RL-01

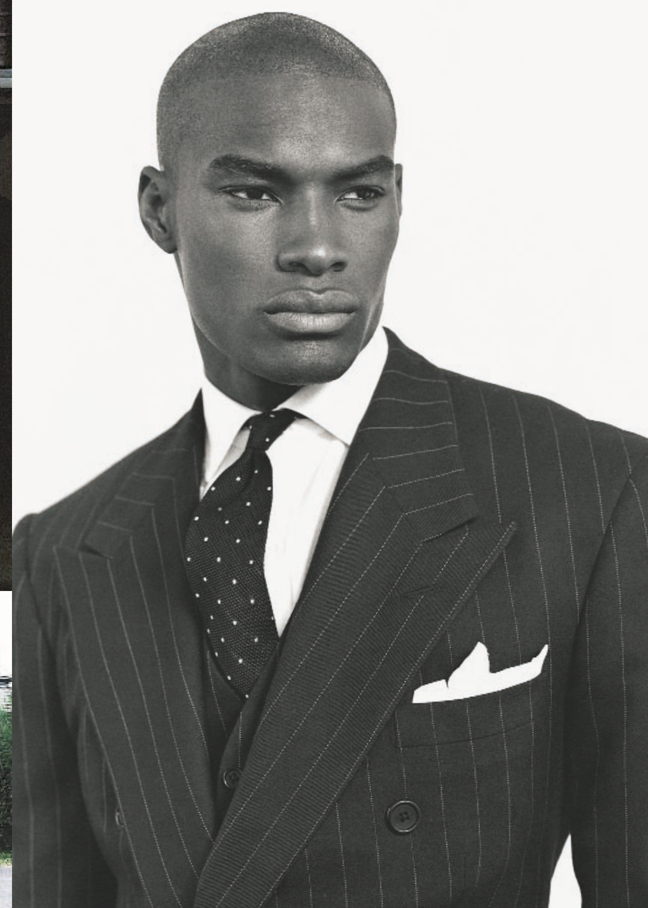
POLO RALPH LAUREN

2001

POLO RALPH LAUREN'S innovative brands, unique marketing and leadership position in visual presentation have driven a breadth of products that are unmatched. From our original designs in luxury apparel, accessories and home décor, we've built a successful and profitable company. These innovations have driven 34 years of growth. That's exceptional in our marketplace.

As an industry leader, we continue to create opportunities. As an innovator, we fulfill aspirations. Our products are sold in 65 countries and last year accounted for global wholesale net sales of 4.8 billion dollars. But that isn't enough. We continue to build new brands within the world of Polo Ralph Lauren. And we are taking our designs to new countries, extending the Polo Ralph Lauren experience of luxury throughout the world.

To guide our growth, we've added new talent to our team. We have new ideas. We have new momentum. We've succeeded by breaking the rules. And we're ready to break the rules again.



RALPH LAUREN
Chairman of the Board
Chief Executive Officer

DEAR FELLOW SHAREHOLDERS

Fiscal 2001 was a strong year and I am proud of our success.

We continued to strengthen our business and expand Polo Ralph Lauren worldwide. And we did it by following the philosophy we founded this company on 34 years ago — product, concept and leadership.

Our record results show that, in increasing numbers, customers want to be part of the Polo Ralph Lauren lifestyle. They know what we stand for and they share our values. Experts might call this branding, a term that seems to have lost much of its meaning. Instead, I prefer to call it "bonding" — a bond of trust we've earned from our 34-year commitment to quality, sophistication and style.

We are more excited than ever about our business. And I see that same passion in the eyes of our 10,000 employees, who have been energized by our achievements over the past year — and I owe them countless thanks. This spirit will drive our great company to achieve even greater things.

As we look back on the year, one accomplishment stands out — our ability to marry our world-class design and marketing capabilities with equally strong business processes. So, in addition to being known for our skill in bringing innovative products to market, we are building a reputation for delivering consistent operating results.

