

RALPH LAUREN CORP  
Form 10-Q  
August 10, 2017

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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 July 1, 2017

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 (I.R.S. Employer  
incorporation or organization) Identification No.)  
650 Madison Avenue,  
New York, New York (Zip Code)

(Address of principal executive offices)

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At August 4, 2017, 55,381,215 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

	July 1, 2017	April 1, 2017
	(millions)	
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$830.4	\$668.3
Short-term investments	740.5	684.7
Accounts receivable, net of allowances of \$213.5 million and \$214.4 million	279.2	450.2
Inventories	859.9	791.5
Income tax receivable	77.5	79.4
Prepaid expenses and other current assets	299.2	280.4
Total current assets	3,086.7	2,954.5
Property and equipment, net	1,273.3	1,316.0
Deferred tax assets	141.4	125.9
Goodwill	924.2	904.6
Intangible assets, net	213.7	219.8
Other non-current assets	174.7	131.2
Total assets	\$5,814.0	\$5,652.0
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$160.9	\$147.7
Income tax payable	36.6	29.5
Accrued expenses and other current liabilities	1,019.4	982.7
Total current liabilities	1,216.9	1,159.9
Long-term debt	590.4	588.2
Non-current liability for unrecognized tax benefits	64.7	62.7
Other non-current liabilities	581.9	541.6
Commitments and contingencies (Note 13)		
Total liabilities	2,453.9	2,352.4
Equity:		
Class A common stock, par value \$.01 per share; 102.0 million and 101.5 million shares issued; 55.4 million and 55.1 million shares outstanding	1.0	0.9
Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding	0.3	0.3
Additional paid-in-capital	2,330.4	2,308.8
Retained earnings	5,770.8	5,751.9
Treasury stock, Class A, at cost; 46.6 million and 46.4 million shares	(4,578.3 )	(4,563.9 )
Accumulated other comprehensive loss	(164.1 )	(198.4 )
Total equity	3,360.1	3,299.6
Total liabilities and equity	\$5,814.0	\$5,652.0
See accompanying notes.		

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	July 1, 2017	July 2, 2016
	(millions, except per share data)	
	(unaudited)	
Net revenues	\$1,347.1	\$1,552.2
Cost of goods sold <sup>(a)</sup>	(495.9 )	(657.6 )
Gross profit	851.2	894.6
Selling, general, and administrative expenses <sup>(a)</sup>	(708.4 )	(814.7 )
Amortization of intangible assets	(6.0 )	(6.0 )
Impairment of assets	(9.7 )	(19.4 )
Restructuring and other charges <sup>(a)</sup>	(36.8 )	(85.7 )
Total other operating expenses, net	(760.9 )	(925.8 )
Operating income (loss)	90.3	(31.2 )
Foreign currency gains	0.1	2.4
Interest expense	(5.0 )	(3.4 )
Interest and other income, net	2.3	0.9
Equity in losses of equity-method investees	(0.9 )	(1.9 )
Income (loss) before income taxes	86.8	(33.2 )
Income tax benefit (provision)	(27.3 )	10.9
Net income (loss)	\$59.5	\$(22.3 )
Net income (loss) per common share:		
Basic	\$0.73	\$(0.27 )
Diluted	\$0.72	\$(0.27 )
Weighted average common shares outstanding:		
Basic	81.6	83.3
Diluted	82.5	83.3
Dividends declared per share	\$0.50	\$0.50
<sup>(a)</sup> Includes total depreciation expense of:	\$(66.9 )	\$(72.4 )

See accompanying notes.

RALPH LAUREN CORPORATION  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended	
	July 1, 2017	July 2, 2016
	(millions)	
	(unaudited)	
Net income (loss)	\$59.5	\$(22.3)
Other comprehensive income (loss), net of tax:		
Foreign currency translation gains (losses)	56.6	(9.0 )
Net losses on cash flow hedges	(22.0 )	(2.3 )
Net gains (losses) on defined benefit plans	(0.3 )	0.4
Other comprehensive income (loss), net of tax	34.3	(10.9 )
Total comprehensive income (loss)	\$93.8	\$(33.2)

