

RALPH LAUREN CORP  
Form 10-Q  
November 09, 2011

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

- þ** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
**For the quarterly period ended October 1, 2011**  
**or**
- o** **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**  
*(State or other jurisdiction of  
incorporation or organization)*

**13-2622036**  
*(I.R.S. Employer  
Identification No.)*

**650 Madison Avenue,  
New York, New York**  
*(Address of principal executive offices)*

**10022**  
*(Zip Code)*

**(212) 318-7000**  
*(Registrant's telephone number, including area code)*

**Polo Ralph Lauren Corporation**  
*(Former name, if changed since last report)*

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 **þ** No **o**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files).

Yes ☒ No ☐

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

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

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

At November 4, 2011, 61,298,249 shares of the registrant's Class A common stock, \$.01 par value, and 30,831,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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**RALPH LAUREN CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	October 1, 2011	April 2, 2011
	(millions)	(unaudited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 407.7	\$ 453.0
Short-term investments	477.9	593.9
Accounts receivable, net of allowances of \$248.2 million and \$230.9 million	633.5	442.8
Inventories	988.4	702.1
Income tax receivable	5.9	57.8
Deferred tax assets	103.6	92.1
Prepaid expenses and other	156.9	136.3
<b>Total current assets</b>	2,773.9	2,478.0
Non-current investments	93.8	83.6
Property and equipment, net	833.5	788.8
Deferred tax assets	75.5	76.7
Goodwill	1,024.5	1,016.3
Intangible assets, net	378.6	387.7
Other assets	148.6	150.0
<b>Total assets</b>	\$ 5,328.4	\$ 4,981.1
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term debt	\$ 100.0	\$
Accounts payable	190.0	141.3
Income tax payable	123.1	8.9
Accrued expenses and other	709.3	681.8
<b>Total current liabilities</b>	1,122.4	832.0
Long-term debt	273.7	291.9
Non-current liability for unrecognized tax benefits	160.2	156.4
Other non-current liabilities	388.2	396.1
Commitments and contingencies (Note 13)		
<b>Total liabilities</b>	1,944.5	1,676.4
<b>Equity:</b>		
Class A common stock, par value \$.01 per share; 90.5 million and 89.5 million shares issued; 61.3 million and 63.7 million shares outstanding	0.9	0.9

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Class B common stock, par value \$.01 per share; 30.8 million shares issued and outstanding	0.3	0.3
Additional paid-in-capital	1,529.4	1,444.7
Retained earnings	3,816.0	3,435.3
Treasury stock, Class A, at cost (29.2 million and 25.8 million shares)	( 2,210.1)	(1,792.3)
Accumulated other comprehensive income	247.4	215.8
<b>Total equity</b>	<b>3,383.9</b>	<b>3,304.7</b>
<b>Total liabilities and equity</b>	<b>\$ 5,328.4</b>	<b>\$ 4,981.1</b>

See accompanying notes.

Table of Contents**RALPH LAUREN CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>October 1, 2011</b>	<b>October 2, 2010</b>	<b>October 1, 2011</b>	<b>October 2, 2010</b>
	<b>(millions, except per share data)</b>			
	<b>(unaudited)</b>			
Net sales	\$ 1,856.8	\$ 1,485.6	\$ 3,343.3	\$ 2,601.1
Licensing revenue	47.8	46.5	87.7	84.3
<b>Net revenues</b>	<b>1,904.6</b>	<b>1,532.1</b>	<b>3,431.0</b>	<b>2,685.4</b>
Cost of goods sold <sup>(a)</sup>	(826.0)	(644.2)	(1,390.9)	(1,085.3)
<b>Gross profit</b>	<b>1,078.6</b>	<b>887.9</b>	<b>2,040.1</b>	<b>1,600.1</b>
<b>Other costs and expenses:</b>				
Selling, general and administrative expenses <sup>(a)</sup>	(720.3)	(574.3)	(1,392.6)	(1,106.3)
Amortization of intangible assets	(7.5)	(6.2)	(14.6)	(12.2)
<b>Total other costs and expenses</b>	<b>(727.8)</b>	<b>(580.5)</b>	<b>(1,407.2)</b>	<b>(1,118.5)</b>
<b>Operating income</b>	<b>350.8</b>	<b>307.4</b>	<b>632.9</b>	<b>481.6</b>
Foreign currency gains (losses)	1.8	2.2	(2.0)	1.4
Interest expense	(6.4)	(4.4)	(12.5)	(8.9)
Interest and other income, net	2.4	1.6	6.6	3.4
Equity in income (loss) of equity-method investees	(1.1)	(0.8)	(3.0)	(2.0)
<b>Income before provision for income taxes</b>	<b>347.5</b>	<b>306.0</b>	<b>622.0</b>	<b>475.5</b>
Provision for income taxes	(114.0)	(100.8)	(204.4)	(149.5)
<b>Net income attributable to RLC</b>	<b>\$ 233.5</b>	<b>\$ 205.2</b>	<b>\$ 417.6</b>	<b>\$ 326.0</b>
<b>Net income per common share attributable to RLC:</b>				
Basic	\$ 2.53	\$ 2.15	\$ 4.49	\$ 3.38
Diluted	\$ 2.46	\$ 2.09	\$ 4.35	\$ 3.30
<b>Weighted average common shares outstanding:</b>				
Basic	92.2	95.5	93.1	96.4
Diluted	94.9	98.0	95.9	98.9
Dividends declared per share	\$ 0.20	\$ 0.10	\$ 0.40	\$ 0.20
<sup>(a)</sup> Includes total depreciation expense of:	\$ (48.5)	\$ (40.2)	\$ (96.8)	\$ (80.2)

See accompanying notes.



