, 2016 and April 2, 2016 reflects adjustments of \$1 million and \$2 million, respectively, for the change in fair value attributable to the benchmark interest rate. The carrying value of the 2.625% Senior Notes is also net of unamortized debt issuance costs and discount of \$2 million as of both October 1, 2016 and April 2, 2016.

## Senior Notes

In September 2013, the Company completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018, which bear interest at a fixed rate of 2.125%, payable semi-annually (the "2.125% Senior Notes"). The 2.125% Senior Notes were issued at a price equal to 99.896% of their principal amount. The proceeds from this offering were used for general corporate purposes, including repayment of the Company's previously outstanding €209 million principal amount of 4.5% Euro-denominated notes, which matured on October 4, 2013.

In August 2015, the Company completed a second registered public debt offering and issued an additional \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes"). The 2.625% Senior Notes were issued at a price equal to 99.795% of their principal amount. The proceeds from this offering were used for general corporate purposes. The Company has the option to redeem the 2.125% Senior Notes and 2.625% Senior Notes (collectively, the "Senior Notes"), in whole or in part, at any time at a price equal to accrued and unpaid interest on the redemption date, plus the greater of (i) 100% of the principal amount of the series of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the supplemental indentures governing such Senior Notes (together with the indenture governing the Senior Notes, the "Indenture"). The Indenture contains certain covenants that restrict the Company's ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of the Company's property or assets to another party. However, the Indenture does not contain any financial covenants.





RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Commercial Paper

In May 2014, the Company initiated a commercial paper borrowing program (the "Commercial Paper Program") that allowed it to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. In May 2015, the Company expanded its Commercial Paper Program to allow for a total issuance of up to \$500 million of unsecured commercial paper notes.

Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below. Accordingly, the Company does not expect combined borrowings outstanding under the Commercial Paper Program and Global Credit Facility to exceed \$500 million. Commercial Paper Program borrowings may be used to support the Company's general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program rank equally with the Company's other forms of unsecured indebtedness. As of October 1, 2016, the Company had \$95 million in borrowings outstanding under its Commercial Paper Program, with a weighted-average annual interest rate of 0.45% and a weighted-average remaining term of 8 days.

Revolving Credit Facilities

Global Credit Facility

In February 2015, the Company entered into an amended and restated credit facility (which was further amended in March 2016) that provides for a \$500 million senior unsecured revolving line of credit through February 11, 2020 (the "Global Credit Facility") under terms and conditions substantially similar to those previously in effect. The Global Credit Facility is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. The Company has the ability to expand its borrowing availability under the Global Credit Facility to \$750 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Global Credit Facility. As of October 1, 2016, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$8 million of outstanding letters of credit. The Global Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make certain investments. The Global Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio") of no greater than 3.75 as of the date of measurement for the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus four times consolidated rent expense for the four most recent consecutive fiscal quarters. Consolidated EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense, (iv) consolidated rent expense, (v) restructuring and other non-recurring expenses, and (vi) acquisition-related costs. As of October 1, 2016, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

Pan-Asia Credit Facilities

Certain of the Company's subsidiaries in Asia have uncommitted credit facilities with regional branches of JPMorgan Chase (the "Banks") in China and South Korea (the "Pan-Asia Credit Facilities"). These credit facilities are subject to annual renewal and may be used to fund general working capital and corporate needs of the Company's operations in the respective countries. Borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company and are granted at the sole discretion of the Banks, subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. The Pan-Asia Credit Facilities do not contain any financial covenants. The Company's Pan-Asia Credit Facilities by country are as follows:

China Credit Facility — provides Ralph Lauren Trading (Shanghai) Co., Ltd. with a revolving line of credit of up to 100 million Chinese Renminbi (approximately \$15 million) through April 6, 2017, and may also be used to support bank

guarantees. As of October 1, 2016, bank guarantees supported by this facility were not material.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- South Korea Credit Facility — provides Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 47 billion South Korean Won (approximately \$43 million) through October 31, 2017.

During the first quarter of Fiscal 2017, the Company repaid \$26 million in borrowings that were previously outstanding under the Pan-Asia Credit Facilities. As of October 1, 2016, there were no borrowings outstanding under the Pan-Asia Credit Facilities.

Refer to Note 13 of the Fiscal 2016 10-K for additional disclosure of the terms and conditions of the Company's debt and credit facilities.

## 11. Fair Value Measurements

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy for a particular asset or liability depends on the inputs used in its valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally-derived (unobservable). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

• Level 1 — inputs to the valuation methodology based on quoted prices (unadjusted) for identical assets or liabilities in active markets.

• Level 2 — inputs to the valuation methodology based on quoted prices for similar assets or liabilities in active markets for substantially the full term of the financial instrument; quoted prices for identical or similar instruments in markets that are not active for substantially the full term of the financial instrument; and model-derived valuations whose inputs or significant value drivers are observable.

• Level 3 — inputs to the valuation methodology based on unobservable prices or valuation techniques that are significant to the fair value measurement.

The following table summarizes the Company's financial assets and liabilities that are measured and recorded at fair value on a recurring basis, excluding accrued interest components:

	October 2, 2016 2016 (millions)	
Financial assets recorded at fair value:		
Corporate bonds — non-U.S.	\$ 8	\$ 8
Derivative financial instruments <sup>(b)</sup>	27	22
Total	\$ 35	\$ 30
Financial liabilities recorded at fair value:		
Derivative financial instruments <sup>(b)</sup>	\$ 58	\$ 59
Total	\$ 58	\$ 59

<sup>(a)</sup> Based on Level 1 measurements.

<sup>(b)</sup> Based on Level 2 measurements.

To the extent the Company invests in bonds, such investments are classified as available-for-sale and recorded at fair value in its consolidated balance sheets based upon quoted prices in active markets.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's derivative financial instruments are recorded at fair value in its consolidated balance sheets and are valued using pricing models that are primarily based on market observable external inputs, including spot and forward currency exchange rates, benchmark interest rates, and discount rates consistent with the instrument's tenor, and consider the impact of the Company's own credit risk, if any. Changes in counterparty credit risk are also considered in the valuation of derivative financial instruments.

The Company's cash and cash equivalents, restricted cash, and time deposits are recorded at carrying value, which approximates fair value based on Level 1 measurements.

The Company's debt instruments are recorded at their carrying values in its consolidated balance sheets, which may differ from their respective fair values. The fair values of the Senior Notes are estimated based on external pricing data, including available quoted market prices, and with reference to comparable debt instruments with similar interest rates, credit ratings, and trading frequency, among other factors. The fair values of the Company's commercial paper notes and borrowings outstanding under its credit facilities are estimated using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's outstanding borrowings. Due to their short-term nature, the fair values of the Company's commercial paper notes and borrowings outstanding under its credit facilities approximate their carrying values for the periods presented.

The following table summarizes the carrying values and the estimated fair values of the Company's debt instruments:

	October 1, 2016		April 2, 2016	
	Carrying	Fair	Carrying	Fair
	Value	Value <sup>(a)</sup>	Value	Value <sup>(a)</sup>
	(millions)			
\$300 million 2.125% Senior Notes	\$300 <sup>(b)</sup>	\$ 305	\$301 <sup>(b)</sup>	\$ 306
\$300 million 2.625% Senior Notes	297 <sup>(b)</sup>	310	296 <sup>(b)</sup>	308
Commercial paper notes	95	95	90	90
Borrowings outstanding under credit facilities	—	—	26	26

<sup>(a)</sup> Based on Level 2 measurements.

<sup>(b)</sup> See Note 10 for discussion of the carrying values of the Company's Senior Notes as of October 1, 2016 and April 2, 2016.

Unrealized gains or losses resulting from changes in the fair value of the Company's debt do not result in the realization or expenditure of cash, unless the debt is retired prior to its maturity.

#### Non-financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value.

However, on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written down to and recorded at fair value, considering external market participant assumptions.

During the three-month and six-month periods ended October 1, 2016 and September 26, 2015, the Company recorded non-cash impairment charges to reduce the carrying values of certain long-lived store and shop-within-shop assets to their fair values. The fair values of these assets were determined based on Level 3 measurements. Inputs to these fair value measurements included estimates of the amount and timing of the stores' and shop-within-shops' net future discounted cash flows based on historical experience, current trends, and market conditions.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the impairment charges recorded during the three-month and six-month periods ended October 1, 2016 and September 26, 2015:

	Three Months Ended		Six Months Ended	
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015
	(millions)			
Aggregate carrying value of long-lived assets written down to fair value	\$27	\$ 7	\$46	\$ 15
Impairment charges (see Note 7)	(27 )	(7 )	(46 )	(15 )

No goodwill impairment charges were recorded during either of the six-month periods ended October 1, 2016 or September 26, 2015. The Company performed its annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2017. In performing the assessment, the Company identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of its reporting units. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company's actual and planned financial performance. Additionally, the results of the Company's most recent quantitative goodwill impairment test indicated that the fair values of its reporting units significantly exceeded their respective carrying values. Based on the results of its qualitative goodwill impairment assessment, the Company concluded that it is not more likely than not that the fair values of its reporting units are less than their respective carrying values, and there were no reporting units at risk of impairment.

## 12. Financial Instruments

## Derivative Financial Instruments

The Company is exposed to changes in foreign currency exchange rates, primarily relating to certain anticipated cash flows and the value of the reported net assets of its international operations, as well as changes in the fair value of its fixed-rate debt attributed to changes in the benchmark interest rate. Consequently, the Company uses derivative financial instruments to manage and mitigate such risks. The Company does not enter into derivative transactions for speculative or trading purposes.

The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of October 1, 2016 and April 2, 2016:

Derivative Instrument <sup>(a)</sup>	Notional Amounts		Derivative Assets				Derivative Liabilities			
	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016	October 1, 2016	April 2, 2016		
			Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value	Balance Sheet Line <sup>(b)</sup>	Fair Value
	(millions)									
Designated Hedges:										
FC — Inventory purchases	\$414	\$532	PP	\$ 4	PP	\$ 1	AE	\$ 3	AE	\$ 14
FC — Other	174	210	—	—	—	—	<sup>(e)</sup>	20	AE	9
IRS — Fixed-rate debt	600	600	ONCA	1	ONCA	2	ONCL	1	ONCL	2
CCS — NI	621	630	—	—	—	—	ONCL	24	ONCL	31
Total Designated Hedges	\$1,809	\$1,972		\$ 5		\$ 3		\$ 48		\$ 56
Undesignated Hedges:										
FC — Other	\$581	\$541	<sup>(f)</sup>	\$ 22	<sup>(g)</sup>	\$ 19	<sup>(h)</sup>	\$ 10	AE	\$ 3
Total Hedges	\$2,390	\$2,513		\$ 27		\$ 22		\$ 58		\$ 59



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (a) FC = Forward foreign currency exchange contracts; IRS = Interest rate swap contracts; CCS = Cross-currency swap contracts; NI = Net investment hedges.
- (b) PP = Prepaid expenses and other current assets; AE = Accrued expenses and other current liabilities; ONCA = Other non-current assets; ONCL = Other non-current liabilities.
- (c) Primarily includes designated hedges of foreign currency-denominated intercompany royalty payments and other operational exposures.
- (d) Primarily includes undesignated hedges of foreign currency-denominated intercompany loans and other intercompany balances.
- (e) \$16 million included within accrued expenses and other current liabilities and \$4 million included within other non-current liabilities.
- (f) \$16 million included within prepaid expenses and other current assets and \$6 million included within other non-current assets.
- (g) \$15 million included within prepaid expenses and other current assets and \$4 million included within other non-current assets.
- (h) \$6 million included within accrued expenses and other current liabilities and \$4 million included within other non-current liabilities.

The Company records and presents the fair values of all of its derivative assets and liabilities in its consolidated balance sheets on a gross basis, even though they are subject to master netting arrangements. However, if the Company were to offset and record the asset and liability balances of all of its derivative instruments on a net basis in accordance with the terms of each of its master netting arrangements, spread across eight separate counterparties, the amounts presented in the consolidated balance sheets as of October 1, 2016 and April 2, 2016 would be adjusted from the current gross presentation as detailed in the following table:

Derivative Instrument	October 1, 2016			April 2, 2016		
	Gross Amounts Not Offset in the Presented Balance Sheet that are Subject to Master Netting Agreements (millions)	Net Amount		Gross Amounts Not Offset in the Presented Balance Sheet that are Subject to Master Netting Agreements (millions)	Net Amount	
Derivative assets	\$27 \$ (23 )	\$ 4		\$22 \$ (11 )	\$ 11	
Derivative liabilities	\$58 \$ (23 )	\$ 35		\$59 \$ (11 )	\$ 48	

The Company's master netting arrangements do not require cash collateral to be pledged by the Company or its counterparties. Refer to Note 3 for further discussion of the Company's master netting arrangements.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables summarize the pretax impact of the effective portion of gains and losses from the Company's designated derivative instruments on its consolidated financial statements for the three-month and six-month periods ended October 1, 2016 and September 26, 2015:

Derivative Instrument	Gains (Losses) Recognized in OCI				
	Three Months Ended		Six Months Ended		
	October 1, 2016		September 26, 2015		
	2016	2015	2016	2015	
	(millions)				
Designated Cash Flow Hedges:					
FC — Inventory purchases	\$ (5 )	\$ 4	\$ 6	\$ 2	
FC — Other	(1 )	(3 )	(17 )	(2 )	
	\$ (6 )	\$ 1	\$ (11)	\$ —	
Designated Hedges of Net Investments:					
CCS <sup>(a)</sup>	\$ (6 )	\$ (1 )	\$ 7	\$ (13 )	
Total Designated Hedges	\$ (12)	\$ —	\$ (4 )	\$ (13 )	
Derivative Instrument	Gains (Losses) Reclassified from AOCI to Earnings				
	Three Months Ended		Six Months Ended		Location of Gains (Losses) Reclassified from AOCI to Earnings
	October 1, 2016		September 26, 2015		
	2016	2015	2016	2015	
	(millions)				
Designated Cash Flow Hedges:					
FC — Inventory purchases	\$ (4)	\$ 9	\$ (1)	\$ 16	Cost of goods sold
FC — Other	(1 )	—	(6 )	—	Foreign currency gains (losses)
	\$ (5)	\$ 9	\$ (7)	\$ 16	

<sup>(a)</sup> Amounts recognized in OCI would be recognized in earnings only upon the sale or liquidation of the hedged net investment.