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	July 1, 2017	July 2, 2016
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$59.5	\$(22.3 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	72.9	78.4
Deferred income tax expense (benefit)	(14.7 )	3.0
Equity in losses of equity-method investees	0.9	1.9
Non-cash stock-based compensation expense	21.6	17.7
Non-cash impairment of assets	9.7	19.4
Non-cash restructuring-related inventory charges	0.7	54.0
Other non-cash charges	1.1	9.7
Changes in operating assets and liabilities:		
Accounts receivable	174.0	174.4
Inventories	(55.4 )	(167.8 )
Prepaid expenses and other current assets	(4.6 )	(23.2 )
Accounts payable and accrued liabilities	42.4	141.7
Income tax receivables and payables	8.7	(20.8 )
Deferred income	0.6	(2.3 )
Other balance sheet changes	16.8	(20.9 )
Net cash provided by operating activities	334.2	242.9
Cash flows from investing activities:		
Capital expenditures	(41.9 )	(77.6 )
Purchases of investments	(270.4 )	(144.5 )
Proceeds from sales and maturities of investments	187.4	182.2
Acquisitions and ventures	(3.6 )	(1.3 )
Net cash used in investing activities	(128.5 )	(41.2 )
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	—	943.9
Repayments of short-term debt	—	(970.0 )
Payments of capital lease obligations	(6.2 )	(7.2 )
Payments of dividends	(40.5 )	(41.4 )
Repurchases of common stock, including shares surrendered for tax withholdings	(14.4 )	(114.9 )
Proceeds from exercise of stock options	0.1	3.2
Net cash used in financing activities	(61.0 )	(186.4 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	19.9	(14.6 )
Net increase in cash, cash equivalents, and restricted cash	164.6	0.7
Cash, cash equivalents, and restricted cash at beginning of period	711.8	502.1
Cash, cash equivalents, and restricted cash at end of period	\$876.4	\$502.8

See accompanying notes.





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 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, 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 diversifies its business by geography (North America, Europe, and Asia, among other regions) and channels of distribution (wholesale, retail, and licensing). This allows the Company to maintain a dynamic balance as its operating results do not depend solely on the performance of any single geographic area or channel of distribution. 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.

The Company organizes its business into the following three reportable segments: North America, Europe, and Asia. In addition to these reportable segments, the Company also has other non-reportable segments. See Note 17 for further discussion of the Company's segment reporting structure.

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 (loss), comprehensive income (loss), and cash flows of the Company for the interim periods presented. In addition, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and the notes thereto 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 1, 2017 (the "Fiscal 2017 10-K").

Basis of Consolidation

These unaudited interim consolidated financial statements present the consolidated financial position, income (loss), comprehensive income (loss), 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 2018 will end on March 31, 2018 and will be a 52-week period ("Fiscal 2018"). Fiscal year 2017 ended on April 1, 2017 and was also a 52-week period ("Fiscal 2017"). The first quarter of Fiscal 2018 ended on July 1, 2017 and was a 13-week period. The first quarter of Fiscal 2017 ended on July 2, 2016 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 notes 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, including the realignment of the Company's segment reporting structure, as further described in Note 17.

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 our retail business. 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 period ended July 1, 2017 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2018.

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 business 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 and third-party digital partner 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 \$7.3 million and \$9.3 million during the three-month periods ended July 1, 2017 and July 2, 2016, 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 \$37.2 million and \$41.0 million during the three-month periods ended July 1, 2017 and July 2, 2016, respectively. Shipping and handling costs billed to customers are included in revenue.

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) 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 (loss) per common share adjusts basic net income (loss) 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 (loss) per common share is reconciled to shares used to calculate diluted net income (loss) per common share as follows:

	Three Months Ended July 1, 2017		July 2, 2016	
	(millions)			
Basic shares	81.6	83.3		
Dilutive effect of stock options, restricted stock, and RSUs	0.9	—	(a)	
Diluted shares	82.5	83.3		

Incremental shares of 1.0 million attributable to outstanding stock options, restricted stock, and RSUs were (a) excluded from the computation of diluted shares for the three months ended July 2, 2016, as such shares would not be dilutive as a result of the net loss incurred during the period.

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 (loss) 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 July 1, 2017 and July 2, 2016, there were 2.6 million and 2.9 million, respectively, of additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs that were excluded from the diluted shares calculations. Additionally, in June 2016, the Company entered into an accelerated share repurchase program (the "ASR Program," as defined in Note 14). As of July 2, 2016, the 0.1 million additional shares that had yet to be delivered to the Company under the ASR Program would have been anti-dilutive, and therefore were excluded from the diluted shares calculation.



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 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	
	July 1, 2017	July 2, 2016
	(millions)	
Beginning reserve balance	\$202.8	\$239.7
Amount charged against revenue to increase reserve	117.7	132.0
Amount credited against customer accounts to decrease reserve	(126.0 )	(164.4 )
Foreign currency translation	5.1	(0.3 )
Ending reserve balance	\$199.6	\$207.0

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 \$13.9 million and \$11.6 million as of July 1, 2017 and April 1, 2017, respectively. The change in the allowance for doubtful accounts was not material during either of the three-month periods ended July 1, 2017 and July 2, 2016.

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 2017, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 10% of total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) accounted for approximately 21% of total net revenues. Substantially all of the Company's sales to its three largest wholesale customers related to its North America segment. As of July 1, 2017, these three key wholesale customers constituted approximately 31% of the Company's 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 \$859.9 million, \$791.5 million, and \$1.242 billion as of July 1, 2017, April 1, 2017, and July 2, 2016, respectively.

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,

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RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 uses 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 the settlement of foreign currency-denominated operational balances. 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/Settlement of Foreign Currency Balances** — recognized within foreign currency gains (losses) during the period that the hedged balance is remeasured through earnings, generally through its settlement when the related payment occurs.

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-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).



