

RALPH LAUREN CORP  
Form 10-Q  
October 30, 2014

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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 September 27, 2014
- 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

(State or other jurisdiction of  
incorporation or organization)

650 Madison Avenue,  
New York, New York

(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, 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 October 24, 2014, 61,423,701 shares of the registrant's Class A common stock, \$.01 par value, and 26,281,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

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RALPH LAUREN CORPORATION  
INDEX

	Page
PART I. FINANCIAL INFORMATION (Unaudited)	
Item 1. Financial Statements:	
<u>Consolidated Balance Sheets</u>	<u>3</u>
<u>Consolidated Statements of Income</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>54</u>
Item 4. <u>Controls and Procedures</u>	<u>54</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>55</u>
Item 1A. <u>Risk Factors</u>	<u>55</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
Item 6. <u>Exhibits</u>	<u>56</u>
<u>Signatures</u>	<u>57</u>
EX-12.1	
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-101	INSTANCE DOCUMENT
EX-101	SCHEMA DOCUMENT
EX-101	CALCULATION LINKBASE DOCUMENT
EX-101	LABELS LINKBASE DOCUMENT
EX-101	PRESENTATION LINKBASE DOCUMENT
EX-101	DEFINITION LINKBASE DOCUMENT

RALPH LAUREN CORPORATION  
CONSOLIDATED BALANCE SHEETS

	September 27, 2014 (millions) (unaudited)	March 29, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$483	\$797
Short-term investments	708	488
Accounts receivable, net of allowances of \$300 million and \$270 million	641	588
Inventories	1,292	1,020
Income tax receivable	62	62
Deferred tax assets	150	150
Prepaid expenses and other current assets	224	224
Total current assets	3,560	3,329
Property and equipment, net	1,411	1,322
Deferred tax assets	45	39
Goodwill	940	964
Intangible assets, net	283	299
Other non-current assets	159	137
Total assets	\$6,398	\$6,090
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt	\$210	\$—
Accounts payable	255	203
Income tax payable	56	77
Accrued expenses and other current liabilities	762	690
Total current liabilities	1,283	970
Long-term debt	300	300
Non-current liability for unrecognized tax benefits	133	132
Other non-current liabilities	653	654
Commitments and contingencies (Note 14)		
Total liabilities	2,369	2,056
Equity:		
Class A common stock, par value \$.01 per share; 99.2 million and 98.0 million shares issued; 61.2 million and 61.8 million shares outstanding	1	1
Class B common stock, par value \$.01 per share; 26.5 million and 26.9 million shares issued and outstanding	—	—
Additional paid-in-capital	2,056	1,979
Retained earnings	5,530	5,257
Treasury stock, Class A, at cost; 38.0 million and 36.2 million shares	(3,598)	(3,317)
Accumulated other comprehensive income	40	114
Total equity	4,029	4,034
Total liabilities and equity	\$6,398	\$6,090
See accompanying notes.		



RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions, except per share data)			
	(unaudited)			
Net sales	\$1,949	\$1,872	\$3,617	\$3,486
Licensing revenue	45	43	85	82
Net revenues	1,994	1,915	3,702	3,568
Cost of goods sold <sup>(a)</sup>	(862	) (831	) (1,527	) (1,480
Gross profit	1,132	1,084	2,175	2,088
Selling, general, and administrative expenses <sup>(a)</sup>	(837	) (777	) (1,626	) (1,512
Amortization of intangible assets	(7	) (10	) (13	) (19
Gain on acquisition of Chaps	—	—	—	16
Restructuring and other charges	(2	) (2	) (6	) (2
Total other operating expenses, net	(846	) (789	) (1,645	) (1,517
Operating income	286	295	530	571
Foreign currency gains (losses)	(3	) 1	(6	) (5
Interest expense	(5	) (7	) (9	) (12
Interest and other income, net	3	2	4	4
Equity in losses of equity-method investees	(3	) (3	) (6	) (5
Income before provision for income taxes	278	288	513	553
Provision for income taxes	(77	) (83	) (150	) (167
Net income	\$201	\$205	\$363	\$386
Net income per common share:				
Basic	\$2.27	\$2.28	\$4.09	\$4.27
Diluted	\$2.25	\$2.23	\$4.05	\$4.17
Weighted average common shares outstanding:				
Basic	88.4	90.4	88.7	90.6
Diluted	89.2	92.2	89.7	92.6
Dividends declared per share	\$0.45	\$0.40	\$0.90	\$0.80
<sup>(a)</sup> Includes total depreciation expense of:	\$(65	) \$(56	) \$(128	) \$(107