As of October 1, 2016, it is expected that \$13 million of net losses deferred in AOCI related to derivative instruments will be recognized in earnings over the next twelve months. No material gains or losses relating to ineffective cash flow hedges were recognized during any of the fiscal periods presented.

The following table summarizes the pretax impact of gains and losses from the Company's undesignated derivative instruments on its consolidated financial statements for the three-month and six-month periods ended October 1, 2016 and September 26, 2015:

Derivative Instrument	Gains (Losses) Recognized in Earnings				Location of Gains (Losses) Recognized in Earnings
	Three Months Ended		Six Months Ended		
	October 1, 2016	September 26, 2015	October 1, 2016	September 26, 2015	
	(millions)				
Undesignated Hedges:					
FC — Other	\$ (3)	\$ (2 )	\$ (11 )	\$ 2	Foreign currency gains (losses)
Total Undesignated Hedges	\$ (3)	\$ (2 )	\$ (11 )	\$ 2	





# RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### Risk Management Strategies

#### Forward Foreign Currency Exchange Contracts

The Company enters into forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, and other foreign currency-denominated operational and intercompany balances and cash flows. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, the Company hedges a portion of its foreign currency exposures anticipated over a two-year period. In doing so, the Company uses forward foreign currency exchange contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

#### Interest Rate Swap Contracts

During Fiscal 2016, the Company entered into two pay-floating rate, receive-fixed rate interest rate swap contracts which it designated as hedges against changes in the respective fair values of its fixed-rate 2.125% Senior Notes and its fixed-rate 2.625% Senior Notes attributed to changes in the benchmark interest rate (the "Interest Rate Swaps"). The Interest Rate Swaps, which mature on September 26, 2018 and August 18, 2020, respectively, both have notional amounts of \$300 million and swap the fixed interest rates on the Company's 2.125% Senior Notes and 2.625% Senior Notes for variable interest rates based on the 3-month London Interbank Offered Rate ("LIBOR") plus a fixed spread. Changes in the fair values of the Interest Rate Swaps were offset by changes in the fair values of the 2.125% Senior Notes and 2.625% Senior Notes attributed to changes in the benchmark interest rate, with no resulting ineffectiveness recognized in earnings during any of the fiscal periods presented.

#### Cross-Currency Swap Contracts

During Fiscal 2016, the Company entered into two pay-floating rate, receive-floating rate cross-currency swap contracts, with notional amounts of €280 million and €274 million, which it designated as hedges of its net investment in certain of its European subsidiaries (the "Cross-Currency Swaps"). The Cross-Currency Swaps, which mature on September 26, 2018 and August 18, 2020, respectively, swap the U.S. Dollar-denominated variable interest rate payments based on 3-month LIBOR plus a fixed spread (as paid under the Interest Rate Swaps described above) for Euro-denominated variable interest rate payments based on the 3-month Euro Interbank Offered Rate plus a fixed spread. As a result, the Cross-Currency Swaps, in conjunction with the Interest Rate Swaps, economically convert the Company's \$300 million fixed-rate 2.125% and \$300 million fixed-rate 2.625% obligations to €280 million and €274 million floating-rate Euro-denominated liabilities, respectively. No material gains or losses related to the ineffective portion, or the amount excluded from effectiveness testing, were recognized in interest expense within the consolidated statements of operations during any of the fiscal periods presented.

See Note 3 for further discussion of the Company's accounting policies relating to its derivative financial instruments.

#### Investments

As of October 1, 2016, the Company's short-term investments consisted of \$523 million of time deposits and \$8 million of non-U.S. corporate bonds, and its non-current investments consisted of \$122 million of time deposits. As of April 2, 2016, the Company's short-term investments consisted of \$621 million of time deposits and \$8 million of non-U.S. corporate bonds, and its non-current investments consisted of \$187 million of time deposits. The Company's non-current investments as of both October 1, 2016 and April 2, 2016 have maturities of one to two years.

No significant realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded during any of the fiscal periods presented.

Refer to Note 3 of the Fiscal 2016 10-K for further discussion of the Company's accounting policies relating to its investments.



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Commitments and Contingencies

Customs Audit

In September 2014, one of the Company's international subsidiaries received a pre-assessment notice from the relevant customs officials concerning the method used to determine the dutiable value of imported inventory. The notice communicated the customs officials' assertion that the Company should have applied an alternative duty method, which could result in up to \$46 million in incremental duty and non-creditable value-added tax, including \$11 million in interest and penalties. The Company believes that the alternative duty method claimed by the customs officials is not applicable to the Company's facts and circumstances and is vigorously contesting their asserted methodology.

In October 2014, the Company filed an appeal of the pre-assessment notice in accordance with the standard procedures established by the relevant customs authorities. In response to the filing of the Company's appeal of the pre-assessment notice, the review committee instructed the customs officials to reconsider their assertion of the alternative duty method and conduct a re-audit to evaluate the facts and circumstances noted in the pre-assessment notice. In December 2015, the Company received the results of the re-audit conducted and a customs audit assessment notice in the amount of \$34 million, which the Company recorded within restructuring and other charges in its consolidated statements of operations during the third quarter of Fiscal 2016. Although the Company disagrees with the assessment notice, in order to secure the Company's rights, the Company was required to pay the assessment amount and then subsequently file an appeal with the customs authorities. The Company continues to maintain its original filing position and will vigorously contest any other proposed methodology asserted by the customs officials. Should the Company be successful in its merits, a full refund for the amounts paid plus interest will be required to be paid by the customs authorities. If the Company is unsuccessful in its current appeal with the customs authorities, it may further appeal this decision within the courts. At this time, while the Company believes that the customs officials' claims are not meritorious and that the Company should prevail, the outcome of the appeals process is subject to risk and uncertainty.

Other Matters

The Company is involved, from time to time, in litigation, other legal claims, and proceedings involving matters associated with or incidental to its business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, importation and exportation of its products, taxation, unclaimed property, and employee relations. The Company believes at present that the resolution of currently pending matters will not individually or in the aggregate have a material adverse effect on its consolidated financial statements. However, the Company's assessment of any current litigation or other legal claims could potentially change in light of the discovery of facts not presently known or determinations by judges, juries, or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

In the normal course of business, the Company enters into agreements that provide general indemnifications. The Company has not made any significant indemnification payments under such agreements in the past, and does not currently anticipate incurring any material indemnification payments.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 14. Equity

## Summary of Changes in Equity

A reconciliation of the beginning and ending amounts of equity is presented below:

	Six Months Ended	
	October 1, 2016	September 26, 2015
	(millions)	
Balance at beginning of period	\$3,744	\$ 3,891
Comprehensive income	24	222
Dividends declared	(82)	(85)
Repurchases of common stock, including shares surrendered for tax withholdings	(115)	(299)
Stock-based compensation	32	54
Shares issued and tax benefits (shortfalls) recognized pursuant to stock-based compensation arrangements	(5)	28
Balance at end of period	\$3,598	\$ 3,811

## Common Stock Repurchase Program

In June 2016, as part of its common stock repurchase program, the Company entered into an accelerated share repurchase program with a third-party financial institution under which it made an upfront payment of \$100 million in exchange for an initial delivery of 0.9 million shares of its Class A common stock, representing 90% of the total shares ultimately expected to be delivered over the program's term (the "ASR Program"). The initial shares received, which had an aggregate cost of \$90 million based on the June 20, 2016 closing share price, were immediately retired and recorded as an increase to treasury stock.

In September 2016, at the ASR Program's conclusion, the Company received 0.1 million additional shares and recorded a related \$10 million increase to treasury stock. The number of additional shares delivered was based on the volume-weighted average price per share of the Company's Class A common stock over the term of the ASR Program, less an agreed upon discount. The average price per share paid for all of the shares delivered under the ASR Program was \$98.48.

A summary of the Company's repurchases of Class A common stock under its common stock repurchase program, including the ASR Program, is as follows:

	Six Months Ended	
	October 1, 2016	September 26, 2015
	(millions)	
Cost of shares repurchased	\$100	\$ 280
Number of shares repurchased	1.0	2.2

As of October 1, 2016, the remaining availability under the Company's Class A common stock repurchase program was \$200 million, reflecting the May 11, 2016 approval by the Company's Board of Directors to expand the program by up to an additional \$200 million of Class A common stock repurchases. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during each of the six-month periods ended October 1, 2016 and September 26, 2015, 0.2 million shares of Class A common stock, at a cost of \$15 million and \$19 million, respectively, were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Plan, as amended (the "1997 Incentive Plan"), and its Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan").

Repurchased and surrendered shares are accounted for as treasury stock at cost and held in treasury for future use.

## Dividends

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. The second quarter Fiscal 2017 dividend of \$0.50 per share was declared on August 31, 2016, was payable to stockholders of record at the close of business on September 30, 2016, and was paid on October 14, 2016. Dividends paid amounted to \$82 million and \$86 million during the six-month periods ended October 1, 2016 and September 26, 2015, respectively.

## 15. Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss), net of tax, accumulated in equity:

	Foreign Currency Translation Gains (Losses) (millions)	Net Unrealized Gains (Losses) Cash Flow Hedges <sup>(a)</sup>	Net Unrealized Losses on Defined Benefit Plans <sup>(c)</sup>	Total Accumulated Other Comprehensive Income (Loss)
Balance at March 28, 2015	\$(193)	\$ 43	\$ (15 )	\$ (165 )
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	13	—	—	13
Amounts reclassified from AOCI to earnings	—	(16 )	1	(15 )
Other comprehensive income (loss), net of tax	13	(16 )	1	(2 )
Balance at September 26, 2015	\$(180)	\$ 27	\$ (14 )	\$ (167 )
Balance at April 2, 2016	\$(157)	\$ (12 )	\$ (12 )	\$ (181 )
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	2	(8 )	—	(6 )
Amounts reclassified from AOCI to earnings	—	6	1	7
Other comprehensive income (loss), net of tax	2	(2 )	1	1
Balance at October 1, 2016	\$(155)	\$ (14 )	\$ (11 )	\$ (180 )

OCI before reclassifications to earnings related to foreign currency translation gains (losses) is net of an income tax provision of \$2 million for the six months ended October 1, 2016, and includes an income tax benefit of \$4 million for the six months ended September 26, 2015. OCI before reclassifications to earnings for the six-month periods <sup>(a)</sup>ended October 1, 2016 and September 26, 2015 include a gain of \$4 million (net of a \$3 million income tax provision) and a loss of \$8 million (net of a \$5 million income tax benefit), respectively, related to the effective portion of changes in the fair values of the Cross-Currency Swaps designated as hedges of the Company's net investment in certain of its European subsidiaries (see Note 12).

OCI before reclassifications to earnings related to net unrealized gains (losses) on cash flow hedges is net of an income tax benefit of \$3 million for the six months ended October 1, 2016. The tax effect on OCI before reclassifications to earnings for the six months ended September 26, 2015 was immaterial. The tax effects on amounts reclassified from AOCI to earnings are presented in a table below.

<sup>(c)</sup> Activity is presented net of taxes, which were immaterial for both periods presented.





## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents reclassifications from AOCI to earnings for cash flow hedges, by component:

	Three Months Ended October 1, 2016		September 26, 2015		Six Months Ended October 1, 2016		September 26, 2015		Location of Gains (Losses) Reclassified from AOCI to Earnings
	(millions)								
Gains (losses) on cash flow hedges <sup>(a)</sup> :									
FC — Inventory purchases	\$(4)	\$ 9			\$(1)	\$ 16			Cost of goods sold
FC — Other	(1)	—			(6)	—			Foreign currency gains (losses)
Tax effect	—	—			1	—			Provision for income taxes
Net of tax	\$(5)	\$ 9			\$(6)	\$ 16			

<sup>(a)</sup> FC = Forward foreign currency exchange contracts.

## 16. Stock-based Compensation

The Company's stock-based compensation awards are currently issued under the 2010 Incentive Plan, which was approved by its stockholders on August 5, 2010. However, any prior awards granted under the 1997 Incentive Plan remain subject to the terms of that plan. Any awards that expire, are forfeited, or are surrendered to the Company in satisfaction of taxes are available for issuance under the 2010 Incentive Plan. On September 1, 2016, the Company registered with the Securities and Exchange Commission an additional 0.9 million shares of its Class A common stock for issuance pursuant to its 2010 Incentive Plan.

Refer to Note 19 of the Fiscal 2016 10-K for a detailed description of the Company's stock-based compensation awards, including information related to vesting terms, service and performance conditions, and payout percentages.

## Impact on Results

A summary of total stock-based compensation expense recorded within SG&A expenses and the related income tax benefits recognized during the three-month and six-month periods ended October 1, 2016 and September 26, 2015 is as follows:

	Three Months Ended October 1, 2016		September 26, 2015		Six Months Ended October 1, 2016		September 26, 2015	
	(millions)							
Compensation expense	\$ 14	\$ 22			\$ 32	\$ 54		
Income tax benefit	\$(6)	\$ (8)			\$(12)	\$ (20)		

The Company issues its annual grants of stock-based compensation awards in the first half of each fiscal year. Due to the timing of the annual grants and other factors, including the composition of the retirement-eligible employee population, stock-based compensation expense recognized during the three-month and six-month periods ended October 1, 2016 is not indicative of the level of compensation expense expected to be incurred for the full Fiscal 2017.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Stock Options

A summary of stock option activity under all plans during the six months ended October 1, 2016 is as follows:

	Number of Options (thousands)
Options outstanding at April 2, 2016	2,418
Granted	—
Exercised	(65 )
Cancelled/Forfeited	(224 )
Options outstanding at October 1, 2016	2,129

## Restricted Stock Awards and Service-based RSUs

The fair values of restricted stock awards granted to non-employee directors are determined based on the fair value of the Company's Class A common stock on the date of grant. The weighted-average grant date fair value of restricted stock awards granted, which entitle holders to receive cash dividends in connection with the payments of dividends on the Company's Class A common stock, was \$131.40 per share during the six months ended September 26, 2015. No such awards were granted during the six months ended October 1, 2016.