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Hedge of a Net Investment in a Foreign Operation

The Company periodically uses cross-currency swap contracts to reduce risk associated with exchange rate fluctuations on certain of its net investments in foreign subsidiaries. Changes in the fair values of such derivative instruments that are designated as hedges of net investments in foreign operations are recorded in equity as a component of AOCI in the same manner as foreign currency translation adjustments, to the extent they are effective as a hedge. To assess effectiveness, the Company uses a method based on changes in spot rates to measure the impact of foreign currency exchange rate fluctuations on both its foreign subsidiary net investment and the related derivative hedging instrument. Accordingly, changes in fair value of the hedging instrument other than those due to changes in the spot rate are excluded from the assessment of hedge effectiveness and are recorded in the consolidated statement of operations with any other ineffectiveness as interest expense. Amounts associated with the effective portion of net investment hedges are released from AOCI and recognized in earnings 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 2017 10-K for a summary of all of the Company's significant accounting policies.

4. Recently Issued Accounting Standards

Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, "Restricted Cash" ("ASU 2016-18"). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. Accordingly, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. The Company early-adopted ASU 2016-18 during the first quarter of Fiscal 2018 and applied its provisions retrospectively. Other than the change in presentation within the statement of cash flows, the adoption of ASU 2016-18 did not have an impact on the Company's consolidated financial statements. See Note 18 for a reconciliation of cash, cash equivalents, and restricted cash from the consolidated balance sheets to the consolidated statements of cash flows.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to the accounting for and financial statement presentation of share-based payments, including the accounting for income taxes upon award settlement and forfeitures, and the classification of excess tax benefits and shares surrendered for tax withholdings in the statement of cash flows.

The Company adopted ASU 2016-09 during the first quarter of Fiscal 2018. Among its various provisions, ASU 2016-09 impacts the accounting for income taxes upon award settlement by requiring that all excess tax benefits and shortfalls be reflected in the income tax benefit (provision) in the statement of operations in the period that they are realized. This reflects a change from previous practice, which generally required that such activity be recorded in equity as additional paid-in-capital. This change, which was applied prospectively in the Company's consolidated financial statements, increased the Company's income tax provision



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by \$10.0 million for the three months ended July 1, 2017. Future impacts of this guidance on the Company's income tax benefit (provision) will depend largely on unpredictable events and other factors, including the timing of both employee stock option exercises and cancellations, if any, and the value realized upon vesting or exercise of shares compared to the grant date fair value of those shares, and will likely result in increased volatility. This increase in volatility is expected to be more pronounced during the first half of the Company's fiscal year due to the timing of annual stock-based compensation award vestings and stock option expirations.

Additionally, ASU 2016-09 changes the classification of excess tax benefits presented in the Company's consolidated statements of cash flows from a financing activity to an operating activity. The Company applied this change in classification on a retrospective basis by reclassifying \$0.3 million of excess tax benefits from cash flows from financing activities to cash flows from operating activities for the three months ended July 2, 2016.

Lastly, as permitted, the Company has elected to continue to estimate the impact of expected forfeitures when determining the amount of compensation cost to be recognized each period, as opposed to reflecting the impact of forfeitures only as they occur.

The remaining provisions of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements.

#### Leases

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 requires that a lessee's rights and fixed payment obligations under most leases be recognized as right-of-use assets and lease liabilities on the consolidated balance sheet. ASU 2016-02 retains a dual model for classifying leases as either financing or operating, which governs the pattern of expense recognition to be reflected in the consolidated statement of operations. Variable lease payments based on performance, such as percentage-of-sales-based payments, will not be included in the measurement of right-of-use assets and lease liabilities. Rather, consistent with current practice, such amounts will be recognized as an expense in the period incurred. ASU 2016-02 is effective for the Company beginning in its fiscal year ending March 28, 2020, with early adoption permitted, and is to be adopted using a modified retrospective transition approach, which requires application of the guidance at the beginning of the earliest comparative period presented.

The Company is currently in the process of evaluating the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures. The Company's assessment efforts to date have included reviewing the standard's provisions and beginning to gather information to evaluate the landscape of its real estate, personal property, and other arrangements that may meet the definition of a lease. Based on these efforts, the Company currently anticipates that the adoption of ASU 2016-02 will result in a significant increase to its long-term assets and liabilities as, at a minimum, most of its current operating lease commitments will be subject to balance sheet recognition. The standard is also expected to result in enhanced quantitative and qualitative lease-related disclosures. Recognition of lease expense in the consolidated statement of operations is not anticipated to significantly change.

#### 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, representing the amount to which an entity expects to be entitled in exchange for providing promised goods or services (i.e., performance obligations), is recognized upon control of promised goods or services transferring to a customer. ASU 2014-09 also requires enhanced qualitative and quantitative revenue-related disclosures. Since its original issuance, the FASB has issued several additional related ASUs to address implementation concerns and further amend and clarify certain guidance within ASU 2014-09. ASU 2014-09 may be adopted on a full retrospective basis and applied to all prior periods presented, or on a modified retrospective basis through a cumulative adjustment recorded to opening retained earnings in the year of initial application.