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended		
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013	
	(millions) (unaudited)				
Net income	\$201	\$205	\$363	\$386	
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	(97	) 50	(100	) 48	
Net gains (losses) on derivative financial instruments	23	(18	) 25	(23	)
Net losses on available-for-sale investments	—	—	—	(5	)
Net gains on defined benefit plans	1	—	1	—	
Other comprehensive income (loss), net of tax	(73	) 32	(74	) 20	
Total comprehensive income	\$128	\$237	\$289	\$406	

See accompanying notes.

RALPH LAUREN CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	September 27, 2014	September 28, 2013
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$363	\$386
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	141	126
Deferred income tax benefit	(9	) (16
Equity in losses of equity-method investees	6	5
Non-cash stock-based compensation expense	42	43
Gain on acquisition of Chaps	—	(16
Excess tax benefits from stock-based compensation arrangements	(5	) (20
Other non-cash charges, net	4	—
Changes in operating assets and liabilities:		
Accounts receivable	(63	) (93
Inventories	(295	) (271
Prepaid expenses and other current assets	(21	) (33
Accounts payable and accrued liabilities	104	61
Income tax receivables and payables	1	(12
Deferred income	(9	) (11
Other balance sheet changes, net	16	71
Net cash provided by operating activities	275	220
Cash flows from investing activities:		
Capital expenditures	(176	) (214
Purchases of investments	(793	) (644
Proceeds from sales and maturities of investments	532	492
Acquisitions and ventures	(3	) (36
Change in restricted cash deposits	—	(6
Net cash used in investing activities	(440	) (408
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	300
Proceeds from issuance of short-term debt	530	—
Repayments of short-term debt	(320	) —
Payments of capital lease obligations	(13	) (5
Payments of dividends	(79	) (73
Repurchases of common stock, including shares surrendered for tax withholdings	(281	) (210
Proceeds from exercise of stock options	33	19
Excess tax benefits from stock-based compensation arrangements	5	20
Net cash provided by (used in) financing activities	(125	) 51
Effect of exchange rate changes on cash and cash equivalents	(24	) 2
Net decrease in cash and cash equivalents	(314	) (135
Cash and cash equivalents at beginning of period	797	974
Cash and cash equivalents at end of period	\$483	\$839
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 consistently developed across an expanding number of products, brands, sales channels, and international markets. RLC's brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, RRL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others. RLC and its subsidiaries are collectively referred to herein as the "Company," "we," "us," "our," and "ourselves," unless the context indicates otherwise.

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

2. Basis of Presentation

Interim Financial Statements

These interim consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and are unaudited. In the opinion of management, these consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position, income, comprehensive income, and cash flows of the Company for the interim periods presented. In addition, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") have been condensed or omitted from this report as is permitted by the SEC's rules and regulations. However, the Company believes that the disclosures provided herein are adequate to prevent the information presented from being misleading. This report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended March 29, 2014 (the "Fiscal 2014 10-K").

Basis of Consolidation

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

Fiscal Periods

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2015 will end on March 28, 2015 and will be a 52-week period ("Fiscal 2015"). Fiscal year 2014 ended on March 29, 2014 and was also a 52-week period ("Fiscal 2014"). The second quarter of Fiscal 2015 ended on September 27, 2014 and was a 13-week period. The second quarter of Fiscal 2014 ended on September 28, 2013 and was also a 13-week period.

RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

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

Significant estimates inherent in the preparation of the consolidated financial statements include reserves for bad debt, customer returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; accounting for income taxes and related uncertain tax positions; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring; 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 a change in the manner in which the Company allocates certain costs to its reportable segments, as described in Note 22 to the Company's Fiscal 2014 10-K.

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 in the Retail segment. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended September 27, 2014 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2015.

3. Summary of Significant Accounting Policies

Revenue Recognition

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

Revenue within the Company's Wholesale segment is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of estimates of returns, discounts, end-of-season markdown reserves, 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 notifications of order fulfillment discrepancies and historical trends. The Company reviews and refines these estimates on at least a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

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



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

**Shipping and Handling Costs**

The costs associated with shipping goods to customers are reflected as a component of selling, general, and administrative ("SG&A") expenses in the unaudited interim consolidated statements of income. Shipping costs were approximately \$10 million and \$19 million during the three-month and six-month periods ended September 27, 2014, respectively, and \$9 million and \$17 million during the three-month and six-month periods ended September 28, 2013, 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 approximately \$45 million and \$87 million during the three-month and six-month periods ended September 27, 2014, respectively, and \$52 million and \$91 million during the three-month and six-month periods ended September 28, 2013, respectively. Shipping and handling costs billed to customers are included in revenue.

**Net Income per Common Share**

Basic net income per common share is computed by dividing net income attributable to common shares by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the 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 under the treasury stock method.

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

	Three Months Ended		Six Months Ended	
	September 27,	September 28,	September 27,	September 28,
	2014	2013	2014	2013
	(millions)			
Basic shares	88.4	90.4	88.7	90.6
Dilutive effect of stock options, restricted stock, and RSUs	0.8	1.8	1.0	2.0
Diluted shares	89.2	92.2	89.7	92.6

All earnings per share amounts have been calculated based on unrounded numbers. Options to purchase shares of the Company's common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding RSUs that are issuable only upon the achievement of certain service and/or performance goals. Performance-based RSUs are included in the computation of diluted shares only to the extent that the underlying performance conditions (and any applicable market condition modifiers) (i) are 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 under the treasury stock method. As of September 27, 2014 and September 28, 2013, there were approximately 2.0 million and 1.2 million, respectively, additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs, which were excluded from the diluted share calculations.



RALPH LAUREN CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable, net 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 Revenue Recognition section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

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

	Three Months Ended		Six Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
	(millions)			
Beginning reserve balance	\$245	\$245	\$254	\$230
Amount charged against revenue to increase reserve	212	215	369	368
Amount credited against customer accounts to decrease reserve	(167	) (192	) (332	) (332
Foreign currency translation	(6	) 2	(7	) 4
Ending reserve balance	\$284	\$270	\$284	\$270

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors. The Company's allowance for doubtful accounts was \$16 million as of both September 27, 2014 and March 29, 2014. The activity in the allowance for doubtful accounts was not material during the three-month and six-month periods ended September 27, 2014 and September 28, 2013.

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 2014, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 12% of its total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) represented approximately 25% of total net revenues during Fiscal 2014. As of September 27, 2014, these three key wholesale customers represented approximately 40% of gross accounts receivable.

Derivative Financial Instruments

The Company records all derivative financial instruments on its consolidated balance sheets at fair value. For derivative instruments that qualify for cash flow hedge accounting, the effective portion of changes in the fair value of these instruments is recognized in equity as a component of accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings.

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 the effectiveness of derivative instruments that are designated as hedges, the Company uses regression analysis, a statistical method, to compare the change in the fair value of the derivative instrument to the change in cash flows of the related



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

hedged item. The extent to which a hedging instrument has been and is expected to remain highly effective in achieving offsetting changes in cash flows is assessed and documented by the Company on at least a quarterly basis. To the extent that a derivative instrument designated as a cash flow hedge is not considered to be 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 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).

As a result of the use of derivative instruments, the Company is exposed to the risk that the 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 the creditworthiness of counterparties. 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, the Company classifies proceeds received or amounts paid upon the settlement of a derivative instrument in the same manner as the related item being hedged, primarily within cash flows from operating activities.