The fair values of service-based RSUs granted to certain of the Company's senior executives, as well as to certain of its other employees, are based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for any awards not entitled to accrue dividend equivalents while outstanding. The weighted-average grant date fair values of service-based RSU awards granted were \$83.67 and \$127.85 per share during the six-month periods ended October 1, 2016 and September 26, 2015, respectively.

A summary of restricted stock and service-based RSU activity during the six months ended October 1, 2016 is as follows:

	Number of Shares Restricted Stock Service-based RSUs (thousands)
Nonvested at April 2, 2016	14 490
Granted	— 645
Vested	— (141 )
Forfeited	— (88 )
Nonvested at October 1, 2016	14 906

## Performance-based RSUs

The fair values of the Company's performance-based RSUs that are not subject to a market condition in the form of a total shareholder return ("TSR") modifier are based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for those securities that are not entitled to dividend equivalents. The weighted-average grant date fair values of performance-based RSUs that do not contain a TSR modifier granted during the six-month periods ended October 1, 2016 and September 26, 2015 were \$85.95 and \$128.55 per share, respectively.

The fair values of the Company's performance-based RSUs with a TSR modifier are determined on the date of grant using a Monte Carlo simulation valuation model. This pricing model uses multiple simulations to evaluate the probability of the Company achieving various stock price levels to determine its expected TSR performance ranking. No such awards were granted during the six-month periods ended October 1, 2016 and September 26, 2015.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of performance-based RSU activity during the six months ended October 1, 2016 is as follows:

	Number of Shares	
	Performance-based	
	RSUs — without	Performance-based RSUs — with
	TSR	TSR Modifier
	Modifier	
	(thousands)	
Nonvested at April 2, 2016	691	142
Granted	411	—
Change due to performance/market condition achievement	(14 )	(25 )
Vested	(216 )	(49 )
Forfeited	(74 )	(7 )
Nonvested at October 1, 2016	798	61

## 17. Segment Information

The Company has three reportable segments based on its business activities and organization: Wholesale, Retail, and Licensing. These segments offer a variety of products through different channels of distribution. The Wholesale segment consists of apparel, accessories, home furnishings, and related products which are sold to major department stores, specialty stores, golf and pro shops, and the Company's licensed and franchised retail stores in the U.S. and overseas. The Retail segment consists of the Company's integrated worldwide retail operations, which sell products through its retail stores, concession-based shop-within-shops, and e-commerce sites, which are purchased from the Company's licensees and suppliers. The Licensing segment generates revenues from royalties earned on the sale of the Company's apparel, home, and other products internationally and domestically through licensing alliances. The licensing agreements grant the licensees rights to use the Company's various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 of the Fiscal 2016 10-K. Sales and transfers between segments are generally recorded at cost and treated as transfers of inventory. All intercompany revenues, including such sales between segments, are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon operating income before restructuring charges and certain other one-time items, such as legal charges, if any. Certain corporate overhead expenses related to global functions, most notably the Company's executive office, information technology, finance and accounting, human resources, and legal departments, largely remain at corporate as unallocated expenses. Additionally, other costs that cannot be allocated to the segments based on specific usage are also maintained at corporate, including corporate advertising and marketing expenses, depreciation and amortization of corporate assets, and other general and administrative expenses resulting from corporate-level activities and projects.

Net revenues and operating income for each of the Company's reportable segments are as follows:

	Three Months Ended		Six Months Ended	
	October	September 26,	October	September 26,
	2016	2015	2016	2015
	(millions)			
Net revenues:				
Wholesale	\$831	\$ 927	\$1,438	\$ 1,569
Retail	942	996	1,849	1,931
Licensing	48	47	86	88
Total net revenues	\$1,821	\$ 1,970	\$3,373	\$ 3,588



## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended October 1, 2016		Six Months Ended October 1, 2016	
	2016	2015	2016	2015
	(millions)			
Operating income:				
Wholesale <sup>(a)</sup>	\$203	\$ 247	\$336	\$ 384
Retail <sup>(b)</sup>	19	123	82	233
Licensing	44	42	78	78
	266	412	496	695
Unallocated corporate expenses	(148 )	(151 )	(323 )	(304 )
Unallocated restructuring and other charges <sup>(c)</sup>	(42 )	(31 )	(128 )	(65 )
Total operating income	\$76	\$ 230	\$45	\$ 326

- During the three-month and six-month periods ended October 1, 2016, the Company recorded non-cash inventory-related charges of \$8 million and \$18 million, respectively, and asset impairment charges of \$7 million and \$8 million, respectively. During the three-month and six-month periods ended September 26, 2015, the Company recorded non-cash asset impairment charges of \$2 million and \$5 million, respectively. These charges were recorded in connection with the Company's restructuring plans. See Notes 7 and 8 for additional information. During the three-month and six-month periods ended October 1, 2016, the Company recorded non-cash inventory-related charges of \$73 million and \$117 million, respectively, and asset impairment charges of \$20 million and \$38 million, respectively. During the six months ended September 26, 2015, the Company recorded non-cash inventory-related charges of \$3 million, and during the three-month and six-month periods ended September 26, 2015, recorded asset impairment charges of \$5 million and \$10 million, respectively. These charges were recorded in connection with the Company's restructuring plans. See Notes 7 and 8 for additional information.
- The three-month and six-month periods ended October 1, 2016 and September 26, 2015 included certain unallocated restructuring and other charges (see Note 8), which are detailed below:

	Three Months Ended October 1, 2016		Six Months Ended October 1, 2016	
	2016	2015	2016	2015
	(millions)			
Unallocated restructuring and other charges:				
Wholesale-related	\$(8 )	\$(2 )	\$(23 )	\$(10 )
Retail-related	(11 )	(8 )	(26 )	(19 )
Licensing-related	—	—	(2 )	(1 )
Corporate operations-related	(23 )	(9 )	(77 )	(23 )
Unallocated restructuring charges	(42 )	(19 )	(128 )	(53 )
Other charges (see Note 8)	—	(12 )	—	(12 )
Total unallocated restructuring and other charges	\$(42 )	\$(31 )	\$(128 )	\$(65 )

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Depreciation and amortization expense for the Company's segments is as follows:

	Three Months Ended		Six Months Ended	
	October 1, 2016		September 26, 2015	
	2016	2015	2016	2015
	(millions)			

Depreciation and amortization:

Wholesale	\$12	\$ 15	\$29	\$ 30
Retail	37	39	74	78
Licensing	1	—	1	—
Unallocated corporate	26	23	50	43
Total depreciation and amortization	\$76	\$ 77	\$154	\$ 151

Net revenues by geographic location of the reporting subsidiary are as follows:

	Three Months Ended		Six Months Ended	
	October 1, 2016		September 26, 2015	
	2016	2015	2016	2015
	(millions)			

Net revenues<sup>(a)</sup>:

The Americas <sup>(b)</sup>	\$1,155	\$ 1,319	\$2,116	\$ 2,398
Europe <sup>(c)</sup>	449	431	829	764
Asia <sup>(d)</sup>	217	220	428	426
Total net revenues	\$1,821	\$ 1,970	\$3,373	\$ 3,588

<sup>(a)</sup> Net revenues for certain of the Company's licensed operations are included within the geographic location of the reporting subsidiary which holds the respective license.

Includes the U.S., Canada, and Latin America. Net revenues earned in the U.S. during the three-month and

<sup>(b)</sup> six-month periods ended October 1, 2016 were \$1.092 billion and \$2.002 billion, respectively, and \$1.247 billion and \$2.276 billion during the three-month and six-month periods ended September 26, 2015, respectively.

<sup>(c)</sup> Includes the Middle East.

<sup>(d)</sup> Includes Australia and New Zealand.

## RALPH LAUREN CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 18. Additional Financial Information

## Cash Interest and Taxes

Cash paid for interest and income taxes is as follows:

	Three Months Ended		Six Months Ended	
	October 1, 2016		September 26, 2015	
	2016	2015	2016	2015
	(millions)			
Cash paid for interest	\$3	\$ 3	\$7	\$ 5
Cash paid for income taxes	\$33	\$ 82	\$50	\$ 125

## Non-cash Transactions

Non-cash investing activities included capital expenditures incurred but not yet paid of \$59 million and \$99 million for the six-month periods ended October 1, 2016 and September 26, 2015, respectively. Additionally, during the six months ended October 1, 2016, the Company recorded capital lease assets and corresponding capital lease obligations of \$5 million within its consolidated balance sheet.

There were no other significant non-cash investing or financing activities for any of the fiscal periods presented.

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

Special Note Regarding Forward-Looking Statements

Various statements in this Form 10-Q, or incorporated by reference into this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases, and in oral statements made from time to time by us or on our behalf constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions," and similar words or phrases and involve known and unknown risks, uncertainties, and other factors which may cause actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed in or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others:

- the loss of key personnel, including Mr. Ralph Lauren, or other changes in our executive and senior management team or to our operating structure, and our ability to effectively transfer knowledge during periods of transition;
- our ability to successfully implement our long-term growth strategy, which entails evolving our operating model to enable sustainable, profitable sales growth by significantly reducing supply chain lead times, employing best-in-class sourcing, and capitalizing on our repositioning initiatives in certain brands, regions, and merchandise categories;
- our ability to achieve anticipated operating enhancements and/or cost reductions from our restructuring plans, which could include the potential sale, discontinuance, or consolidation of certain of our brands;
- the impact to our business resulting from potential costs and obligations related to the early termination of our long-term, non-cancellable leases;
- our efforts to improve the efficiency of our distribution system and to continue to enhance, upgrade, and/or transition our global information technology systems and our global e-commerce platform;
- our ability to secure our facilities and systems and those of our third-party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses, or similar Internet or email events;
- our exposure to currency exchange rate fluctuations from both a transactional and translational perspective;
- the impact to our business resulting from increases in the costs of raw materials, transportation, and labor;
- our ability to continue to maintain our brand image and reputation and protect our trademarks;
- the impact to our business resulting from the United Kingdom's referendum vote to exit the European Union and the uncertainty surrounding the terms and conditions of such a withdrawal, as well as the related impact to global stock markets and currency exchange rates;
- the impact of the volatile state of the global economy, stock markets, and other global economic conditions on us, our customers, our suppliers, and our vendors and on our ability and their ability to access sources of liquidity;
- the impact to our business resulting from changes in consumers' ability or preferences to purchase premium lifestyle products that we offer for sale and our ability to forecast consumer demand, which could result in either a build-up or shortage of inventory;
- changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors, and consolidations, liquidations, restructurings, and other ownership changes in the retail industry;
- a variety of legal, regulatory, tax, political, and economic risks, including risks related to the importation and exportation of products, tariffs, and other trade barriers which our international operations are subject to and other risks associated with our international operations, such as compliance with the Foreign Corrupt Practices Act or violations of other anti-bribery and corruption laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including tax laws, trade and labor restrictions, and related laws that may reduce the flexibility of our business;
- the impact to our business of events of unrest and instability that are currently taking place in certain parts of the world, as well as from any terrorist action, retaliation, and the threat of further action or retaliation;



- our ability to continue to expand or grow our business internationally and the impact of related changes in our customer, channel, and geographic sales mix as a result;
- changes in our tax obligations and effective tax rates;
- changes in the business of, and our relationships with, major department store customers and licensing partners;
- our intention to introduce new products or enter into or renew alliances and exclusive relationships;
- our ability to access sources of liquidity to provide for our cash needs, including our debt obligations, payment of dividends, capital expenditures, and potential repurchases of our Class A common stock;
- our ability to open new retail stores, concession shops, and e-commerce sites in an effort to expand our direct-to-consumer presence;
- our ability to make certain strategic acquisitions and successfully integrate the acquired businesses into our existing operations;
- the potential impact to the trading prices of our securities if our Class A common stock share repurchase activity and/or cash dividend rate differs from investors' expectations;
- our ability to maintain our credit profile and ratings within the financial community; and
- the potential impact on our operations and on our suppliers and customers resulting from natural or man-made disasters.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended April 2, 2016 (the "Fiscal 2016 10-K"). There are no material changes to such risk factors other than as set forth in Part II, Item 1A — "Risk Factors" of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In this Form 10-Q, references to "Ralph Lauren," "ourselves," "we," "our," "us," and the "Company" refer to Ralph Lauren Corporation and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2017 will end on April 1, 2017 and will be a 52-week period ("Fiscal 2017"). Fiscal year 2016 ended on April 2, 2016 and was a 53-week period ("Fiscal 2016"). The second quarter of Fiscal 2017 ended on October 1, 2016 and was a 13-week period. The second quarter of Fiscal 2016 ended on September 26, 2015 and was also a 13-week period.

## INTRODUCTION

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

**Overview.** This section provides a general description of our business, current trends and outlook, and a summary of our financial performance for the three-month and six-month periods ended October 1, 2016. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.

**Results of operations.** This section provides an analysis of our results of operations for the three-month and six-month periods ended October 1, 2016 as compared to the three-month and six-month periods ended September 26, 2015.

**Financial condition and liquidity.** This section provides a discussion of our financial condition and liquidity as of October 1, 2016, which includes (i) an analysis of our financial condition as compared to the prior fiscal year-end; (ii) an analysis of changes in our cash flows for the six-month period ended October 1, 2016 as compared to the six-month period ended September 26, 2015; (iii) an analysis of our liquidity, including the availability under our commercial paper borrowing program and credit facilities, common stock repurchases, payments of dividends, and our outstanding debt and covenant compliance; and (iv) a description of material changes in our contractual and other obligations since April 2, 2016, if any.

**Market risk management.** This section discusses any significant changes in our risk exposures related to foreign currency exchange rates, interest rates, and our investments since April 2, 2016.

**Critical accounting policies.** This section discusses any significant changes in our critical accounting policies since April 2, 2016. Critical accounting policies typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 3 of the Fiscal 2016 10-K.

**Recently issued accounting standards.** This section discusses the potential impact on our reported results of operations and financial condition of certain accounting standards that have been recently issued or proposed.