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. The Company's assessment efforts to date have included reviewing

current accounting policies, processes, and arrangements to identify potential differences that could arise from the application of ASC 2014-09. Based on these efforts, the Company currently anticipates that the performance obligations underlying its core revenue streams (i.e., its retail and

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wholesale businesses), and the timing of recognition thereof, will remain substantially unchanged. Revenues for these businesses are generated through the sale of finished products, and will continue to be recognized at the point in time when merchandise is transferred to the customer and in an amount that considers the impacts of estimated returns, end-of-season markdowns, and other allowances that are variable in nature. For its licensing business, which has historically comprised approximately 2% of total revenues, the Company is currently assessing whether the timing of recognizing contractually guaranteed minimum royalty amounts will change. Beyond its core revenue streams, the Company is also currently evaluating the impact of ASU 2014-09 on certain ancillary transactions and arrangements. The Company will adopt ASU 2014-09 in its fiscal year ending March 30, 2019 ("Fiscal 2019") and anticipates doing so using the modified retrospective method through a cumulative adjustment recorded to the opening Fiscal 2019 retained earnings balance.

5. Property and Equipment

Property and equipment, net consists of the following:

	July 1, 2017	April 1, 2017
	(millions)	
Land and improvements	\$ 16.8	\$ 16.8
Buildings and improvements	457.7	457.2
Furniture and fixtures	690.6	687.2
Machinery and equipment	420.1	414.0
Capitalized software	558.2	549.0
Leasehold improvements	1,175.2	1,179.1
Construction in progress	21.8	33.4
	3,340.4	3,336.7
Less: accumulated depreciation	(2,067.1 )	(2,020.7 )
Property and equipment, net	\$ 1,273.3	\$ 1,316.0

6. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	July 1, 2017	April 1, 2017
	(millions)	
Other taxes receivable	\$ 135.3	\$ 127.8
Prepaid rent expense	37.9	37.4
Restricted cash	14.0	9.8
Derivative financial instruments	13.5	23.0
Tenant allowances receivable	12.0	16.4
Prepaid samples	8.4	5.9
Prepaid software maintenance	8.0	6.5
Prepaid advertising and marketing	7.3	4.1
Other prepaid expenses and current assets	62.8	49.5
Total prepaid expenses and other current assets	\$ 299.2	\$ 280.4

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets consist of the following:

	July 1, 2017	April 1, 2017
	(millions)	
Non-current investments	\$80.1	\$21.4
Restricted cash	32.0	33.7
Security deposits	26.4	26.5
Derivative financial instruments	—	9.6
Other non-current assets	36.2	40.0
Total other non-current assets	\$174.7	\$131.2

Accrued expenses and other current liabilities consist of the following:

	July 1, 2017	April 1, 2017
	(millions)	
Accrued inventory	\$211.6	\$154.9
Other taxes payable	203.8	172.2
Accrued operating expenses	196.8	188.0
Accrued payroll and benefits	142.0	173.5
Restructuring reserve	118.9	140.8
Dividends payable	40.6	40.5
Accrued capital expenditures	30.6	45.7
Deferred income	30.6	29.7
Capital lease obligations	22.1	22.6
Derivative financial instruments	16.0	12.3
Other accrued expenses and current liabilities	6.4	2.5
Total accrued expenses and other current liabilities	\$1,019.4	\$982.7

Other non-current liabilities consist of the following:

	July 1, 2017	April 1, 2017
	(millions)	
Capital lease obligations	\$246.7	\$250.9
Deferred rent obligations	209.7	211.1
Derivative financial instruments	39.2	9.4
Deferred tax liabilities	12.1	11.8
Deferred compensation	7.4	7.8
Other non-current liabilities	66.8	50.6
Total other non-current liabilities	\$581.9	\$541.6

#### 7. Impairment of Assets

During the three-month periods ended July 1, 2017 and July 2, 2016, the Company recorded non-cash impairment charges of \$9.7 million and \$19.4 million, primarily to write off certain fixed assets related to its domestic and international stores, shop-within-shops, and corporate offices in connection with the Way Forward Plan (see Note 8).



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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 is refocusing on its core brands and evolving its product, marketing, and shopping experience to increase desirability and relevance. It is also evolving its operating model to enable sustainable, profitable sales growth by significantly improving quality of sales, 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 is rightsizing its cost structure and implementing 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 also includes the discontinuance of the Company's Denim & Supply brand and the integration of its denim product offerings into its Polo Ralph Lauren brand. Collectively, these actions, which were substantially completed during Fiscal 2017, resulted in a reduction in workforce and the closure of certain stores and shop-within-shops.