We've reached this goal by adding new talent to our team and refocusing our existing talent. Companies are about teams. No one person can do it. I can offer leadership, but it takes the team to make it happen.

Roger Farah joined Polo as President and Chief Operating Officer a little over a year ago. Roger is a strong leader with the ability to make things happen. As head of Polo Ralph Lauren operations, Roger has helped to take our design and marketing-driven company and support it with a world-class structure that has produced world-class results in the past year.

With Roger focused on day-to-day operations, I asked Lance Isham, our Vice Chairman, to assume responsibility for our European expansion and the management of our businesses in key international markets. Lance, who has worked with me for two decades, has been instrumental in building the Polo Ralph Lauren business. He understands my vision and performs a key role in positioning Polo as a global player with diverse brands.

We've added depth to our organization through new senior executives in Finance, Global Logistics, Human Resources and a new leader for our Club Monaco business. The result is the strongest and most talented management group in the industry.

In addition to adding talent to our organization, we added new expertise to our Board of Directors. We are delighted that Judith A. McHale, President and Chief Operating Officer of Discovery Communications, Inc., joined our board in February and Dr. Joyce F. Brown, President of the Fashion Institute of Technology, was appointed to our board last month. Both directors add important new voices to our board and we believe they will be tremendous assets to our Company.

While our business evolves, our principles remain firm. Rather than chasing the winds of "what's hot and what's not," we remain committed to capturing the timeless, appealing elements of the American lifestyle in our designs and our global marketing. The Polo concept of luxury is built on an enduring belief in living with style and quality.

Guided by these ideals, we will continue to grow by expanding our breadth and reach in the U.S. and worldwide. This includes broadening our luxury product portfolio and increasing our focus on our full-line retail stores which have the greatest power to market these products to our customers. We see an excellent opportunity to expand our operations internationally, particularly in Europe, where our brands already enjoy widespread recognition and the demand for our products is growing.

Entering our 35th year, I see tremendous opportunities on a global scale. I believe we have only begun to explore Polo Ralph Lauren's true potential, as we continue to drive the same level of excellence from our business operations that we receive from our design studio. My colleagues and I look forward to sharing our progress with you in the months and years ahead.

RALPH LAUREN
Chairman of the Board
Chief Executive Officer

POLO RALPH LAUREN HAS A UNIQUE ABILITY TO CREATE DIVERSE BRANDS FROM WITHIN, WHILE EXPLORING THE WORLD FOR NEW OPPORTUNITIES FOR EXPANSION.

EXPANDING OUR BRAND LEADERSHIP

Polo Ralph Lauren began with a man's tie and a singular point of view about style, elegance and taste. Today, that vision has been translated into 20 diverse brands that span a wide range of distribution channels.

We continue to lead because we have the unique ability to build brands from within. We established the ultimate luxury brand and created an entire lifestyle around this single vision. At the same time, we examine the world for new ideas to extend our brand.

We've created luxury brands for our own Polo Ralph Lauren stores and leading specialty retail shops. Our Purple Label, Women's Collection and Black Label represent the very best in style, design, fabric, quality and craftsmanship. We stayed true to our lifestyle vision, building our luxury point of view into our Home Collection. Our goal wasn't simply to create a blanket or a crystal bowl; we sought to create a fully designed life.

Additionally, we are developing and building a luxury accessory business because we believe there is a strong and growing market for our point of view.

Because the demand for our luxury products continues to grow, we are expanding our Polo Ralph Lauren stores in important markets such as Dallas and Beverly Hills. And we plan to open a new, luxury-focused store in Boston in the fall of this year.