## OVERVIEW

### Our Business

Our Company is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. Our brand names include Ralph Lauren, Ralph Lauren Collection, Ralph Lauren Purple Label, Polo Ralph Lauren, Double RL, Lauren Ralph Lauren, Polo Ralph Lauren Children, Denim & Supply Ralph Lauren, Chaps, and Club Monaco, among others.

We classify our businesses into three segments: Wholesale, Retail, and Licensing. Our Wholesale business, which represented approximately 45% of our Fiscal 2016 net revenues, consists of sales made principally to major department stores and specialty stores around the world. Our Retail business, which represented approximately 53% of our Fiscal 2016 net revenues, consists of sales made directly to consumers through our integrated retail channel, which includes our retail stores, concession-based shop-within-shops, and our e-commerce operations around the world. Our Licensing business, which represented approximately 2% of our Fiscal 2016 net revenues, consists of royalty-based arrangements under which we license to unrelated third parties for specified periods the right to operate retail stores and/or to use our various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings. Approximately 37% of our Fiscal 2016 net revenues were earned outside of the U.S. See Note 17 to the accompanying consolidated financial statements for a summary of net revenues and operating income by reportable segment, as well as net revenues by geographic location.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth fiscal quarters and higher retail sales in our second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting our Retail segment. In addition, fluctuations in net sales, operating income, and cash flows in any fiscal quarter may be affected by other events impacting retail sales, such as changes in weather patterns. Accordingly, our operating results and cash flows for the three-month and six-month periods ended October 1, 2016 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2017.

#### Current Trends and Outlook

The global economy continues to be in a heightened state of uncertainty, as productivity growth in both advanced and emerging countries remains low. Certain worldwide events, including political unrest, acts of terrorism, disease epidemics, monetary policy changes, and currency and commodity price volatility, as well as the United Kingdom's referendum vote to exit the European Union, commonly referred to as "Brexit," continue to impact consumer confidence and the global economy as a whole, as well as the world's stock markets. While certain geographic regions are withstanding these pressures better than others, the level of consumer travel and spending on discretionary items remains constrained in certain markets, with trends likely to continue at least throughout 2016. Additionally, consumers are increasingly spending more of their discretionary income on "experiences," such as dining and entertainment, over consumer goods. Consequently, consumer retail traffic remains relatively weak and inconsistent, which has led to increased competition and a desire to offset traffic declines with increased levels of conversion. Certain of our operations have experienced, and have been impacted by, these dynamics, with variations across the geographic regions and businesses in which we operate.

Additionally, given the lack of comparable precedent, the full extent of Brexit's impact on the global economy and our business is unclear at this time. However, Brexit has already caused significant volatility and uncertainty in global stock markets and currency exchange rates, which could continue as the United Kingdom negotiates its potential exit from the European Union. A withdrawal could, among other outcomes, significantly disrupt the free movement of goods, services, and people between the United Kingdom and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe.

As a result of these factors, among others, several organizations that monitor the world's economy, including the International Monetary Fund and the World Trade Organization, have recently further scaled back their predictions of economic growth for 2016. If the current economic conditions and challenging industry trends continue or worsen, the constrained level of worldwide consumer spending and modified consumption behavior may continue to have a negative effect on our sales, inventory levels, and operating margin for the remainder of Fiscal 2017. Furthermore, our results have been, and are expected to continue to be, impacted by foreign exchange rate fluctuations. We have initiated various operating strategies to mitigate these challenges, and remain optimistic about our future growth prospects. Accordingly, we continue to invest in our longer-term growth initiatives, including our restructuring activities, as described within "Recent Developments" below, while continually monitoring macroeconomic risks and remaining focused on disciplined expense management. Although we continue to expect that the dilutive effects of investments that we are making in our business and our quality of sales initiatives will create operating margin pressure in the near-term, we expect that these initiatives will create longer-term shareholder value. We will continue to monitor these risks and evaluate and adjust our operating strategies and foreign currency and cost management opportunities to mitigate the related impact on our results of operations, while remaining focused on the long-term growth of our business and protecting the value of our brand.

For a detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, see Part I, Item 1A — "Risk Factors" in our Fiscal 2016 10-K, as well as Part II, Item 1A — "Risk Factors" of this Form 10-Q.

## Summary of Financial Performance

### Operating Results

During the three months ended October 1, 2016, we reported net revenues of \$1.821 billion, net income of \$45 million, and net income per diluted share of \$0.55, as compared to net revenues of \$1.970 billion, net income of \$160 million, and net income per diluted share of \$1.86 during the three months ended September 26, 2015. During the six months ended October 1, 2016, we reported net revenues of \$3.373 billion, net income of \$23 million, and net income per diluted share of \$0.28, as compared to net revenues of \$3.588 billion, net income of \$224 million, and net income per diluted share of \$2.58 during the six months ended September 26, 2015. The comparability of our operating results has been affected by charges incurred in connection with our restructuring plans and other charges primarily related to the settlement of certain litigation claims, as discussed further below.

Our operating performance for the three-month and six-month periods ended October 1, 2016 reflected declines in net revenues of 7.6% and 6.0%, respectively, on a reported basis. On a constant currency basis, as defined within "Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition" below, net revenues declined 8.0% and 6.3% during the three-month and six-month periods ended October 1, 2016, respectively. The declines in reported net revenues for the three-month and six-month periods ended October 1, 2016 reflected lower net revenues from our domestic wholesale and retail businesses, partially offset by higher net revenues from our European wholesale business. Our gross profit percentage declined by 410 basis points to 52.4% during the three months ended October 1, 2016 and by 310 basis points to 54.8% during the six months ended October 1, 2016, primarily driven by non-cash inventory-related charges recorded in connection with our restructuring plans during three-month and six-month periods ended October 1, 2016 and net unfavorable foreign currency effects, partially offset by increased profitability driven by favorable geographic mix and our initiatives to improve the overall quality of sales, including lower levels of promotional activity within our international businesses. Selling, general, and administrative ("SG&A") expenses as a percentage of net revenues increased by 140 basis points to 44.1% during the three months ended October 1, 2016 and by 170 basis points to 48.0% during the six months ended October 1, 2016, primarily due to operating deleverage on lower net revenues and increased investments in our stores, facilities, and infrastructure consistent with our longer-term initiatives, partially offset by cost savings associated with our restructuring activities.

Net income declined by \$115 million during the three months ended October 1, 2016 as compared to the three months ended September 26, 2015, primarily due to a \$154 million decrease in operating income, partially offset by a \$31 million decline in our provision for income taxes. During the six months ended October 1, 2016, net income declined by \$201 million as compared to the six months ended September 26, 2015, primarily due to a \$281 million decrease in operating income, partially offset by a \$68 million decline in our provision for income taxes. Net income per diluted share declined to \$0.55 and \$0.28 per share during the three-month and six-month periods ended October 1, 2016, respectively, due to lower net income, partially offset by lower weighted-average diluted shares outstanding.

Our operating results during the three-month and six-month periods ended October 1, 2016 were negatively impacted by charges of \$150 million and \$309 million, respectively, recorded in connection with our restructuring plans, which had an after-tax effect of reducing net income by \$113 million and \$225 million, respectively, or approximately \$1.35 per diluted share and \$2.68 per diluted share, respectively. Our operating results during the three-month and six-month periods ended September 26, 2015 were negatively impacted by charges of \$26 million and \$71 million, respectively, recorded in connection with our restructuring plans, as well as \$12 million of other charges primarily related to the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$24 million and \$55 million, respectively, or approximately \$0.27 per diluted share and \$0.62 per diluted share, respectively.

### Financial Condition and Liquidity

We ended the second quarter of Fiscal 2017 in a net cash and investments position (cash and cash equivalents plus short-term and non-current investments, less total debt) of \$395 million, as compared to \$559 million as of the end of Fiscal 2016. The decline in our net cash and investments position at October 1, 2016 as compared to April 2, 2016 was primarily due to our use of cash to invest in our business through \$165 million in capital expenditures, to support Class A common stock repurchases of \$115 million, including withholdings in satisfaction of tax obligations for stock-based compensation awards, and to make dividend payments of \$82 million, partially offset by our operating cash flows of \$232 million.



We generated \$232 million of cash from operations during the six months ended October 1, 2016, compared to \$366 million during the six months ended September 26, 2015. The decrease in our operating cash flows related to a net unfavorable change related to our operating assets and liabilities, including our working capital, and a decline in net income before non-cash charges during the six months ended October 1, 2016 as compared to the prior fiscal year period.

Our equity declined to \$3.598 billion as of October 1, 2016 compared to \$3.744 billion as of April 2, 2016, primarily attributable to our share repurchase activity and dividends declared, partially offset by our comprehensive income and the net impact of stock-based compensation arrangements during the six months ended October 1, 2016.

#### Recent Developments

##### Way Forward Plan

On June 2, 2016, our Board of Directors approved a restructuring plan with the objective of delivering sustainable, profitable sales growth and long-term value creation for shareholders (the "Way Forward Plan"). We plan to refocus on our core brands and evolve our product, marketing, and shopping experience to increase desirability and relevance. We also intend to evolve our operating model to enable sustainable, profitable sales growth by significantly reducing supply chain lead times, improving our sourcing, and executing a disciplined multi-channel distribution and expansion strategy. As part of the Way Forward Plan, we plan to rightsize our cost structure and implement a return on investment-driven financial model to free up resources to invest in the brand and drive high-quality sales. The Way Forward Plan includes strengthening our leadership team and creating a more nimble organization by moving from an average of nine to six layers of management.

The Way Forward Plan also includes the discontinuance of our Denim & Supply brand and the integration of our denim product offerings into our Polo Ralph Lauren brand. Accordingly, our Denim & Supply operations will wind-down over the remainder of Fiscal 2017.

The Way Forward Plan will result in a reduction in workforce and the closure of certain stores. When substantially completed by the end of Fiscal 2017, we expect to achieve approximately \$180 million to \$220 million of annualized expense savings associated with the Way Forward Plan.

In connection with the Way Forward Plan, we currently expect to incur total estimated charges of approximately \$400 million, comprised of cash-related restructuring charges of approximately \$300 million and non-cash charges of approximately \$100 million. We also expect to incur an additional non-cash charge of up to \$150 million associated with the reduction of inventory out of current liquidation channels in line with our Way Forward Plan. Our assessment of restructuring-related activities is still ongoing and incremental charges beyond this range may be incurred. See Notes 7 and 8 to our accompanying consolidated financial statements for detailed discussions of the charges recorded in connection with the Way Forward Plan.

##### Global Reorganization Plan

On May 12, 2015, our Board of Directors approved a reorganization and restructuring plan comprised of the following major actions: (i) the reorganization of the Company from its historical channel and regional structure to an integrated global brand-based operating structure, which will streamline our business processes to better align our cost structure with our long-term growth strategy; (ii) a strategic store and shop-within-shop performance review conducted by region and brand; (iii) a targeted corporate functional area review; and (iv) the consolidation of certain of our luxury lines (collectively, the "Global Reorganization Plan"). The Global Reorganization Plan has resulted in a reduction in workforce and the closure of certain stores and shop-within-shops. Actions associated with the Global Reorganization Plan were substantially completed during Fiscal 2016 and are expected to result in improved operational efficiencies by reducing annual operating expenses by approximately \$125 million.

Since its inception, we have recorded total cumulative charges of \$147 million in connection with the Global Reorganization Plan. Actions associated with the Global Reorganization Plan are now complete and no additional charges are expected to be incurred in relation to this plan. See Notes 7 and 8 to our accompanying consolidated financial statements for detailed discussions of the charges recorded in connection with the Global Reorganization Plan.



# Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results for the three-month and six-month periods ended October 1, 2016 and September 26, 2015 has been affected by certain events, including:

• Charges incurred in connection with our restructuring plans, as well as certain other charges, as summarized below (references to "Notes" are to the notes to the accompanying consolidated financial statements):

	Three Months Ended		Six Months Ended	
	OctoberSeptember 26,		OctoberSeptember 26,	
	2016	2015	2016	2015
	(millions)			
Impairment of assets (see Note 7)	\$(27 )	\$ (7 )	\$(46 )	\$ (15 )
Restructuring and other charges (see Note 8)	(42 )	(31 )	(128 )	(65 )
Inventory-related charges (see Note 8) <sup>(a)</sup>	(81 )	—	(135 )	(3 )
Total charges	\$(150)	\$ (38 )	\$(309)	\$ (83 )

<sup>(a)</sup> Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations. Since we are a global company, the comparability of our operating results reported in U.S. Dollars is also affected by foreign currency exchange rate fluctuations because the underlying currencies in which we transact change in value over time compared to the U.S. Dollar. These rate fluctuations can have a significant effect on our reported results. As such, in addition to financial measures prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), our discussions often contain references to constant currency measures, which are calculated by translating the current-year and prior-year reported amounts into comparable amounts using a single foreign exchange rate for each currency. We present constant currency financial information, which is a non-U.S. GAAP financial measure, as a supplement to our reported operating results. We use constant currency information to provide a framework to assess how our businesses performed excluding the effects of foreign currency exchange rate fluctuations. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our businesses. The constant currency performance measures should be viewed in addition to, and not in lieu of or superior to, our operating performance measures calculated in accordance with U.S. GAAP. Reconciliations between this non-U.S. GAAP financial measure and the most directly comparable U.S. GAAP measure are included in the "Results of Operations" section where applicable.

Our "Results of Operations" discussion that follows includes the significant changes in operating results arising from these items affecting comparability. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users should consider the types of events and transactions that have affected operating trends.