On March 30, 2017, the Company's Board of Directors approved the following additional restructuring-related activities associated with its Way Forward Plan: (i) the restructuring of its in-house global e-commerce platform which was in development and shifting to a more cost-effective, flexible e-commerce platform through a new agreement with Salesforce's Commerce Cloud, formerly known as Demandware; (ii) the closure of its Polo store at 711 Fifth Avenue in New York City; and (iii) the further streamlining of the organization and the execution of other key corporate actions in line with the Company's Way Forward Plan. Together, these actions are an important part of the Company's efforts to achieve its stated objective to return to sustainable, profitable growth and invest in the future. These additional restructuring-related activities will result in a further reduction in workforce and the closure of certain corporate office and store locations, and are expected to be substantially completed by the end of Fiscal 2018. In connection with the Way Forward Plan, the Company currently expects to incur total estimated charges of approximately \$770 million, comprised of cash-related restructuring charges of approximately \$450 million and non-cash charges of approximately \$320 million. Cumulative cash and non-cash charges incurred since inception were \$315.7 million and \$287.7 million, respectively. In addition to these charges, the Company also incurred an additional non-cash charge of \$155.2 million during Fiscal 2017 associated with the destruction of inventory out of current liquidation channels in line with its Way Forward Plan.

A summary of the charges recorded in connection with the Way Forward Plan during the three-month periods ended July 1, 2017 and July 2, 2016, as well as the cumulative charges recorded since its inception, is as follows:

	Three Months Ended July 1, July 2, Cumulative 2017 2016 Charges (millions)		
Cash-related restructuring charges:			
Severance and benefit costs	\$11.7	\$77.1	\$ 194.4
Lease termination and store closure costs	12.2	1.8	99.5
Other cash charges	2.7	1.9	21.8
Total cash-related restructuring charges	26.6	80.8	315.7
Non-cash charges:			
Impairment of assets (see Note 7)	9.7	19.4	244.3
Inventory-related charges <sup>(a)</sup>	0.7	54.0	198.6
Total non-cash charges	10.4	73.4	442.9

Total charges \$37.0 \$154.2 \$ 758.6

Cumulative inventory-related charges include \$155.2 million associated with the destruction of inventory out of  
(a) current liquidation channels, of which \$50.3 million was recorded during the three months ended July 2, 2016.  
Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of current period 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 1, 2017	\$94.3	\$ 34.3	\$ 6.6	\$135.2
Additions charged to expense	11.7	12.2	2.7	26.6
Cash payments charged against reserve	(24.6 )	(4.0 )	(4.4 )	(33.0 )
Non-cash adjustments	0.6	4.9	—	5.5
Balance at July 1, 2017	\$82.0	\$ 47.4	\$ 4.9	\$134.3

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's operating structure in order to 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"). The Global Reorganization Plan resulted in a reduction in workforce and the closure of certain stores and shop-within-shops.

Actions associated with the Global Reorganization Plan were completed by the end of the first quarter of Fiscal 2017 and no additional charges are expected to be incurred in relation to this plan. A summary of the charges recorded in connection with the Global Reorganization Plan during the three months ended July 2, 2016, as well as the cumulative charges recorded since its inception, is as follows:

	Three Months Ended July 2, 2016	Cumulative Charges (millions)
Cash-related restructuring charges:		
Severance and benefit costs	\$4.7	\$ 69.1
Lease termination and store closure costs	0.2	8.0
Other cash charges	—	13.8
Total cash-related restructuring charges	4.9	90.9
Non-cash charges:		
Impairment of assets (see Note 7)	—	27.2
Accelerated stock-based compensation expense <sup>(a)</sup>	—	8.9
Inventory-related charges <sup>(b)</sup>	—	20.4
Total non-cash charges	—	56.5
Total charges	\$4.9	\$ 147.4

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

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

<sup>(b)</sup> Inventory-related charges are recorded within cost of goods sold in the consolidated statements of operations.



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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Severance and Benefit Costs	Lease Termination and Store Closure Costs	Other Cash Charges	Total
	(millions)			
Balance at April 1, 2017	\$8.6	\$ 3.4	\$ 0.2	\$12.2
Cash payments charged against reserve	(1.5 )	(0.7 )	—	(2.2 )
Balance at July 1, 2017	\$7.1	\$ 2.7	\$ 0.2	\$10.0

Other Charges

During the three months ended July 1, 2017, the Company recorded other charges of \$6.7 million (inclusive of accelerated stock-based compensation expense of \$2.1 million), primarily related to the departure of Mr. Stefan Larsson as the Company's President and Chief Executive Officer and as a member of its Board of Directors, effective as of May 1, 2017. Refer to Note 10 of the Fiscal 2017 10-K for additional discussion regarding Mr. Larsson's departure.

Additionally, during the three months ended July 1, 2017, the Company recorded other charges of \$3.5 million related to depreciation expense associated with the Company's former Polo store at 711 Fifth Avenue in New York City, recorded after the store closed during the first quarter of Fiscal 2018 in connection with the Way Forward Plan. Although the Company is no longer generating revenue or has any other economic activity associated with its former Polo store, it continues to incur depreciation expense due to its involvement at the time of construction.