We have created new brands such as Lauren by Ralph Lauren, RALPH by Ralph Lauren and Polo Jeans Co. that have positioned us as the number one resource in our category for department stores. The Lauren brand was one of the most successful sportswear launches in the history of women's wear. We extended the brand into shoes, dresses, handbags, and petite and women's sizes. And we created RALPH by Ralph Lauren for the daughter of our Lauren customer. The RALPH fragrance, launched in the fall of 2000, was one of the most successful new fragrances of the year.

And now we're extending the Lauren brand with men's wear classics. During holiday 1999, we launched Lauren for men ties. The line has grown to include men's shirts, knitwear and trousers. This fall, we will introduce Lauren sweaters and outerwear.

In addition to matching the right products with the right retail environment, we have a strong sense of where we need to take the brand next. We see enormous growth potential in our women's and children's markets, which today represent approximately 30% of our sales. And the accessories market, today just under 10% of our sales, offers enormous opportunities in luxury handbags and shoes.

We've been able to expand continually and build on our brand because we never stray from our core competency — understanding our customers. That knowledge has given us the unique and ongoing ability to create new brands from a single vision: to build an entire lifestyle from a single tie.

EXPANDING OUR PRESENCE WORLDWIDE

In 1978, long before global expansion became a part of the vocabulary of most luxury companies, Polo Ralph Lauren built a substantial business in Japan. In 1981, Ralph Lauren became the first American designer to open a European boutique by building a well-appointed store on London's New Bond Street. Five years later, we opened a store on Place de la Madeleine and he became the first American designer with a store in Paris.

Today, customers from Tokyo to Paris universally recognize Polo Ralph Lauren's icon of quality, value and timeless style.

We've led our industry in global expansion and we continue to grow beyond our domestic roots for one simple reason: We understand our customers and their desire to be a part of the lifestyle we represent. Driven by this knowledge and growing customer demand, we're more focused than ever on expanding our business in both existing and new international markets.

We accelerated our European expansion last year when we repurchased our European license. We wanted to take direct control of merchandising and distributing our brands in Europe because we believe there is enormous opportunity for growth. Europe's size and demographics are similar to the U.S., where we have built a multi-billion dollar business.

Our decision has proven to be a very good one.

In the first year of our direct ownership of our European business, we have expanded Polo Ralph Lauren distribution by 40% and have achieved strong double-digit gains in both revenues and operating income. To maximize this potential, we realigned our management, enabling Lance Isham to focus on directing Polo's ongoing European and worldwide expansion.

We are excited by these results, in part because they exceeded our initial expectations, and in part because of the tremendous opportunities ahead. We will continue to build on our success by carefully introducing additional brands. And we are studying the retail potential for our Company abroad. Polo Ralph Lauren stores at One New Bond Street in London and on Place de la Madeleine in Paris play an important part in showcasing our finest products. We also have 10 licensed stores throughout Europe that enhance our brand.

We have extended the Polo Ralph Lauren and Polo Jeans Co. brands into many of Europe's most popular shopping venues in Spain, the U.K. and France. Polo Ralph Lauren's boys' brands have performed particularly well, demonstrating the next-generation appeal of our products across continents and cultures.

While our short-term focus remains on Europe, we continue to look long-term toward Asia. In the late 1970s, we entered into a relationship with Seibu Department stores that continues today. We see tremendous potential in this region and plan to refurbish more than 150 Ralph Lauren men's, women's, children's and home collection shop-in-shops in Japan over the next three years. We believe this commitment will be well-rewarded as we expand our brands in other parts of Asia as well.

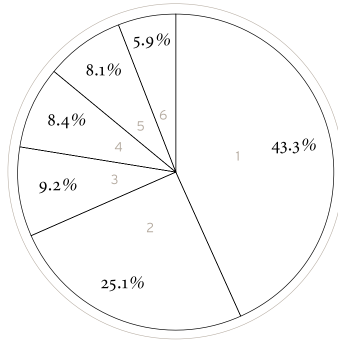
Whether it's growing our brand by category or by geography, we believe we have just begun to tap into the next level of potential for Polo.