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	<b>Six Months Ended</b>	
	<b>October 1,</b>	<b>October 2,</b>
	<b>2011</b>	<b>2010</b>
	<b>(millions)</b>	
	<b>(unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 417.6	\$ 326.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	111.4	92.4
Deferred income tax benefit	(13.7)	(22.1)
Equity in losses of equity-method investees, net of dividends received	3.0	2.0
Non-cash stock-based compensation expense	34.0	30.8
Excess tax benefits from stock-based compensation arrangements	(21.2)	(7.0)
Other non-cash charges (benefits), net	0.6	(3.7)
Changes in operating assets and liabilities:		
Accounts receivable	(195.8)	(138.1)
Inventories	(284.4)	(219.2)
Accounts payable and accrued liabilities	32.7	113.4
Income tax receivables and payables	184.9	23.8
Deferred income	(8.6)	(11.6)
Other balance sheet changes	23.0	37.3
<b>Net cash provided by operating activities</b>	<b>283.5</b>	<b>224.0</b>
<b>Cash flows from investing activities:</b>		
Acquisitions and ventures, net of cash acquired and purchase price settlements	(7.9)	(21.4)
Purchases of investments	(792.9)	(567.7)
Proceeds from sales and maturities of investments	880.3	667.7
Capital expenditures	(92.4)	(93.8)
Change in restricted cash deposits	0.3	(3.2)
<b>Net cash used in investing activities</b>	<b>(12.6)</b>	<b>(18.4)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from credit facilities	107.7	
Repayments of borrowings on credit facilities	(7.7)	
Payments of capital lease obligations	(4.2)	(3.9)
Payments of dividends	(37.4)	(19.4)
Repurchases of common stock, including shares surrendered for tax withholdings	(417.8)	(347.7)
Proceeds from exercise of stock options	29.5	21.9
Excess tax benefits from stock-based compensation arrangements	21.2	7.0
Payment on interest rate swap termination	(7.6)	
Other financing activities	0.2	(0.5)

<b>Net cash used in financing activities</b>	(316.1)	(342.6)
Effect of exchange rate changes on cash and cash equivalents	(0.1)	9.8
Net decrease in cash and cash equivalents	(45.3)	(127.2)
Cash and cash equivalents at beginning of period	453.0	563.1
Cash and cash equivalents at end of period	\$ 407.7	\$ 435.9

See accompanying notes.

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**RALPH LAUREN CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(In millions, except per share data and where otherwise indicated)**  
**(Unaudited)**

**1. Description of Business**

Ralph Lauren Corporation ( RLC ) is a global leader in the design, marketing and distribution of premium lifestyle products, including men's, women's and children's apparel, accessories, fragrances and home furnishings. RLC's long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. RLC's brand names include *Polo Ralph Lauren*, *Purple Label*, *Ralph Lauren Collection*, *Black Label*, *Blue Label*, *Lauren by Ralph Lauren*, *RRL*, *RLX*, *Ralph Lauren Denim & Supply*, *Rugby Ralph Lauren*, *Ralph Lauren Childrenswear*, *American Living*, *Chaps* and *Club Monaco*, among others. RLC and its subsidiaries are collectively referred to herein as the Company, we, us, our and ourselves, unless the context indicates otherwise.

The Company classifies its businesses into three segments: Wholesale, Retail and Licensing. The Company's wholesale sales are made principally to major department and specialty stores located throughout the U.S., Canada, Europe, Asia and South America. The Company also sells directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, Asia and South America; through concessions-based shop-within-shops located primarily in Asia; and through its retail e-commerce channel, which includes domestic sites located at [www.RalphLauren.com](http://www.RalphLauren.com) and [www.Rugby.com](http://www.Rugby.com) and its United Kingdom site located at [www.RalphLauren.co.uk](http://www.RalphLauren.co.uk). In September 2011, the Company expanded its e-commerce presence by launching a new retail e-commerce site in France located at [www.RalphLauren.fr](http://www.RalphLauren.fr), which also ships products to Belgium, Luxembourg and the Netherlands. The Company also licenses the right to unrelated third parties to use its various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods.

On August 11, 2011, at the Annual Meeting of Stockholders, the Company's stockholders approved an amendment to the Company's Amended and Restated Certificate of Incorporation to change the Company's name from Polo Ralph Lauren Corporation to Ralph Lauren Corporation. The Company's name change became effective on August 15, 2011.

**2. Basis of Presentation**

***Interim Financial Statements***

The interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). The interim consolidated financial statements are unaudited. In the opinion of management, however, such consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial condition, results of operations and changes in cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ( US GAAP ) have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures herein are adequate to make the information presented not misleading.

The consolidated balance sheet data as of April 2, 2011 is derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended April 2, 2011 (the Fiscal 2011 10-K ), which should be read in conjunction with these interim unaudited consolidated financial

statements. Reference is made to the Fiscal 2011 10-K for a complete set of financial statements.

***Basis of Consolidation***

The unaudited interim consolidated financial statements present the financial position, results of operations and cash flows of the Company, including all entities in which the Company has a controlling financial interest and

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**RALPH LAUREN CORPORATION**

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

is determined to be the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.