9. Income Taxes

Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's income tax benefit (provision) by pretax income (loss), was 31.4% and 32.8% during the three-month periods ended July 1, 2017 and July 2, 2016, respectively. The effective tax rates in both periods presented were lower than the U.S. federal statutory income tax rate of 35% as a result of the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S. The effective tax rate for the three months ended July 1, 2017 also reflected the negative impact of the adoption of ASU 2016-09 (see Note 4). The effective tax rate for the three months ended July 2, 2016 was also lower than the statutory income tax rate, resulting in a decrease to the tax benefit, due to additional income tax reserves mainly associated with an anticipated tax settlement, partially offset by state income tax reserve releases.

Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its income tax benefit (provision). The total amount of unrecognized tax benefits, including interest and penalties, was \$64.7 million and \$62.7 million as of July 1, 2017 and April 1, 2017, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The net addition of \$2.0 million in unrecognized tax benefits, including interest and penalties, primarily related to additional unrecognized tax benefits recorded.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$49.3 million and \$46.7 million as of July 1, 2017 and April 1, 2017, respectively.

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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 income tax examinations for years prior to its fiscal year ended April 1, 2006.

10. Debt

Debt consists of the following:

	July 1, 2017	April 1, 2017
	(millions)	
\$300 million 2.125% Senior Notes <sup>(a)</sup>	\$ 298.4	\$ 298.1
\$300 million 2.625% Senior Notes <sup>(b)</sup>	292.0	290.1
Total long-term debt	\$ 590.4	\$ 588.2

During its fiscal year ended April 2, 2016 ("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, as defined below (see Note 12). Accordingly, the carrying value of the 2.125% Senior Notes as of July 1, 2017 and April 1, 2017 reflects adjustments of \$1.0 million and \$1.2 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 \$0.6 million and \$0.7 million as of July 1, 2017 and April 1, 2017, respectively.

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, as defined below (see Note 12). Accordingly, the carrying value of the 2.625% Senior Notes as of July 1, 2017 and April 1, 2017 reflects adjustments of \$6.5 million and \$8.2 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 \$1.5 million and \$1.7 million as of July 1, 2017 and April 1, 2017, respectively.

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.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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 July 1, 2017, there were no borrowings outstanding under the Commercial Paper Program.

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 July 1, 2017, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$10.2 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 July 1, 2017, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.





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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 50 million Chinese Renminbi (approximately \$7 million) through April 5, 2018, and may also be used to support bank guarantees.

- South Korea Credit Facility — provides Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 47 billion South Korean Won (approximately \$41 million) through October 31, 2017.

As of July 1, 2017, there were no borrowings outstanding under the Pan-Asia Credit Facilities.

Refer to Note 12 of the Fiscal 2017 10-K for additional discussion 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:

	July 1, 2017	April 1, 2017
	(millions)	
Derivative assets <sup>(a)</sup>	\$ 13.5	\$ 32.6
Derivative liabilities <sup>(a)</sup>	55.2	21.7

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

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.



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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.

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, if any, 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, if any, generally approximate their carrying values.

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

	July 1, 2017		April 1, 2017	
	Carrying Value <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Carrying Value <sup>(a)</sup>	Fair Value <sup>(b)</sup>
	(millions)			
\$300 million 2.125% Senior Notes	\$298.4	\$ 302.0	\$298.1	\$ 302.2
\$300 million 2.625% Senior Notes	292.0	305.0	290.1	302.8

<sup>(a)</sup> See Note 10 for discussion of the carrying values of the Company's Senior Notes.

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

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 periods ended July 1, 2017 and July 2, 2016, the Company recorded non-cash impairment charges of \$9.7 million and \$19.4 million, respectively, to fully write off the carrying values of certain long-lived assets based upon their assumed fair values of zero. 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 assets' net future discounted cash flows based on historical experience, current trends, and market conditions. See Note 7 for further discussion of the non-cash impairment charges recorded by the Company during the fiscal periods presented. No goodwill impairment charges were recorded during either of the three-month periods ended July 1, 2017 or July 2, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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 July 1, 2017 and April 1, 2017:

Derivative Instrument <sup>(a)</sup>	Notional Amounts		Derivative Assets				Derivative Liabilities				
	July 1, 2017	April 1, 2017	July 1, 2017	Fair Value	April 1, 2017	Fair Value	July 1, 2017	Fair Value	April 1, 2017	Fair Value	
			Balance Sheet Line <sup>(b)</sup>		Balance Sheet Line <sup>(b)</sup>		Balance Sheet Line <sup>(b)</sup>		Balance Sheet Line <sup>(b)</sup>		
	(millions)										
Designated Hedges:											
FC — Cash flow hedges	\$468.5	\$533.2	PP	\$4.4	PP	\$17.7	AE	\$11.5	AE	\$3.7	
IRS — Fixed-rate debt	600.0	600.0		—		—	ONCL	7.5	ONCL	9.4	
CCS — NI	633.6	591.2		—	ONCA	9.6	ONCL	31.7		—	
Total Designated Hedges	1,702.1	1,724.4		4.4		27.3		50.7		13.1	
Undesignated Hedges:											
FC — Undesignated hedges <sup>(c)</sup>	340.1	375.1	PP	9.1	PP	5.3	AE	4.5	AE	8.6	
Total Hedges	\$2,042.2	\$2,099.5		\$13.5		\$32.6		\$55.2		\$21.7	

(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 undesignated hedges of foreign currency-denominated intercompany loans and other intercompany balances.