POLO RALPH LAUREN IS A BRAND THAT KNOWS NO BOUNDARIES. IT HAS UNIVERSAL APPEAL BECAUSE IT UNDERSTANDS CULTURES AND WHAT IT MEANS TO BE A PART OF THEM.

POLO RALPH LAUREN

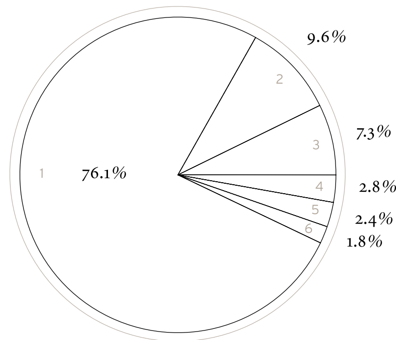
WORLDWIDE WHOLESALE NET SALES

FISCAL 2001 WORLDWIDE WHOLESALE NET SALES OF POLO RALPH LAUREN PRODUCTS[1][2]



1	MEN'S	$ 2,061,425
2	WOMEN'S	1,198,243
3	ACCESSORIES	435,768
4	HOME	402,004
5	FRAGRANCES	385,884
6	CHILDREN'S	281,670
	total	$ 4,764,994

FISCAL 2001 WORLDWIDE WHOLESALE NET SALES BY GEOGRAPHIC LOCATION[1][2]



1	UNITED STATES	$ 3,625,614
2	JAPAN	455,696
3	EUROPE	346,174
4	PACIFIC RIM / KOREA	132,816
5	OTHER (Australia, South America, etc.)	120,477
6	CANADA	84,217
	total	$ 4,764,994

(1) Includes worldwide wholesale net sales of Polo Ralph Lauren products by Polo and its licensees for Fiscal 2001.

(2) Wholesale net sales for products sold by the company's licensing partners have been derived from information obtained from such licensing partners.

OPERATIONAL REVIEW[1]

By all measures, Fiscal 2001 was an outstanding year. We achieved record revenues driven by growing demand for our products. Our revenues increased by 14% to $2.2 billion, compared to $1.96 billion the prior year. We increased our gross profit margin by 90 basis points to 49.6% and expenses were 36.1% as a percentage of net revenues. As a result, our income, as adjusted, rose 16% to $166.5 million, compared to $143.5 million in Fiscal 2000. Earnings per diluted share, as adjusted, rose 18% to $1.71 from $1.45 the prior year.[1]

We drove this performance through our focused business strategy to expand Polo's luxury goods portfolio and global distribution, while maintaining strong control of our operating costs.

Our European operations also performed exceptionally well and we expanded our brands' distribution by 40%. We believe our opportunities for growth remain strong, as we strategically increase the presence of our brands in Europe's luxury marketplace.

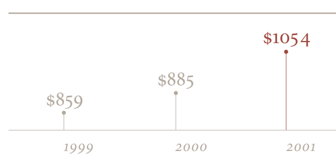
Rapid growth of our men's and women's brands, in both select specialty stores and our own Polo Ralph Lauren stores, epitomize the outstanding performance of our luxury business. The sales of our men's Purple Label, Women's Collection and Black Label businesses grew more than 65% in Fiscal 2001.

Customer demand remained high across all three of our operating businesses — Wholesale, Retail and Licensing. Our multi-channel distribution strategy is one of Polo's core strengths, providing us with both a diversified revenue stream and a powerful platform from which to grow our global brands across a range of lifestyle products.

The domestic and international demand for Polo by Ralph Lauren, Polo Sport and Lauren for Men brands led our sales growth, with each brand building on its respective category leadership. Our Wholesale operation, which markets our products through major department and specialty stores, increased revenues by 19% to $1.1 billion and operating income, as adjusted, by 57% to $127.0 million. This increase reflects the inclusion of our European operations, which we acquired at the end of the last fiscal year.