## RESULTS OF OPERATIONS

Three Months Ended October 1, 2016 Compared to Three Months Ended September 26, 2015

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Three Months Ended				
	October 1, 2016	September 26, 2015	\$	% / bps	
			Change	Change	
	(millions, except per share data)				
Net revenues	\$1,821	\$ 1,970	\$(149 )	(7.6 )	(%)
Cost of goods sold <sup>(a)</sup>	(867 )	(857 )	(10 )	1.1	(%)
Gross profit	954	1,113	(159 )	(14.3 )	(%)
Gross profit as % of net revenues	52.4	% 56.5	%	(410 bps)	
Selling, general, and administrative expenses <sup>(a)</sup>	(803 )	(839 )	36	(4.5 )	(%)
SG&A expenses as % of net revenues	44.1	% 42.7	%	140 bps	
Amortization of intangible assets	(6 )	(6 )	—	5.1	(%)
Impairment of assets	(27 )	(7 )	(20 )	NM	
Restructuring and other charges	(42 )	(31 )	(11 )	36.2	(%)
Operating income	76	230	(154 )	(66.8 )	(%)
Operating income as % of net revenues	4.2	% 11.7	%	(750 bps)	
Foreign currency gains (losses)	1	(5 )	6	NM	
Interest expense	(4 )	(4 )	—	(9.4 )	(%)
Interest and other income, net	2	1	1	86.5	(%)
Equity in losses of equity-method investees	(2 )	(3 )	1	(37.1 )	(%)
Income before income taxes	73	219	(146 )	(66.4 )	(%)
Provision for income taxes	(28 )	(59 )	31	(52.9 )	(%)
Effective tax rate <sup>(b)</sup>	38.0	% 27.1	%	1,090 bps	
Net income	\$45	\$ 160	\$(115 )	(71.4 )	(%)
Net income per common share:					
Basic	\$0.55	\$ 1.87	\$(1.32)	(70.6 )	(%)
Diluted	\$0.55	\$ 1.86	\$(1.31)	(70.4 )	(%)

<sup>(a)</sup> Includes total depreciation expense of \$70 million and \$71 million for the three-month periods ended October 1, 2016 and September 26, 2015, respectively.

<sup>(b)</sup> Effective tax rate is calculated by dividing the provision for income taxes by income before income taxes.

NM Not meaningful.

Net Revenues. Net revenues decreased by \$149 million, or 7.6%, to \$1.821 billion for the three months ended October 1, 2016 from \$1.970 billion for the three months ended September 26, 2015. On a constant currency basis, net revenues decreased by \$157 million, or 8.0%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period, are provided below:

	Three Months Ended		\$	Foreign	\$	%	
	October 2016	September 26, 2015	Change As Reported	Exchange Impact	Change Constant Currency	Change As Reported	Change Constant Currency
	(millions)						
Net Revenues:							
Wholesale	\$ 831	\$ 927	\$ (96 )	\$ (2 )	\$ (94 )	(10.4 %)	(10.1 %)
Retail	942	996	(54 )	9	(63 )	(5.4 %)	(6.4 %)
Licensing	48	47	1	1	—	1.6 %	(0.2 %)
Total net revenues	\$ 1,821	\$ 1,970	\$ (149 )	\$ 8	\$ (157 )	(7.6 %)	(8.0 %)

Wholesale net revenues — Net revenues decreased by \$96 million, or 10.4%, during the three months ended October 1, 2016 as compared to the three months ended September 26, 2015, including net unfavorable foreign currency effects of \$2 million, primarily related to the weakening of the British Pound Sterling, partially offset by the strengthening of the Japanese Yen and the Euro, all against the U.S. Dollar. On a constant currency basis, net revenues decreased by \$94 million, or 10.1%.

The \$96 million net decline in Wholesale net revenues was driven by a \$116 million, or 16.5%, net decrease related to our business in the Americas, reflecting lower sales across all of our major apparel and accessories businesses, particularly our womenswear business, due in part to a decline in traffic, which contributed to a more competitive retail environment, and a strategic reduction of shipments in connection with our Way Forward Plan. This decline was partially offset by a \$24 million, or 11.9%, net increase related to our European business, reflecting increased sales across all of our major apparel and accessories businesses largely due to stronger demand and lower levels of promotional activity, partially offset by net unfavorable foreign currency effects of \$4 million. On a constant currency basis, net revenues related to our European business increased by \$28 million, or 14.0%.

Retail net revenues — Net revenues decreased by \$54 million, or 5.4%, during the three months ended October 1, 2016 as compared to the three months ended September 26, 2015, including net favorable foreign currency effects of \$9 million, primarily related to the strengthening of the Japanese Yen, the Euro, and the Korean Won, partially offset by the weakening of the British Pound Sterling, all against the U.S. Dollar. On a constant currency basis, net revenues decreased by \$63 million, or 6.4%.

The \$54 million decline in Retail net revenues was driven by:

a \$64 million net decline in consolidated comparable store sales, including net favorable foreign currency effects of \$7 million. Our total comparable store sales decreased by \$71 million on a constant currency basis, driven by lower sales from certain of our domestic and international retail stores due in part to a decline in traffic, as well as lower levels of promotional activity within our international businesses. The following table summarizes our comparable store sales percentages on both a reported and constant currency basis.

	As Reported	Constant Currency
E-commerce comparable store sales	(7 %)	(6 %)
Comparable store sales excluding e-commerce	(8 %)	(9 %)
Total comparable store sales	(8 %)	(9 %)

Comparable store sales refer to the growth of sales in stores that are open for at least one full fiscal year. Sales for stores that are closed during a fiscal year are excluded from the calculation of comparable store sales. Sales for stores that are either relocated, enlarged (as defined by gross square footage expansion of 25% or greater), or generally closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until such stores have been in their new location or in their newly renovated state for at least one full fiscal year. Sales from our e-commerce sites are included within comparable store sales for those geographies that have been serviced by the related site for at least one full fiscal year. Consolidated comparable store sales information includes our Ralph Lauren stores (including concession-based shop-within-shops), factory stores, Club Monaco stores and e-commerce sites, and certain Ralph Lauren e-commerce sites. We use an integrated omni-channel strategy to operate our retail

business, in which our e-commerce operations are interdependent with our physical stores.

This decline was partially offset by:

a \$10 million, or 6%, net increase in non-comparable store sales, including net favorable foreign currency effects of \$2 million. On a constant currency basis, non-comparable store sales increased by \$8 million, or 5%, primarily driven by new global store openings within the past twelve months, which more than offset the impact of store closings. Our global average store count increased by 53 stores and concession shops during the three months ended October 1, 2016 compared with the three months ended September 26, 2015, due to new global store openings, primarily in Asia, partially offset by store closures. The following table details our retail store presence as of the periods presented:

	October 1, 2016	September 26, 2015
Stores:		
Freestanding stores	485	480
Concession shops	620	576
Total stores	1,105	1,056

In addition to our stores, our Retail segment sells products online through our various e-commerce sites, which include [www.RalphLauren.com](http://www.RalphLauren.com) and [www.ClubMonaco.com](http://www.ClubMonaco.com), among others.

Licensing revenues — Net revenues increased by \$1 million, or 1.6%, during the three months ended October 1, 2016 as compared to the three months ended September 26, 2015. On a constant currency basis, net revenues decreased by 0.2%.

Gross Profit. Gross profit decreased by \$159 million, or 14.3%, to \$954 million for the three months ended October 1, 2016, from \$1.113 billion for the three months ended September 26, 2015. Gross profit during the three months ended October 1, 2016 reflected non-cash inventory-related charges of \$81 million recorded in connection with the Way Forward Plan. Gross profit as a percentage of net revenues declined by 410 basis points to 52.4% for the three months ended October 1, 2016, from 56.5% for the three months ended September 26, 2015. This decline was primarily driven by non-cash inventory-related charges recorded in connection with the Way Forward Plan during the three months ended October 1, 2016 and net unfavorable foreign currency effects, partially offset by increased profitability driven by favorable geographic mix and our quality of sales initiatives, including lower levels of promotional activity within our international businesses.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.

Selling, General, and Administrative Expenses. SG&A expenses primarily include compensation and benefits, advertising and marketing, distribution, bad debt, information technology, facilities, legal, and other costs associated with finance and administration. SG&A expenses decreased by \$36 million, or 4.5%, to \$803 million for the three months ended October 1, 2016, from \$839 million for the three months ended September 26, 2015. This decrease included a net unfavorable foreign currency effect of \$8 million, primarily related to the strengthening of the Japanese Yen and the Euro, partially offset by the weakening of the British Pound Sterling, all against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 44.1% for the three months ended October 1, 2016, from 42.7% for the three months ended September 26, 2015. The 140 basis point increase was primarily due to operating leverage on lower net revenues, as previously discussed, and an increase in operating expenses in support of the continued investment in, and expansion of, our retail businesses (which typically carry higher operating expense margins) through new store and concession shop openings (as previously discussed); increased investments in our facilities and infrastructure; and investments in new business initiatives. These increases were partially offset by our operational discipline and cost savings associated with our restructuring activities.

The \$36 million net decline in SG&A expenses was driven by:

Three  
Months  
Ended  
October 1,  
2016  
Compared  
to  
Three  
Months  
Ended  
September  
26, 2015  
(millions)

SG&A expense category:

Compensation-related expenses	\$ (29 )
Marketing and advertising expenses	(7 )
Consulting fees	(3 )
Other	3
Total change in SG&A expenses	\$ (36 )

During the remainder of Fiscal 2017, we continue to expect a certain amount of operating expense deleverage due to lower net revenues and the continued investment in our long-term strategic growth initiatives, including retail store expansion, department store renovations, and continued investment in our infrastructure, partially offset by anticipated cost savings related to our restructuring activities (see "Recent Developments").

**Amortization of Intangible Assets.** Amortization of intangible assets remained flat at \$6 million during the three-month periods ended October 1, 2016 and September 26, 2015.

**Impairment of Assets.** During the three-month periods ended October 1, 2016 and September 26, 2015, we recorded non-cash impairment charges of \$27 million and \$7 million, respectively, primarily to write off certain fixed assets related to our domestic and international stores and shop-within-shops in connection with our restructuring plans. See Note 7 to the accompanying consolidated financial statements.

**Restructuring and Other Charges.** During the three-month periods ended October 1, 2016 and September 26, 2015, we recorded restructuring charges of \$42 million and \$19 million, respectively, in connection with our restructuring plans, consisting of severance and benefit costs, lease termination and store closure costs, and other cash charges. In addition, during the three months ended September 26, 2015, we recorded other charges of \$12 million primarily related to the settlement of certain litigation claims. See Note 8 to the accompanying consolidated financial statements.

**Operating Income.** Operating income decreased by \$154 million, or 66.8%, to \$76 million for the three months ended October 1, 2016, from \$230 million for the three months ended September 26, 2015. Our operating results during the three-month periods ended October 1, 2016 and September 26, 2015 were negatively impacted by charges of \$150 million and \$26 million, respectively, recorded in connection with our restructuring plans. In addition, the three months ended September 26, 2015 were negatively impacted by other charges of \$12 million primarily related to the settlement of certain litigation claims, as previously discussed. The decline in operating income also included a net unfavorable foreign currency effect of \$19 million, primarily related to the weakening of the British Pound Sterling, partially offset by the strengthening of the Japanese Yen, both against the U.S. Dollar. Operating income as a percentage of net revenues declined 750 basis points to 4.2% for the three months ended October 1, 2016, from 11.7% for the three months ended September 26, 2015. The overall decline in operating income as a percentage of net revenues was primarily driven by the decrease in our gross profit margin and the increase in restructuring and other charges and impairment of assets, as well as the increase in SG&A expenses as a percentage of net revenues, all as previously discussed.



Operating income and margin for each of our three reportable segments are provided below:

	Three Months Ended					
	October 1, 2016		September 26, 2015			
Segment:	Operating Income (millions)	Operating Margin	Operating Income (millions)	Operating Margin	\$ Change (millions)	Margin Change
Wholesale	\$203	24.5%	\$247	26.6%	\$ (44 )	(210 bps)
Retail	19	2.0%	123	12.3%	(104 )	(1,030 bps)
Licensing	44	92.3%	42	89.3%	2	300 bps
	266		412		(146 )	
Unallocated corporate expenses	(148 )		(151 )		3	
Unallocated restructuring and other charges	(42 )		(31 )		(11 )	
Total operating income	\$76	4.2%	\$230	11.7%	\$ (154 )	(750 bps)

Wholesale operating margin declined by 210 basis points, primarily due to the unfavorable impact of 170 basis points related to higher non-cash charges recorded in connection with our restructuring plans during the three months ended October 1, 2016 as compared to the comparable prior year period, as well as net unfavorable foreign currency effects of 150 basis points. This decline in operating margin was partially offset by the favorable impact of 110 basis points related to increased profitability in our core wholesale business, largely driven by a decrease in SG&A expenses as a percentage of net revenues, and improved performance of our international operations due in part to lower levels of promotional activity, partially offset by the impact of a more competitive domestic retail environment.

Retail operating margin declined by 1,030 basis points, primarily due to the unfavorable impact of 930 basis points related to higher non-cash charges recorded in connection with our restructuring plans during the three months ended October 1, 2016 as compared to the comparable prior year period, as well as net unfavorable foreign currency effects of 80 basis points. The remaining 20 basis point decline in operating margin was attributable to decreased profitability in our core retail business, largely driven by the unfavorable impact of a more competitive domestic retail environment and an increase in SG&A expenses as a percentage of net revenues, partially offset by improved performance of our international operations due in part to lower levels of promotional activity.

Licensing operating margin improved by 300 basis points due to a decrease in SG&A expenses as a percentage of net revenues.

Unallocated corporate expenses decreased by \$3 million to \$148 million during the three months ended October 1, 2016, from \$151 million during the three months ended September 26, 2015. The decrease in unallocated corporate expenses was primarily due to lower compensation-related costs of \$19 million and lower consulting fees of \$3 million. These decreases were partially offset by higher marketing and advertising expenses of \$5 million, higher sourcing-related charges of \$5 million, higher depreciation and amortization expense of \$3 million, and higher other operating expenses of \$6 million.

Unallocated restructuring and other charges increased by \$11 million to \$42 million during the three months ended October 1, 2016, from \$31 million during the three months ended September 26, 2015, as previously discussed above and in Note 8 to the accompanying consolidated financial statements.

Non-operating Expense, net. Non-operating expense, net is comprised of net foreign currency gains (losses), interest expense, interest and other income, net, and equity in losses from our equity-method investees. Non-operating expense, net decreased by \$8 million to \$3 million for the three months ended October 1, 2016 from \$11 million for the three months ended September 26, 2015. The decline in non-operating expense, net was primarily driven by higher net foreign currency gains, largely related to the net favorable revaluation and settlement of foreign currency-denominated intercompany receivables and payables, inclusive of the impact of forward foreign currency exchange contracts, as compared to the prior fiscal year period (foreign currency gains (losses) do not result from the translation of the operating results of our foreign subsidiaries to U.S. Dollars).