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 when 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 July 1, 2017 and April 1, 2017 would be adjusted from the current gross presentation as detailed in the following table:

July 1, 2017			April 1, 2017		
Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting	Net Amount	Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting	Net Amount

	Agreements		Agreements	
	(millions)			
Derivative assets	\$13.5	\$ (8.4 )	\$ 5.1	\$32.6 \$ (18.3 ) \$ 14.3
Derivative liabilities	55.2	(8.4 )	46.8	21.7 (18.3 ) 3.4

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

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 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 periods ended July 1, 2017 and July 2, 2016:

	Gains (Losses) Recognized in OCI Three Months Ended July 1, July 2, 2017 2016 (millions)		
Designated Hedges:			
FC — Cash flow hedges	\$(19.1)	\$(5.2)	
CCS — <del>NI</del>	(40.3 )	13.0	
Total Designated Hedges	\$(59.4)	\$7.8	
	Gains (Losses) Reclassified from AOCI to Earnings Three Months Ended July 1, July 2, 2017 2016 (millions)		Location of Gains (Losses) Reclassified from AOCI to Earnings

Designated Hedges:			
FC — Cash flow hedges	\$4.0	\$3.3	Cost of goods sold
FC — Cash flow hedges	(0.6 )	(4.7 )	Foreign currency gains (losses)
Total Designated Hedges	\$3.4	\$(1.4)	

(a) Amounts recognized in other comprehensive income (loss) ("OCI") would be recognized in earnings only upon the sale or liquidation of the hedged net investment.

As of July 1, 2017, it is expected that \$6.4 million of pretax net losses on both outstanding and matured derivative instruments deferred in AOCI will be recognized in earnings over the next twelve months. The amounts ultimately recognized in earnings will depend on exchange rates in effect when outstanding derivative instruments are settled. 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 periods ended July 1, 2017 and July 2, 2016:

	Gains (Losses) Recognized in Earnings Three Months Ended		Location of Gains (Losses) Recognized in Earnings
--	--	--	--

July 1, 2017  
July 2, 2016  
(millions)

Undesignated Hedges:

FC — Undesignated hedges \$2.6 \$(7.5) Foreign currency gains (losses)

Total Undesignated Hedges \$2.6 \$(7.5)

Risk Management Strategies

Forward Foreign Currency Exchange Contracts

The Company uses 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 the settlement of foreign currency-denominated balances. 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



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 of the respective exposure.

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 July 1, 2017, the Company's short-term investments consisted of \$740.5 million of time deposits and its non-current investments consisted of \$80.1 million of time deposits. As of April 1, 2017, the Company's short-term investments consisted of \$684.7 million of time deposits and its non-current investments consisted of \$21.4 million of time deposits.

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 2017 10-K for further discussion of the Company's accounting policies relating to its investments.

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.



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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 \$34.1 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.

#### 14. Equity

##### Summary of Changes in Equity

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

	Three Months Ended	
	July 1, 2017	July 2, 2016
	(millions)	
Balance at beginning of period	\$3,299.6	\$3,743.5
Comprehensive income (loss)	93.8	(33.2 )
Dividends declared	(40.6 )	(41.1 )
Repurchases of common stock, including shares surrendered for tax withholdings	(14.4 )	(114.9 ) <sup>(a)</sup>
Stock-based compensation	21.6	17.7
Shares issued and tax benefits (shortfalls) recognized pursuant to stock-based compensation arrangements	0.1	(5.7 )
Balance at end of period	\$3,360.1	\$3,566.3

<sup>(a)</sup> Includes \$10 million of Class A common stock delivered to the Company under its ASR Program (as defined below) during the second quarter of Fiscal 2017, which was recorded as a reduction to additional paid-in capital in the Company's consolidated balance sheet as of July 2, 2016.



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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 that were 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 accordingly recorded a related \$10 million increase to treasury stock during the second quarter of Fiscal 2017. 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, during the three-month periods ended July 1, 2017 and July 2, 2016 is as follows:

	Three Months Ended July 2, 2017 <sup>(a)</sup> (millions)	July 2, 2016 <sup>(a)</sup> (millions)
Cost of shares repurchased	\$90.0	\$90.0
Number of shares repurchased	0.9	0.9

<sup>(a)</sup> Excludes 0.1 million additional shares of Class A common stock delivered to the Company under its ASR Program during the second quarter of Fiscal 2017, which had an aggregate cost of \$10 million.