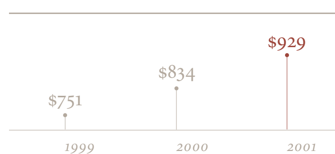
Revenues from our Retail operation rose to $929 million, an 11% increase over last year. Retail operating income grew 6%[2] to $27.7 million. Our strategy to increase the mix of luxury goods in our Polo Ralph Lauren stores proved highly successful during the year, producing strong single-digit comp sale improvements. Sales at Club Monaco — our dynamic, international retail concept — increased in the high single digits for the year. And we believe that we are beginning Fiscal 2002 with the right merchandise strategy and real estate portfolio. The outlet business continues to be affected by a promotional environment at department stores and generally reduced traffic in outlet centers. While we have felt the impact of less traffic on outlet sales, we have managed this business well during the year.

WHOLESALE NET SALES



(Dollars in millions)

RETAIL SALES[3]



(Dollars in millions)

LICENSING REVENUE

(Dollars in millions)

OPERATIONAL REVIEW

During our second quarter, we completed an operational review to enhance our luxury retail business and its profitability, and to support a more efficient corporate infrastructure. As part of this review, we opened Club Monaco stores in key, urban locations and we continued to expand Polo Ralph Lauren stores domestically. We also decided to discontinue our domestic, freestanding Polo Jeans Co. business, choosing instead to market the popular brand solely through department stores and to close several Club Monaco locations in non-profitable markets.

For the year, we increased our Retail square footage by 8%, ending Fiscal 2001 with a total of 229 stores, consisting of 28 Polo brand stores, seven concept stores, 65 Club Monaco stores, 95 full-line outlet stores, 26 Polo Jeans outlet stores and eight European outlet stores.

In addition to expanding our Polo Ralph Lauren stores in Dallas and Beverly Hills during Fiscal 2002, we also plan to open a new, luxury-focused store in Boston.

Our Licensing operation — including apparel and accessories, home and international businesses — continues to be an important part of our Company. While apparel, accessories and international posted single-digit growth, our home business declined due to softness in our licensee's home textile business in department stores. For the year, revenues increased 3% to $243.4 million, while operating income decreased 3% to $145.6 million.

In November 2000, Ralph Lauren Media launched Polo.com, the first luxury, designer, e-commerce destination Web site. Polo.com offers online access to the classic, American Ralph Lauren lifestyle with clothing, accessories, fragrances, vintage items, video entertainment and more. Polo.com, an initiative of Ralph Lauren Media, a joint venture with Polo Ralph Lauren and NBC and certain of its affiliated companies, represents opportunities that increase our ability to reach new customers all over the world.

We successfully implemented these growth initiatives, while we continued to reduce costs through better expense management across all of our businesses. We achieved these cost savings primarily in the second half of Fiscal 2001 and we are continuing to look at additional opportunities for efficiencies that will enable us to accelerate our growth.

As a result of the operational review, we began streamlining our supply chain and many of our business processes to improve our operations. Inventory turns also continued to show improvement, due to better planning in our Wholesale operation and improved merchandising in our Retail operation. Many additional efficiencies, including an increasing number of services shared among our businesses, have already been identified for implementation in Fiscal 2002 and beyond.

Looking ahead, we will focus on expanding our luxury business worldwide, both in our Wholesale and Retail operations, while maintaining disciplined control of costs. We believe Europe will continue to have an important impact on our Company, as will the performance of our Polo Ralph Lauren stores.

(1) This operational review excludes the impact of the restructuring and special charges and foreign currency gains since we believe this information is useful given the significance of our internal operational review. This data should not be considered as an alternative to any measure of performance or liquidity under generally accepted accounting principles. Also, restructuring and special charges may not be comparable to similarly titled measures reported by other companies.
(2) Retail operating income for Fiscal 2000 includes the impact of the $6.7 million pretax charge for the change in accounting for store pre-opening costs.
(3) Retail sales for Fiscal 1999 are presented on a pro forma basis to give effect to the acquisition of Club Monaco as if it had occurred at the beginning of the period.