**Provision for Income Taxes.** The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes decreased by \$31 million, or 52.9%, to \$28 million for the three months ended October 1, 2016, from \$59 million for the three months ended September 26, 2015. The decrease in the provision for income taxes was primarily due to the decline in pretax income, partially offset by an increase in our reported effective tax rate of 1,090 basis points, to 38.0% for the three months ended October 1, 2016, from 27.1% for the three months ended September 26, 2015. The higher effective tax rate for the three months ended October 1, 2016 was primarily due to additional income tax reserves largely associated with an income tax audit, as well as the absence of income tax benefits resulting from a change to the assessment period associated with certain tax liabilities during the three months ended September 26, 2015. The effective tax rate differs from the statutory tax rate due to the effect of state and local taxes, tax rates in foreign jurisdictions, and certain nondeductible expenses. Our effective tax rate will change from period to period based on various factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies.

**Net Income.** Net income decreased by \$115 million, or 71.4%, to \$45 million for the three months ended October 1, 2016, from \$160 million for the three months ended September 26, 2015. The decline in net income was primarily due to the \$154 million decrease in operating income, partially offset by the \$31 million reduction in our provision for income taxes, as previously discussed. Our operating results during the three-month periods ended October 1, 2016 and September 26, 2015 were negatively impacted by charges of \$150 million and \$26 million, respectively, recorded in connection with our restructuring plans, as well as \$12 million of other charges recorded during the three months ended September 26, 2015 primarily related to the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$113 million and \$24 million, respectively.

**Net Income per Diluted Share.** Net income per diluted share declined by \$1.31, or 70.4%, to \$0.55 per share for the three months ended October 1, 2016, from \$1.86 per share for the three months ended September 26, 2015. The decline was due to lower net income, as previously discussed, partially offset by lower weighted-average diluted shares outstanding during the three months ended October 1, 2016 driven by our share repurchases over the last twelve months. Net income per diluted share for the three-month periods ended October 1, 2016 and September 26, 2015 was negatively impacted by approximately \$1.35 per share and \$0.27 per share, respectively, as a result of charges recorded in connection with our restructuring plans, as well as other charges recorded during the three months ended September 26, 2015 primarily related to the settlement of certain litigation claims, as previously discussed.

## Six Months Ended October 1, 2016 Compared to Six Months Ended September 26, 2015

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Six Months Ended				
	October 1, 2016	September 26, 2015	\$ Change	% / bps Change	
	(millions, except per share data)				
Net revenues	\$3,373	\$ 3,588	\$(215 )	(6.0 )	%
Cost of goods sold <sup>(a)</sup>	(1,524 )	(1,509 )	(15 )	1.0	%
Gross profit	1,849	2,079	(230 )	(11.1 )	%
Gross profit as % of net revenues	54.8 %	57.9 %		(310 bps)	
Selling, general, and administrative expenses <sup>(a)</sup>	(1,618 )	(1,661 )	43	(2.6 )	%
SG&A expenses as % of net revenues	48.0 %	46.3 %		170 bps	
Amortization of intangible assets	(12 )	(12 )	—	4.4	%
Impairment of assets	(46 )	(15 )	(31 )	NM	
Restructuring and other charges	(128 )	(65 )	(63 )	96.4	%
Operating income	45	326	(281 )	(86.2 )	%
Operating income as % of net revenues	1.3 %	9.1 %		(780 bps)	
Foreign currency gains (losses)	3	(6 )	9	NM	
Interest expense	(7 )	(8 )	1	(7.6 )	%
Interest and other income, net	3	3	—	15.6	%
Equity in losses of equity-method investees	(4 )	(6 )	2	(36.7 )	%
Income before income taxes	40	309	(269 )	(86.9 )	%
Provision for income taxes	(17 )	(85 )	68	(80.0 )	%
Effective tax rate <sup>(b)</sup>	42.2 %	27.6 %		1,460 bps	
Net income	\$23	\$ 224	\$(201 )	(89.5 )	%
Net income per common share:					
Basic	\$0.28	\$ 2.60	\$(2.32)	(89.2 )	%
Diluted	\$0.28	\$ 2.58	\$(2.30)	(89.1 )	%

<sup>(a)</sup> Includes total depreciation expense of \$142 million and \$139 million for the six-month periods ended October 1, 2016 and September 26, 2015, respectively.

<sup>(b)</sup> Effective tax rate is calculated by dividing the provision for income taxes by income before income taxes.

NM Not meaningful.

Net Revenues. Net revenues decreased by \$215 million, or 6.0%, to \$3.373 billion for the six months ended October 1, 2016 from \$3.588 billion for the six months ended September 26, 2015. On a constant currency basis, net revenues decreased by \$225 million, or 6.3%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period, are provided below:

	Six Months Ended		\$	Foreign	\$ Change	% Change	
	October 2016	September 26, 2015	Change As Reported	Exchange Impact	Constant Currency	As Reported	Constant Currency
	(millions)						
Net Revenues:							
Wholesale	\$ 1,438	\$ 1,569	\$ (131 )	\$ (4 )	\$ (127 )	(8.3 %)	(8.1 %)
Retail	1,849	1,931	(82 )	13	(95 )	(4.2 %)	(4.9 %)
Licensing	86	88	(2 )	1	(3 )	(3.0 %)	(4.1 %)
Total net revenues	\$ 3,373	\$ 3,588	\$ (215 )	\$ 10	\$ (225 )	(6.0 %)	(6.3 %)

Wholesale net revenues — Net revenues decreased by \$131 million, or 8.3%, during the six months ended October 1, 2016 as compared to the six months ended September 26, 2015, including net unfavorable foreign currency effects of \$4 million, primarily related to the weakening of the British Pound Sterling and the Canadian Dollar, partially offset by the strengthening of the Japanese Yen and the Euro, all against the U.S. Dollar. On a constant currency basis, net revenues decreased by \$127 million, or 8.1%.

The \$131 million net decline in Wholesale net revenues was driven by a \$193 million, or 15.9%, net decrease related to our business in the Americas, reflecting lower sales across all of our major apparel and accessories businesses, particularly our womenswear business, due in part to a decline in traffic, which contributed to a more competitive retail environment. This decline was partially offset by a \$65 million, or 20.0%, net increase related to our European business, reflecting increased sales across all of our major apparel and accessories businesses due to stronger demand and lower levels of promotional activity, partially offset by net unfavorable foreign currency effects of \$5 million. On a constant currency basis, net revenues related to our European business increased by \$70 million, or 21.8%.

Retail net revenues — Net revenues decreased by \$82 million, or 4.2%, during the six months ended October 1, 2016 as compared to the six months ended September 26, 2015, including net favorable foreign currency effects of \$13 million, primarily related to the strengthening of the Japanese Yen and the Euro, partially offset by the weakening of the British Pound Sterling and the Canadian Dollar, all against the U.S. Dollar. On a constant currency basis, net revenues decreased by \$95 million, or 4.9%.

The \$82 million net decline in Retail net revenues was driven by:

a \$110 million net decline in consolidated comparable store sales, including net favorable foreign currency effects of \$12 million. Our total comparable store sales decreased by \$122 million on a constant currency basis, driven by lower sales from certain of our domestic and international retail stores due in part to a decline in traffic, as well as lower levels of promotional activity within our international businesses. The following table summarizes our comparable store sales percentages on both a reported and constant currency basis.

	As Reported	Constant Currency
E-commerce comparable store sales	(7 %)	(6 %)
Comparable store sales excluding e-commerce	(7 %)	(8 %)
Total comparable store sales	(7 %)	(8 %)

This decline was partially offset by:

- a \$28 million, or 8%, net increase in non-comparable store sales, including net favorable foreign currency effects of \$1 million. On a constant currency basis, non-comparable store sales increased by \$27 million, or 8%, primarily driven by new global store openings within the past twelve months, which more than offset the impact of store closings.

Our global average store count increased by 60 stores and concession shops during the six months ended October 1, 2016 compared with the six months ended September 26, 2015, due to new global store openings, primarily in Asia and Europe, partially offset by store closures.



Licensing revenues — Net revenues decreased by \$2 million, or 3.0%, during the six months ended October 1, 2016 as compared to the six months ended September 26, 2015. On a constant currency basis, net revenues decreased by 4.1%.

Gross Profit. Gross profit decreased by \$230 million, or 11.1%, to \$1.849 billion for the six months ended October 1, 2016 from \$2.079 billion for the six months ended September 26, 2015. Gross profit during the six-month periods ended October 1, 2016 and September 26, 2015 reflected non-cash inventory-related charges of \$135 million and \$3 million, respectively, recorded in connection with our restructuring plans. Gross profit as a percentage of net revenues declined by 310 basis points to 54.8% for the six months ended October 1, 2016 from 57.9% for the six months ended September 26, 2015. This decline was primarily driven by higher non-cash inventory-related charges recorded in connection with our restructuring plans during the six months ended October 1, 2016 as compared to the comparable prior year period and net unfavorable foreign currency effects, partially offset by increased profitability driven by favorable geographic mix and our quality of sales initiatives, including lower levels of promotional activity within our international businesses.

Selling, General, and Administrative Expenses. SG&A expenses decreased by \$43 million, or 2.6%, to \$1.618 billion for the six months ended October 1, 2016 from \$1.661 billion for the six months ended September 26, 2015. This decrease included a net unfavorable foreign currency effect of \$12 million, primarily related to the strengthening of the Japanese Yen and Euro, partially offset by the weakening of the British Pound Sterling, all against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 48.0% for the six months ended October 1, 2016 from 46.3% for the six months ended September 26, 2015. The 170 basis point increase was primarily due to operating leverage on lower net revenues, as previously discussed, and an increase in operating expenses in support of the continued investment in, and expansion of, our retail businesses (which typically carry higher operating expense margins) through new store and concession shop openings (as previously discussed); increased investments in our facilities and infrastructure; and investments in new business initiatives. These increases were partially offset by our operational discipline and cost savings associated with our restructuring activities.

The \$43 million net decline in SG&A expenses was driven by:

Six  
Months  
Ended  
October 1,  
2016  
Compared  
to  
Six  
Months  
Ended  
September  
26, 2015  
(millions)

SG&A expense category:

Compensation-related expenses	\$ (27 )
Marketing and advertising expenses	(16 )
Consulting fees	(7 )
Other	7
Total change in SG&A expenses	\$ (43 )

Amortization of Intangible Assets. Amortization of intangible assets remained flat at \$12 million during the six-month periods ended October 1, 2016 and September 26, 2015.

Impairment of Assets. During the six-month periods ended October 1, 2016 and September 26, 2015, we recorded non-cash impairment charges of \$46 million and \$15 million, respectively, primarily to write off certain fixed assets related to our domestic and international stores and shop-within-shops in connection with our restructuring plans. See Note 7 to the accompanying consolidated financial statements.

Restructuring and Other Charges. During the six-month periods ended October 1, 2016 and September 26, 2015, we recorded restructuring charges of \$128 million and \$53 million, respectively, in connection with our restructuring plans, consisting of severance and benefit costs, lease termination and store closure costs, and other cash charges. In addition, during the six months ended September 26, 2015, we recorded other charges of \$12 million primarily related to the settlement of certain litigation claims. See Note 8 to the accompanying consolidated financial statements.

**Operating Income.** Operating income decreased by \$281 million, or 86.2%, to \$45 million for the six months ended October 1, 2016, from \$326 million for the six months ended September 26, 2015. Our operating results during the six-month periods ended October 1, 2016 and September 26, 2015 were negatively impacted by charges of \$309 million and \$71 million, respectively, recorded in connection with our restructuring plans. In addition, the six months ended September 26, 2015 were negatively impacted by other charges of \$12 million primarily related to the settlement of certain litigation claims, as previously discussed. The \$281 million decline in operating income also included a net unfavorable foreign currency effect of \$26 million, primarily related to the weakening of the British Pound Sterling and the Canadian Dollar, partially offset by the strengthening of the Japanese Yen, all against the U.S. Dollar. Operating income as a percentage of net revenues declined 780 basis points to 1.3% for the six months ended October 1, 2016, from 9.1% for the six months ended September 26, 2015. The overall decline in operating income as a percentage of net revenues was primarily driven by the decrease in our gross profit margin and the increase in restructuring and other charges and impairment of assets, as well as the increase in SG&A expenses as a percentage of net revenues, all as previously discussed.

Operating income and margin for each of our three reportable segments are provided below:

	Six Months Ended					
	October 1, 2016		September 26, 2015			
Segment:	Operating Income (millions)	Operating Margin	Operating Income (millions)	Operating Margin	\$ Change (millions)	Margin Change
Wholesale	\$336	23.4%	\$384	24.4%	\$ (48 )	(100 bps)
Retail	82	4.4%	233	12.0%	(151 )	(760 bps)
Licensing	78	91.1%	78	89.0%	—	210 bps
	496		695		(199 )	
Unallocated corporate expenses	(323 )		(304 )		(19 )	
Unallocated restructuring and other charges	(128 )		(65 )		(63 )	
Total operating income	\$45	1.3%	\$326	9.1%	\$ (281 )	(780 bps)

Wholesale operating margin declined by 100 basis points, primarily due to the unfavorable impact of 140 basis points related to higher non-cash charges recorded in connection with our restructuring plans during the six months ended October 1, 2016 as compared to the comparable prior year period, as well as net unfavorable foreign currency effects of 100 basis points. This decline in operating margin was partially offset by the favorable impact of 140 basis points related to increased profitability in our core wholesale business, largely driven by a decrease in SG&A expenses as a percentage of net revenues, and improved performance of our international operations due in part to lower levels of promotional activity and favorable product mix, partially offset by the impact of a more competitive domestic retail environment.

Retail operating margin declined by 760 basis points, primarily due to the unfavorable impact of 770 basis points related to higher non-cash charges recorded in connection with our restructuring plans during the six months ended October 1, 2016 as compared to the comparable prior year period, as well as net unfavorable foreign currency effects of 70 basis points. This decline in operating margin was partially offset by the favorable impact of 80 basis points related to increased profitability in our core retail business, largely driven by improved performance of our international operations due in part to lower levels of promotional activity, partially offset by the impact of a more competitive domestic retail environment and an increase in SG&A expenses as a percentage of net revenues.