#### Forward Foreign Currency Exchange Contracts

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risks related to exchange rate fluctuations on inventory purchases, intercompany royalty payments made by certain of its international operations, intercompany contributions made to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational cash flows. To the extent forward foreign currency exchange contracts designated as cash flow hedges are highly effective in offsetting changes in the value of the hedged items, the related gains (losses) are initially deferred in equity as a component of AOCI and subsequently recognized in the consolidated statements of income 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 Royalty Payments and Marketing Contributions** — Recognized within foreign currency gains (losses) generally in the period in which the related payments or contributions being hedged are received or paid.

#### Undesignated Hedges

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk. Changes in the fair value of undesignated derivative instruments are immediately recognized in earnings within foreign currency gains (losses).

See Note 13 for further discussion of the Company's derivative financial instruments.

Refer to Note 3 in the Fiscal 2014 10-K for a summary of all of the Company's significant accounting policies.



RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Recently Issued Accounting Standards

Accounting for Share-Based Payments

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-12, "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" ("ASU 2014-12"). ASU 2014-12 clarifies the accounting for certain stock-based compensation awards by requiring that a performance target that affects an award's vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the award's grant-date fair value and the related compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 is effective for the Company beginning in its fiscal year 2017, with early adoption permitted, and may be applied prospectively to all awards granted after the effective date, or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented. Adoption of ASU 2014-12 is not expected to have a significant impact on the Company's consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a single, comprehensive accounting model for revenues arising from contracts with customers that will supersede most existing revenue recognition guidance, including industry-specific guidance. Under this model, revenue is recognized at an amount that an entity expects to be entitled to upon transferring control of goods or services to a customer, as opposed to when risks and rewards transfer to a customer under existing revenue recognition guidance. ASU 2014-09 is effective for the Company beginning in its fiscal year 2018, and may be applied retrospectively to all prior periods presented or through a cumulative adjustment to the opening retained earnings balance in the year of adoption. The Company is currently in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

Proposed Amendments to Current Accounting Standards

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In May 2013, the FASB issued an exposure draft, "Leases" (the "Exposure Draft"), which would replace the existing guidance in ASC topic 840, "Leases." Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities on the consolidated balance sheet. The comment period for the Exposure Draft ended in September 2013. The FASB is currently redeliberating certain portions of the proposal to determine next steps. If and when effective, this proposed standard will likely have a significant impact on the Company's consolidated financial statements. However, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting would have on its consolidated financial statements at this time.

5. Acquisitions

Australia and New Zealand Licensed Operations Acquisition

On July 1, 2013, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in Australia and New Zealand (the "Australia and New Zealand Business") from a licensed to a wholly-owned operation, the Company acquired certain net assets from Oroton Group/PRL Australia ("Oroton") in exchange for an aggregate payment of approximately \$15 million. The Company funded this acquisition with available cash on-hand and accounted for it as a business combination, with the operating results of the Australia and New Zealand Business consolidated into the Company's operating results beginning on July 1, 2013. See Note 5 to the Company's Fiscal 2014 10-K for the allocation of the purchase price and other information related to this acquisition.



RALPH LAUREN CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Chaps Menswear License Acquisition

On April 10, 2013, in connection with the transition of the North American Chaps-branded men's sportswear business ("Chaps Menswear Business") from a licensed to a wholly-owned operation, the Company entered into an agreement with The Warnaco Group, Inc. ("Warnaco"), a subsidiary of PVH Corp. ("PVH"), to acquire certain net assets in exchange for an aggregate payment of approximately \$18 million (the "Chaps Menswear License Acquisition").

Warnaco was the Company's licensee for the Chaps Menswear Business. The Company funded the Chaps Menswear License Acquisition during the first quarter of Fiscal 2014 with available cash on-hand.

The Company accounted for the Chaps Menswear License Acquisition as a business combination during the first quarter of Fiscal 2014. The acquisition cost was allocated to the assets acquired and liabilities assumed based on an assessment of their respective fair values, as follows (in millions):

Assets acquired:

Inventory	\$30
Accounts receivable	19
Licensed trademark intangible asset	