YEAR TWO THOUSAND ONE

FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis is a summary and should be read together with our consolidated financial statements and related notes which are included in this Annual Report. We use a 52-53 week fiscal year ending on the Saturday nearest March 31. Fiscal 2001 and fiscal 2000 reflect a 52-week period and fiscal 1999 reflects a 53-week period.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report and in future filings by us with the SEC, in our press releases and in oral statements made by or with the approval of authorized personnel constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Some of the factors that would affect our financial performance or cause actual results to differ from our estimates in, or underlying, such forward-looking statements are set forth under the heading of "Risk Factors" in our Annual Report on Form 10-K for fiscal 2001. We urge you to carefully read the following discussion in conjunction with those factors.

OVERVIEW

We began operations in 1968 as a designer and marketer of premium quality men's clothing and sportswear. Since our inception, we have grown through increased sales of existing product lines, the introduction of new brands and products, expansion into international markets, development of our retail operations, and acquisitions. Over the last five years, our net revenues have grown to approximately $2.2 billion in fiscal 2001 from approximately $1.2 billion in fiscal 1997, while income from operations, excluding restructuring and special charges, has grown to approximately $300.3 million in fiscal 2001 from approximately $157.4 million in fiscal 1997. Our net revenues are generated from our three integrated operations: wholesale, retail and licensing. The following table sets forth net revenues for the last five fiscal years:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999	1998	1997
WHOLESALE SALES	$ 1,053,842	$ 885,246	$ 859,498	$ 742,674	$ 671,132
RETAIL SALES	928, 577	833,980	659,352	570,751	379,972
NET SALES	1,982,419	1,719,226	1,518,850	1,313,425	1,051,104
LICENSING REVENUE	243,355	236,302	208,009	167,119	137,113
NET REVENUES	$ 2,225,774	$ 1,955,528	$ 1,726,859	$ 1,480,544	$ 1,188,217

MANAGEMENT'S DISCUSSION AND ANALYSIS

Wholesale net sales result from the sale of our men's and women's apparel to wholesale customers, principally to major department stores, specialty stores and non-company operated Polo stores located throughout the United States and Europe. Net sales for the wholesale division increased to $1.1 billion in fiscal 2001 from $671.1 million in fiscal 1997. This increase is primarily a result of growth in sales of our existing Polo Brands' and Collection Brands' products and the introduction of new brands. Additionally, this expansion reflects the acquisition of the wholesale operations of Poloco in January 2000.

We generate retail sales from our full price Polo stores, outlet stores and Club Monaco stores. Net sales for the retail division have grown to $928.6 million in fiscal 2001 from $380.0 million in fiscal 1997. This increase is primarily a result of our expansion of our existing retail operations and growth through acquisitions. Since the beginning of fiscal 1997, we have added, net of store closings, 32 full price Polo stores, 71 outlet stores and 65 Club Monaco stores. This expansion reflects 21 full price Polo stores acquired in the fiscal 1997 acquisition of the 50% interest we did not own in Polo Retail Corporation, 70 freestanding Club Monaco stores (57 in Canada and 13 in the United States) acquired in fiscal 2000 and seven Polo stores (one flagship and six outlets) acquired in January 2000 in connection with the Poloco transaction. At March 31, 2001, we operated 35 Polo stores, 129 outlet stores and 65 Club Monaco stores.

Licensing revenue consists of royalties paid to us under our agreements with our licensing partners. In fiscal 2001, Product, International and Home Collection licensing alliances accounted for 56.0%, 24.2% and 19.8% of total licensing revenue. Through these alliances, we combine our core skills with the product or geographic competencies of our licensing partners to create and develop specific businesses. The growth of existing and development of new businesses under licensing alliances has resulted in an increase in licensing revenue to $243.4 million in fiscal 2001 from $137.1 million in fiscal 1997.