Licensing operating margin improved by 210 basis points due to a decrease in SG&A expenses as a percentage of net revenues.

Unallocated corporate expenses increased by \$19 million to \$323 million during the six months ended October 1, 2016, from \$304 million during the six months ended September 26, 2015. The increase in unallocated corporate expenses was primarily due to higher depreciation and amortization expense of \$7 million, higher marketing and advertising expenses of \$6 million, higher sourcing-related charges of \$6 million, and higher other operating expenses of \$11 million. These increases were partially offset by a decline in consulting fees of \$6 million and a decline in

compensation-related expenses of \$5 million.

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Unallocated restructuring and other charges increased by \$63 million to \$128 million during the six months ended October 1, 2016 from \$65 million during the six months ended September 26, 2015, as previously discussed above and in Note 8 to the accompanying consolidated financial statements.

Non-operating Expense, net. Non-operating expense, net decreased by \$12 million to \$5 million for the six months ended October 1, 2016 from \$17 million for the six months ended September 26, 2015. The decline in non-operating expense, net was primarily driven by higher net foreign currency gains, largely related to the net favorable revaluation and settlement of foreign currency-denominated intercompany receivables and payables, inclusive of the impact of forward foreign currency exchange contracts, as compared to the prior fiscal year period.

Provision for Income Taxes. The provision for income taxes decreased by \$68 million, or 80.0%, to \$17 million for the six months ended October 1, 2016, from \$85 million for the six months ended September 26, 2015. The decrease in the provision for income taxes was primarily due to the decline in pretax income, partially offset by an increase in our reported effective tax rate of 1,460 basis points, to 42.2% for the six months ended October 1, 2016 from 27.6% for the six months ended September 26, 2015. The higher effective tax rate for the six months ended October 1, 2016 was primarily due to additional income tax reserves largely associated with an income tax settlement and certain income tax audits.

Net Income. Net income decreased by \$201 million, or 89.5%, to \$23 million for the six months ended October 1, 2016, from \$224 million for the six months ended September 26, 2015. The decline in net income was primarily due to the decrease in operating income, partially offset by the reduction in our provision for income taxes, as previously discussed. Our operating results during the six-month periods ended October 1, 2016 and September 26, 2015 were negatively impacted by charges of \$309 million and \$71 million, respectively, recorded in connection with our restructuring plans, as well as \$12 million of other charges recorded during the six months ended September 26, 2015 primarily related to the settlement of certain litigation claims, which together had an after-tax effect of reducing net income by \$225 million and \$55 million, respectively.

Net Income per Diluted Share. Net income per diluted share declined by \$2.30, or 89.1%, to \$0.28 per share for the six months ended October 1, 2016, from \$2.58 per share for the six months ended September 26, 2015. The decline was due to lower net income, as previously discussed, partially offset by lower weighted-average diluted shares outstanding during the six months ended October 1, 2016 driven by our share repurchases over the last twelve months. Net income per diluted share for the six-month periods ended October 1, 2016 and September 26, 2015 was negatively impacted by approximately \$2.68 per share and \$0.62 per share, respectively, as a result of charges recorded in connection with our restructuring plans, as well as other charges recorded during the six months ended September 26, 2015 primarily related to the settlement of certain litigation claims, as previously discussed.

## FINANCIAL CONDITION AND LIQUIDITY

## Financial Condition

The following table presents our financial condition as of October 1, 2016 and April 2, 2016:

	October 1, 2016	April 2, 2016	\$ Change
	(millions)		
Cash and cash equivalents	\$434	\$456	\$(22 )
Short-term investments	531	629	(98 )
Non-current investments <sup>(a)</sup>	122	187	(65 )
Short-term debt	(95 )	(116 )	21
Long-term debt <sup>(b)</sup>	(597 )	(597 )	—
Net cash and investments <sup>(c)</sup>	\$395	\$559	\$(164 )
Equity	\$3,598	\$3,744	\$(146 )

<sup>(a)</sup> Recorded within other non-current assets in our consolidated balance sheets.

<sup>(b)</sup> See Note 10 to the accompanying consolidated financial statements for discussion of the carrying value of our long-term debt as of October 1, 2016 and April 2, 2016.

<sup>(c)</sup> "Net cash and investments" is defined as cash and cash equivalents, plus short-term and non-current investments, less total debt.

The decline in our net cash and investments position at October 1, 2016 as compared to April 2, 2016 was primarily due to our use of cash to invest in our business through \$165 million in capital expenditures, to support Class A common stock repurchases of \$115 million, including withholdings in satisfaction of tax obligations for stock-based compensation awards, and to make dividend payments of \$82 million, partially offset by our operating cash flows of \$232 million.

The decline in equity was attributable to our share repurchase activity and dividends declared, partially offset by our comprehensive income and the net impact of stock-based compensation arrangements during the six months ended October 1, 2016.

## Cash Flows

The following table details our cash flows for the six-month periods ended October 1, 2016 and September 26, 2015:

	Six Months Ended		
	October 1, 2016	September 26, 2015	\$ Change
	(millions)		
Net cash provided by operating activities	\$232	\$ 366	\$(134 )
Net cash used in investing activities	(13 )	(311 )	) 298
Net cash used in financing activities	(227 )	(176 )	) (51 )
Effect of exchange rate changes on cash and cash equivalents	(14 )	1	(15 )
Net decrease in cash and cash equivalents	\$(22 )	\$ (120 )	) \$98

**Net Cash Provided by Operating Activities.** Net cash provided by operating activities decreased to \$232 million during the six months ended October 1, 2016, as compared to \$366 million during the six months ended September 26, 2015. The \$134 million net decrease in cash provided by operating activities was due to a net unfavorable change related to our operating assets and liabilities, including our working capital, as well as a decline in net income before non-cash charges. The net decrease related to our working capital was primarily driven by:

- unfavorable changes in our (i) accounts payable and accrued liabilities and (ii) prepaid expenses and other current assets, both largely driven by the timing of payments; and

- an unfavorable change in our accounts receivable, largely driven by the timing of cash collections.

These decreases related to our working capital were partially offset by a decline in our inventory levels, largely driven by our inventory management initiatives, lower sourcing costs, and the timing of inventory receipts.

**Net Cash Used in Investing Activities.** Net cash used in investing activities was \$13 million during the six months ended October 1, 2016, as compared to \$311 million during the six months ended September 26, 2015. The \$298 million net decrease in cash used in investing activities was primarily driven by:

- a \$247 million increase in proceeds from sales and maturities of investments, less cash used to purchase investments.

- During the six months ended October 1, 2016, we made net investment sales of \$155 million, as compared to net investment purchases of \$92 million during the six months ended September 26, 2015; and

- a \$37 million decline in capital expenditures. During the six months ended October 1, 2016, we spent \$165 million on capital expenditures, as compared to \$202 million during the six months ended September 26, 2015. Our capital expenditures during the six months ended October 1, 2016 primarily related to our global retail store expansion, department store renovations, enhancements to our global information technology systems, and further development of our infrastructure.

**Net Cash Used in Financing Activities.** Net cash used in financing activities was \$227 million during the six months ended October 1, 2016, as compared to \$176 million during the six months ended September 26, 2015. The \$51 million net increase in cash used in financing activities was primarily driven by:

- a \$216 million increase in cash used to repay debt, less proceeds from debt issuances. During the six months ended October 1, 2016, we repaid \$26 million of borrowings previously outstanding under our credit facilities and received \$5 million in net proceeds related to our commercial paper note issuances and repayments. On a comparative basis, during the six months ended September 26, 2015, we received \$299 million in proceeds from our issuance of 2.625% unsecured senior notes in August 2015, which was partially offset by net repayments of \$104 million related to our commercial paper note issuances and repayments; and

- a \$17 million decline in proceeds from the exercise of stock options.

These increases in cash used in financing activities were partially offset by:

- a \$184 million decline in cash used to repurchase shares of our Class A common stock. During the six months ended October 1, 2016, we used \$100 million to repurchase shares of Class A common stock pursuant to our common stock repurchase program, and an additional \$15 million in shares of Class A common stock were surrendered or withheld in satisfaction of withholding taxes in connection with the vesting of awards under our long-term stock incentive plans. On a comparative basis, during the six months ended September 26, 2015, we used \$280 million to repurchase shares of Class A common stock pursuant to our common stock repurchase program, and an additional \$19 million in shares of Class A common stock were surrendered or withheld for taxes.

### Sources of Liquidity

Our primary sources of liquidity are the cash flows generated from our operations, our available cash and cash equivalents and short-term investments, availability under our credit facilities, our issuances of commercial paper notes, and other available financing options.

During the six months ended October 1, 2016, we generated \$232 million of net cash flows from our operations. As of October 1, 2016, we had \$965 million in cash, cash equivalents, and short-term investments, of which \$945 million were held by our subsidiaries domiciled outside the U.S. We are not dependent on foreign cash to fund our domestic operations and do not expect to repatriate these balances to meet our domestic cash needs. However, if our plans change and we choose to repatriate any funds to the U.S. in the future, we would be subject to applicable U.S. and foreign taxes.

The following table presents our total availability, borrowings outstanding, and remaining availability under our credit facilities and Commercial Paper Program as of October 1, 2016:

Description <sup>(a)</sup>	October 1, 2016	
	Total Borrowings Outstanding (millions)	Remaining Availability
Global Credit Facility and Commercial Paper Program <sup>(b)</sup>	\$500	\$ 397
Pan-Asia Credit Facilities	58	58

<sup>(a)</sup> As defined in Note 10 to the accompanying consolidated financial statements.

Borrowings under the Commercial Paper Program are supported by the Global Credit Facility. Accordingly, we do

<sup>(b)</sup> not expect combined borrowings outstanding under the Commercial Paper Program and the Global Credit Facility to exceed \$500 million.

Comprised of \$95 million of borrowings outstanding under the Commercial Paper Program, which are classified as

<sup>(c)</sup> short-term debt within the consolidated balance sheet, and \$8 million of outstanding letters of credit for which we were contingently liable under the Global Credit Facility as of October 1, 2016.

We believe that our Global Credit Facility is adequately diversified with no undue concentration in any one financial institution. In particular, as of October 1, 2016, there were nine financial institutions participating in the Global Credit Facility, with no one participant maintaining a maximum commitment percentage in excess of 20%. Borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company and are granted at the sole discretion of the participating regional branches of JPMorgan Chase (the "Banks"), subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. We have no reason to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the Global Credit Facility and the Pan-Asia Credit Facilities in the event of our election to draw funds in the foreseeable future.

Our sources of liquidity are used to fund our ongoing cash requirements, including working capital requirements, global retail store and e-commerce development and expansion, construction and renovation of shop-within-shops, investment in infrastructure, including technology, acquisitions, joint ventures, payment of dividends, debt repayments, common stock repurchases, settlement of contingent liabilities (including uncertain tax positions), and other corporate activities, including our restructuring actions. We believe that our existing sources of cash, the availability under our credit facilities, and our ability to access capital markets will be sufficient to support our operating, capital, and debt service requirements for the foreseeable future, the ongoing development of our businesses, and our plans for further business expansion.

See Note 10 to the accompanying consolidated financial statements and Note 13 of the Fiscal 2016 10-K for detailed disclosure of the terms and conditions of our credit facilities.

#### Common Stock Repurchase Program

As of October 1, 2016, the remaining availability under our Class A common stock repurchase program was \$200 million, reflecting the May 11, 2016 approval by our Board of Directors to expand the program by up to an additional \$200 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

See Note 14 to the accompanying consolidated financial statements for additional information relating to our common stock repurchase program.

#### Dividends

Since 2003, we have maintained, and intend to continue to maintain, a regular quarterly cash dividend program on our common stock. However, any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on our results of operations, cash requirements, financial condition, and other factors that the Board of Directors may deem relevant.

See Note 14 to the accompanying consolidated financial statements for additional information relating to our quarterly cash dividend program.

#### Debt and Covenant Compliance

In September 2013, we completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018, which bear interest at a fixed rate of 2.125%, payable semi-annually (the "2.125% Senior Notes"). In August 2015, we completed a second registered public debt offering and issued an additional \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes").

The indenture and supplemental indentures governing the 2.125% Senior Notes and 2.625% Senior Notes (as supplemented, the "Indenture") contain certain covenants that restrict our ability, subject to specified exceptions, to incur certain liens; enter into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of our property or assets to another party. However, the Indenture does not contain any financial covenants.

The Global Credit Facility contains a number of covenants, as described in Note 10 to the accompanying consolidated financial statements. As of October 1, 2016, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under our Global Credit Facility. The Pan-Asia Credit Facilities do not contain any financial covenants.

See Note 10 to the accompanying consolidated financial statements and Note 13 of the Fiscal 2016 10-K for additional information relating to our debt and covenant compliance.

#### Contractual and Other Obligations

There have been no material changes to our contractual and other obligations as disclosed in our Fiscal 2016 10-K, other than those which occur in the ordinary course of business. Refer to the "Financial Condition and Liquidity — Contractual and Other Obligations" section of the MD&A in our Fiscal 2016 10-K for detailed disclosure of our contractual and other obligations as of April 2, 2016.

#### MARKET RISK MANAGEMENT

As discussed in Note 15 of the Fiscal 2016 10-K and Note 12 to the accompanying consolidated financial statements, we are exposed to a variety of risks, including changes in foreign currency exchange rates relating to foreign currency-denominated balances, certain anticipated cash flows from our international operations, and possible declines in the value of reported net assets of our foreign operations, as well as changes in the fair value of our fixed-rate debt relating to changes in interest rates. Consequently, at times, in the normal course of business, we employ established policies and procedures, including the use of derivative financial instruments, to manage such risks. We do not enter into derivative transactions for speculative or trading purposes.