As of July 1, 2017, the remaining availability under the Company's Class A common stock repurchase program was approximately \$100 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during each of the three-month periods ended July 1, 2017 and July 2, 2016, 0.2 million shares of Class A common stock, at a cost of \$14.4 million and \$14.9 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 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 first quarter Fiscal 2018 dividend of \$0.50 per share was declared on June 16, 2017, was payable to stockholders of record at the close of business on June 30, 2017, and was paid on July 14, 2017. Dividends paid amounted to \$40.5 million and \$41.4 million during the three-month periods ended July 1, 2017 and July 2, 2016, respectively.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Accumulated Other Comprehensive Income (Loss)

The following table presents OCI activity, net of tax, accumulated in equity:

	Foreign Currency Translation Gains (Losses) <sup>(a)</sup>	Net Unrealized Gains (Losses) on Cash Flow Hedges <sup>(b)</sup>	Net Unrealized Gains (Losses) on Defined Benefit Plans <sup>(c)</sup>	Total Accumulated Other Comprehensive Income (Loss)
	(millions)			
Balance at April 2, 2016	\$ (157.6)	\$ (12.0 )	\$ (11.9 )	\$ (181.5 )
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	(9.0 )	(3.3 )	0.1	(12.2 )
Amounts reclassified from AOCI to earnings	—	1.0	0.3	1.3
Other comprehensive income (loss), net of tax	(9.0 )	(2.3 )	0.4	(10.9 )
Balance at July 2, 2016	\$ (166.6)	\$ (14.3 )	\$ (11.5 )	\$ (192.4 )
Balance at April 1, 2017	\$ (206.2)	\$ 14.6	\$ (6.8 )	\$ (198.4 )
Other comprehensive income (loss), net of tax:				
OCI before reclassifications	56.6	(18.8 )	(0.5 )	37.3
Amounts reclassified from AOCI to earnings	—	(3.2 )	0.2	(3.0 )
Other comprehensive income (loss), net of tax	56.6	(22.0 )	(0.3 )	34.3
Balance at July 1, 2017	\$ (149.6)	\$ (7.4 )	\$ (7.1 )	\$ (164.1 )

OCI before reclassifications to earnings related to foreign currency translation gains (losses) includes an income tax benefit of \$12.8 million for the three months ended July 1, 2017, and includes an income tax provision of \$4.5 million for the three months ended July 2, 2016. OCI before reclassifications to earnings for the three-month periods<sup>(a)</sup> ended July 1, 2017 and July 2, 2016 include a loss of \$25.1 million (net of a \$15.2 million income tax benefit) and a gain of \$7.9 million (net of a \$5.1 million income tax provision), 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).

<sup>(b)</sup> OCI before reclassifications to earnings related to net unrealized gains (losses) on cash flow hedges are net of income tax benefits of \$0.3 million and \$1.9 million for the three-month periods ended July 1, 2017 and July 2, 2016, respectively. 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.

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

	Three Months Ended		Location of Gains (Losses) Reclassified from AOCI to Earnings
	July 1, 2017	July 2, 2016	
	(millions)		
Gains (losses) on cash flow hedges <sup>(a)</sup> :			
FC — Cash flow hedges	\$4.0	\$3.3	Cost of goods sold
FC — Cash flow hedges	(0.6 )	(4.7 )	Foreign currency gains (losses)
Tax effect	(0.2 )	0.4	Income tax benefit (provision)



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Refer to Note 18 of the Fiscal 2017 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 and the related income tax benefits recognized during the three-month periods ended July 1, 2017 and July 2, 2016 is as follows:

	Three Months Ended	
	July 1, 2017	July 2, 2016
	(millions)	
Compensation expense	\$21.6 <sup>(a)</sup>	\$17.7
Income tax benefit	(7.9 )	(6.5 )

Includes \$2.1 million of accelerated stock-based compensation expense recorded within restructuring and other <sup>(a)</sup> charges in the consolidated statements of operations during the three-month period ended July 1, 2017 (see Note 8).

All other stock-based compensation expense was recorded within SG&A expenses.

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 timing and magnitude of forfeiture and performance goal achievement adjustments, as well as changes to the size and composition of the eligible employee population, stock-based compensation expense recognized during any given fiscal period is not indicative of the level of compensation expense expected to be incurred in future periods.

Stock Options

A summary of stock option activity under all plans during the three months ended July 1, 2017 is as follows:

	Number of Options (thousands)
Options outstanding at April 1, 2017	1,720
Granted	—
Exercised	—
Cancelled/Forfeited	(122 )
Options outstanding at July 1, 2017	1,598

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. No such awards were granted during the three-month periods ended July 1, 2017 and July 2, 2016.



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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 \$72.83 and \$82.54 per share during the three-month periods ended July 1, 2017 and July 2, 2016, respectively.

A summary of restricted stock and service-based RSU activity during the three months ended July 1, 2017 is as follows:

	Number of Shares	
	Restricted Stock	Service-based RSUs
	(thousands)	
Nonvested at April 1, 2017	19	922
Granted	—	628
Vested	—	(294)
Forfeited	—	(58)
Nonvested at July 1, 2017	19	1,198

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 any awards not entitled to accrue dividend equivalents while outstanding. The weighted-average grant date fair values of performance-based RSUs that do not contain a TSR modifier granted during the three-month periods ended July 1, 2017 and July 2, 2016