During our last two fiscal years, we undertook the following:

- In February 2000, we announced the formation of Ralph Lauren Media, LLC, a joint venture between ourselves, and National Broadcasting Company, Inc. and certain of its affiliated companies. We own 50% of this joint venture.
- In January 2000, we completed the acquisition of stock and certain assets of Poloco S.A.S. and certain of its affiliates, which hold licenses to sell our men's and boys' apparel, our men's and women's Polo Jeans apparel, and certain of our accessories in Europe. In addition to acquiring Poloco's wholesale business, we acquired one flagship store in Paris and six outlet stores located in France, the United Kingdom and Austria.
- In 1999, we acquired Club Monaco, Inc. Founded in 1985, Club Monaco is an international specialty retailer of casual apparel and other accessories which are sold under the "Club Monaco" brand name and associated trademarks. In addition, Club Monaco franchises three freestanding stores in Canada, one freestanding store in Israel, four freestanding stores and 15 shop-within-shops in Japan and two freestanding stores and 16 shop-within-shops in Korea and other parts of Asia.

In connection with our growth strategies, we plan to introduce new products and brands and expand our retail operations. Implementation of these strategies may require significant investments for advertising, furniture and fixtures, infrastructure, design and additional inventory. Notwithstanding our investment, we cannot assure you that our growth strategies will be successful.

RESTRUCTURINGS AND SPECIAL CHARGES

Fiscal 2001 Restructuring and Special Charges During fiscal 2001, we completed an internal operational review and formalized our plans to enhance the growth of our worldwide luxury retail business, to better manage inventory and increase our overall profitability. The major initiatives of the operational review included:

- refining our retail strategy;
- developing efficiencies in our supply chain; and
- consolidating corporate business functions and internal processes.

We will continue to refine our retail strategy by expanding the presence of our full-line luxury stores, both in North America and abroad, and by building a profitable portfolio of Club Monaco stores in key urban locations that fully emphasize and capitalize on its fashion-forward merchandising strategy. In connection with this initiative, we closed all 12 Polo Jeans Co. full price retail stores and 11 under-performing Club Monaco retail stores.

Additionally, as a result of changes in market conditions combined with our change in retail strategy in certain locations in which we operate full price retail stores, we performed an evaluation of the recoverability of the assets of certain of these stores. We concluded from the results of this evaluation that a significant permanent impairment of long-lived assets had occurred. Accordingly, we recorded a write down of these assets (primarily leasehold improvements) to their estimated fair value based on discounted future cash flows.

In connection with the implementation of the operational review discussed above, we recorded a pretax restructuring charge of $123.6 million. The major components of the charge included asset write downs of $98.8 million, lease and contract termination costs of $15.7 million, severance and termination benefits of $8.0 million and other restructuring costs of $1.1 million.

Our operational review also targeted our supply chain management as one of the most important areas for improvement. The development of operating efficiencies in our worldwide logistics and supply chain management will better support our growing and increasingly global operations. In connection with initiating this aspect of the operational plan, we recorded $41.5 million of inventory write downs in fiscal 2001 associated with our planned acceleration in the reduction of aged inventory.

Total severance and termination benefits as a result of the operational review related to approximately 550 employees, 450 of whom have been terminated as of March 31, 2001. We expect to complete the implementation of the operational review by the end of the second quarter of fiscal 2002.

Fiscal 1999 Restructuring During the fourth quarter of fiscal 1999, we formalized our plans to streamline operations within our wholesale and retail operations and reduce our overall cost structure. The major initiatives of our restructuring plan included: (i) an evaluation of our retail operations and site locations; (ii) the realignment and operational integration of our wholesale operating units; and (iii) the realignment and consolidation of corporate strategic business functions and internal processes.