As a result of the use of derivative instruments, we are exposed to the risk that counterparties to our contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, we have a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. Our established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of the creditworthiness of our counterparties. We also enter into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with our derivative instruments. As a result of the above considerations, we do not believe that we are exposed to any undue concentration of counterparty risk with respect to our derivative contracts as of October 1, 2016. However, we do have in aggregate \$4 million of derivative instruments in net asset positions with two creditworthy financial institutions.

#### Foreign Currency Risk Management

We manage our exposure to changes in foreign currency exchange rates through the use of forward foreign currency exchange and cross-currency swap contracts. See Note 12 to the accompanying consolidated financial statements for a summary of the notional amounts and fair values of our forward foreign currency exchange and cross-currency swap contracts outstanding as of October 1, 2016.

#### Forward Foreign Currency Exchange Contracts

We enter into forward foreign currency exchange contracts as hedges to reduce our risk related to exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of our international operations, and other foreign currency-denominated operational and intercompany balances and cash flows. As part of our overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, we hedge a portion of our foreign currency exposures anticipated over a two-year period. In doing so, we use forward foreign currency exchange contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

Our foreign exchange risk management activities are governed by our Company's established policies and procedures. These policies and procedures provide a framework that allows for the management of currency exposures while ensuring the activities are conducted within our established guidelines. Our policies include guidelines for the organizational structure of our risk management function and for internal controls over foreign exchange risk management activities, including, but not limited to, authorization levels, transaction limits, and credit quality controls, as well as various measurements for monitoring compliance. We monitor foreign exchange risk using different techniques, including a periodic review of market values and sensitivity analyses.

#### Cross-Currency Swap Contracts

During Fiscal 2016, we entered into two pay-floating rate, receive-floating rate cross-currency swaps, with notional amounts of €280 million and €274 million, which we designated as hedges of our net investment in certain of our European subsidiaries (the "Cross-Currency Swaps"). The Cross-Currency Swaps, which mature on September 26, 2018 and August 18, 2020, respectively, swap the U.S. Dollar-denominated variable interest rate payments based on the 3-month London Interbank Offered Rate ("LIBOR") plus a fixed spread for Euro-denominated variable interest rate payments based on the 3-month Euro Interbank Offered Rate plus a fixed spread. As a result, the Cross-Currency Swaps, in conjunction with the Interest Rate Swaps (as defined below), economically convert our \$300 million fixed-rate 2.125% and \$300 million fixed-rate 2.625% obligations to €280 million and €274 million floating-rate Euro-denominated liabilities, respectively.

See Note 3 to the accompanying consolidated financial statements for further discussion of our foreign currency exposures, and the types of derivative instruments used to hedge those exposures.

#### Interest Rate Risk Management

During Fiscal 2016, we entered into two pay-floating rate, receive-fixed rate interest rate swap contracts which we designated as hedges against changes in the respective fair values of our fixed-rate 2.125% Senior Notes and our fixed-rate 2.625% Senior Notes attributed to changes in the benchmark interest rate (the "Interest Rate Swaps"). The Interest Rate Swaps, which mature on September 26, 2018 and August 18, 2020, respectively, both have notional amounts of \$300 million and swap the fixed interest rates on our 2.125% Senior Notes and 2.625% Senior Notes for

variable interest rates based on 3-month LIBOR plus a fixed spread.

### Investment Risk Management

As of October 1, 2016, we had cash and cash equivalents on-hand of \$434 million, consisting of deposits in interest bearing accounts and investments in money market funds and time deposits with original maturities of 90 days or less. Our other significant investments included \$531 million of short-term investments, consisting of time deposits and corporate bonds with original maturities greater than 90 days; \$46 million of restricted cash placed in escrow with certain banks as collateral, primarily to secure guarantees in connection with certain international tax matters; and \$122 million of non-current investments, consisting of time deposits with maturities greater than one year.

We actively monitor our exposure to changes in the fair value of our global investment portfolio in accordance with our established policies and procedures, which include monitoring both general and issuer-specific economic conditions, as discussed further below. Our investment objectives include capital preservation, maintaining adequate liquidity, diversification to minimize liquidity and credit risk, and achievement of maximum returns within the guidelines set forth in our investment policy. See Note 12 to the accompanying consolidated financial statements for further detail of the composition of our investment portfolio as of October 1, 2016.

We evaluate investments held in unrealized loss positions, if any, for other-than-temporary impairment on a quarterly basis. This evaluation involves a variety of considerations, including assessments of risks and uncertainties associated with general economic conditions and distinct conditions affecting specific issuers. We consider the following factors: (i) the length of time and the extent to which the fair value has been below cost, (ii) the financial condition, credit worthiness, and near-term prospects of the issuer, (iii) the length of time to maturity, (iv) anticipated future economic conditions and market forecasts, (v) our intent and ability to retain our investment for a period of time sufficient to allow for recovery of market value, and (vi) an assessment of whether it is more likely than not that we will be required to sell our investment before recovery of market value. No material realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded in any of the fiscal periods presented.

### CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 3 of the Fiscal 2016 10-K. Our estimates are often based on complex judgments, assessments of probability, and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same set of facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the "Critical Accounting Policies" section of the MD&A in our Fiscal 2016 10-K.

There have been no significant changes in the application of our critical accounting policies since April 2, 2016.

### Goodwill Impairment Assessment

We performed our annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2017. In performing the assessment, we identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of our reporting units. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as our actual and planned financial performance. Additionally, the results of our most recent quantitative goodwill impairment test indicated that the fair values of our reporting units significantly exceeded their respective carrying values. Based on the results of our qualitative goodwill impairment assessment, we concluded that it is not more likely than not that the fair values of our reporting units are less than their respective carrying values, and there were no reporting units at risk of impairment.

### RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 4 to the accompanying consolidated financial statements for a description of certain recently issued or proposed accounting standards which may impact our consolidated financial statements in future reporting periods.



Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For a discussion of the Company's exposure to market risk, see "Market Risk Management" presented in Part I, Item 2 — MD&A of this Form 10-Q and incorporated herein by reference.

Item 4. Controls and Procedures.

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

The Company carried out an evaluation based on criteria established in the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rules 13(a)-15(e) and 15(d)-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level as of October 1, 2016. Except as discussed below, there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended October 1, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Global Operating and Financial Reporting System Implementation

We are in the process of implementing a global operating and financial reporting information technology system, SAP, as part of a multi-year plan to integrate and upgrade our systems and processes. The implementation of this global system is scheduled to continue in phases over the next several years. We substantially completed the migration of our North America operations to SAP during the Company's fiscal year ended March 28, 2015, and we are currently in the process of executing the migration of our European operations to SAP, which is expected to be completed during the fiscal year ending March 31, 2018.

As the phased implementation of this system occurs, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. While we expect SAP to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as processes and procedures in each of the affected areas evolve. For a discussion of risks related to the implementation of new systems, see Item 1A — "Risk Factors — Risks and uncertainties associated with the implementation of information systems may negatively impact our business" in the Fiscal 2016 10-K.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

Reference is made to the information disclosed under Item 3 — "Legal Proceedings" in the Fiscal 2016 10-K.

### Item 1A. Risk Factors.

Reference is made to the information disclosed under Part I, Item 1A — "Risk Factors" in the Fiscal 2016 10-K, which contains a detailed discussion of certain risk factors that could materially adversely affect the Company's business, operating results, and/or financial condition. The following information amends, updates, and should be read in conjunction with the risk factors and information disclosed in the Fiscal 2016 10-K.

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

Our ability to capitalize on growth in new international markets and to maintain our current level of operations in our existing international markets is subject to certain risks associated with operating in various international locations.

These include, but are not limited to:

- the burdens of complying with a variety of foreign laws and regulations, including trade, labor, and product safety trading restrictions;

- compliance with U.S. and other country laws relating to foreign operations, including, but not limited to, the Foreign Corrupt Practices Act, which prohibits U.S. companies from making improper payments to foreign officials for the purpose of obtaining or retaining business, and the U.K. Bribery Act, which prohibits U.K. and related companies from any form of bribery;

- unexpected changes in laws, judicial processes, or regulatory requirements;

- adapting to local customs and culture; and

- new tariffs or other barriers in certain international markets.

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

- political instability and terrorist attacks;

- changes in diplomatic and trade relationships; and

- general economic fluctuations in specific countries or markets.

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S., the European Union, Asia, or other countries upon the import or export of our products in the future, or what effect any of these actions would have, if any, on our business, results of operations, and financial condition. Changes in regulatory, geopolitical, social, economic, or monetary policies and other factors, including those which may result from the United Kingdom's referendum vote to exit the European Union as discussed below or the outcome of the 2016 U.S. presidential election, if any, may have a material adverse effect on our business in the future, or may require us to exit a particular market or significantly modify our current business practices.

In June 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, commonly referred to as "Brexit." If passed into law, negotiations will commence to determine the United Kingdom's future relationship with the European Union, including terms of trade. Such negotiations will likely be complex and protracted, and there can be no assurance regarding the terms or timing of any such arrangements. A withdrawal could significantly disrupt the free movement of goods, services, and people between the United Kingdom and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. The United Kingdom's vote to exit the European Union could also result in similar referendums or votes in other European countries in which we do business. The uncertainty surrounding the terms of the United Kingdom's withdrawal and its consequences could adversely impact consumer

and investor confidence, and the level of consumer purchases of discretionary items and luxury retail products, including our products. Any of these effects, among others, could materially adversely affect our business, results of operations, and financial condition.

Brexit has also caused significant volatility and uncertainty in global stock markets and currency exchange rates. Such volatility could continue as the United Kingdom negotiates its potential exit from the European Union. For a discussion of risks related to currency exchange fluctuations, see Item 1A — "Risk Factors — Our business is exposed to domestic and foreign currency fluctuations" in the Fiscal 2016 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### (a) Sales of Unregistered Securities

Shares of the Company's Class B Common Stock may be converted immediately into Class A Common Stock on a one-for-one basis by the holder. There is no cash or other consideration paid by the holder converting the shares and, accordingly, there is no cash or other consideration received by the Company. The shares of Class A Common Stock issued by the Company in such conversions are exempt from registration pursuant to Section 3(a)(9) of the Securities Act of 1933, as amended.

No shares of the Company's Class B common stock were converted into Class A common stock during the three months ended October 1, 2016.

### (b) Not Applicable

### (c) Stock Repurchases

The following table sets forth the repurchases of shares of the Company's Class A common stock during the three months ended October 1, 2016:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs <sup>(a)</sup> (millions)
July 3, 2016 to July 30, 2016	—	\$	—	\$ 200
July 31, 2016 to August 27, 2016	—	—	—	200
August 28, 2016 to October 1, 2016	81,106	<sup>(b)</sup> 98.44	79,891	<sup>(c)</sup> 200
	81,106		79,891	

<sup>(a)</sup> Repurchases of shares of Class A common stock are subject to overall business and market conditions.

<sup>(b)</sup> Includes 1,215 shares surrendered to or withheld by the Company in satisfaction of withholding taxes in connection with the vesting of awards issued under its long-term stock incentive plans.

<sup>(c)</sup> Represents additional shares delivered to the Company at the conclusion of its accelerated share repurchase program, which was entered into during June 2016. See Note 14 to the accompanying consolidated financial statements.

## Item 5. Other Information.

### Amendment to the Employment Agreement of Valérie Hermann

On November 9, 2016, the Company entered into Amendment No. 1 (the "Hermann Amendment") to the amended and restated employment agreement, effective as of April 4, 2016, between the Company and Valérie Hermann, to reflect her appointment as the Company's President, Global Brands. Ms. Hermann previously served as the Company's Global Brand President, Luxury, Women's Collections, and World of Accessories. The terms of the Hermann Amendment commenced effective as of September 22, 2016.

Under the Hermann Amendment, if the Company terminates Ms. Hermann's employment for any reason other than death, disability or Cause, or Ms. Hermann voluntarily terminates her employment for Good Reason (each as defined in Ms. Hermann's employment agreement), she will be entitled to receive an amount equal to her then current base salary for a severance period equal to the longer of the balance of the term of her employment (up to a maximum of two years) and one year from the date of such termination, plus a lump sum amount at the end of the severance period equal to 175% of her base salary. She will also receive a pro-rated bonus under the Company's Executive Officer Annual Incentive Plan, based on actual performance, for the year of termination.

Pursuant to the Hermann Amendment, Ms. Hermann will receive a one-time special equity award under the Company's 2010 Incentive Plan with a value of approximately \$2,500,000, to be granted on or about November 8, 2016. This one-time special equity award will be granted as follows: (i) \$1,250,000 in the form of performance share units that will vest, subject to continued service on the vesting date, within 90 days following the last day of the Company's fiscal year ending March 30, 2019 after certification of the Company's achievement of the applicable performance goals; and (ii) \$1,250,000 in the form of time-based restricted stock units that will vest in full on May 8, 2019, subject to continued service on the vesting date.

The foregoing description of the Hermann Amendment is qualified in its entirety by the Hermann Amendment, which is attached hereto as Exhibit 10.1.

#### Item 6. Exhibits.

- 3.1 Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (File No. 333-24733) filed June 10, 1997).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company (filed as Exhibit 3.1 to the Form 8-K filed August 16, 2011).
- 3.3 Third Amended and Restated By-laws of the Company (filed as Exhibit 3.1 to the Form 8-K filed February 5, 2014).
- 10.1\* Amendment No. 1 to the Amended and Restated Employment Agreement, dated as of November 9, 2016, between the Company and Valérie Hermann.†
- 12.1\* Computation of Ratio of Earnings to Fixed Charges.
- 31.1\* Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a).
- 31.2\* Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a).
- 32.1\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets at October 1, 2016 and April 2, 2016, (ii) the Consolidated Statements of Operations for the three-month and six-month periods ended October 1, 2016 and September 26, 2015, (iii) the Consolidated Statements of Comprehensive Income for the three-month and six-month periods ended October 1, 2016 and September 26, 2015, (iv) the Consolidated Statements of Cash Flows for the six-month periods ended October 1, 2016 and September 26, 2015, and (v) the Notes to the Consolidated Financial Statements.

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

\* Filed herewith.

† Management contract or compensatory plan or arrangement.



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.

RALPH LAUREN CORPORATION

By: /s/ JANE HAMILTON NIELSEN

Jane Hamilton Nielsen

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: November 10, 2016