In fiscal 2000, we closed three Polo stores and three outlet stores that were not performing at an acceptable level and converted two Polo stores and five outlet stores to new concepts expected to be more productive. Costs associated with this aspect of our restructuring plan included lease and contract termination costs, store fixed asset (primarily leasehold improvements) and intangible asset write downs and severance and termination benefits.

Our wholesale operations were realigned into two new operating units: Polo Brands and Collection Brands. Aspects of this realignment included:

- the reorganization of the sales force and retail development areas;
- the streamlining of the design and development process; and
- the consolidation of the customer service departments.

We also integrated the sourcing and production of our Polo Brands, outlet store and licensees' products into one consolidated unit. Costs associated with the wholesale realignment consisted primarily of severance and termination benefits and lease and contract termination costs.

Our review of our corporate business functions and internal processes resulted in a new management structure designed to better align businesses with similar functions and to identify and eliminate duplicative processes. Costs associated with the corporate realignment consisted primarily of severance and termination benefits and lease and contract termination costs.

We recorded a restructuring charge of $58.6 million on a pretax basis in our fourth quarter of fiscal 1999. The major components of the restructuring charge included lease and contract termination costs of $24.7 million, asset write downs of $17.8 million, severance and termination benefits of $15.3 million and other restructuring costs of $0.8 million. Total severance and termination benefits as a result of our restructuring plan related to approximately 280 employees, all of whom have been terminated. We completed the implementation of our restructuring plan in fiscal 2000.

RESULTS OF OPERATIONS

The table below sets forth the percentage relationship to net revenues of certain items in our statements of income for our last three fiscal years:

FISCAL YEAR:

	2001	2000	1999
NET SALES	89.1%	87.9%	88.0%
LICENSING REVENUE	10.9	12.1	12.0
NET REVENUES	100.0	100.0	100.0
GROSS PROFIT	47.8	48.7	47.6
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	36.9	35.2	35.2
RESTRUCTURING AND SPECIAL CHARGES	5.6	–	3.4
INCOME FROM OPERATIONS	5.3	13.5	9.0
FOREIGN CURRENCY GAINS	0.2	–	–
INTEREST EXPENSE	(1.1)	(0.8)	(0.2)
INCOME BEFORE INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE	4.4%	12.7%	8.8%

FISCAL 2001 COMPARED TO FISCAL 2000

Net Sales Net sales increased 15.3% to $2.0 billion in fiscal 2001 from $1.7 billion in fiscal 2000. Wholesale net sales increased 19.0% to $1.1 billion in fiscal 2001 from $885.2 million in fiscal 2000. Wholesale growth primarily reflected the benefit of one year of operations for Poloco's wholesale division included in operating results for the first time in fiscal 2001 and increased unit sales of our luxury products.

Retail sales increased by 11.3% to $928.6 million in fiscal 2001 from $834.0 million in fiscal 2000. This increase was primarily attributable to a $131.7 million benefit from the following:

- new stores in fiscal 2001 (37 stores, prior to 34 store closures in late fiscal 2001);
- a full year of revenues from new stores opened in fiscal 2000; and
- the inclusion of the results of one flagship and six outlet stores purchased in connection with the acquisition of Poloco.

Although our stores remained highly productive, comparable store sales, which represent net sales of stores open in both reporting periods for the full portion of such periods, decreased by 5.3%. The decline was due to a mature and promotionally driven outlet environment and lower sales in Club Monaco's Canadian stores.

Licensing Revenue Licensing revenue increased 3.0% to $243.4 million in fiscal 2001 from $236.3 million in fiscal 2000. This increase is primarily attributable to increases in sales of existing men's, women's, and children's apparel, accessories and fragrance products. These gains were partially offset by decreases in sales of Home Collection products.

Gross Profit Gross profit as a percentage of net revenues decreased to 47.8% in fiscal 2001 from 48.7% in fiscal 2000. This decrease was mainly attributable to $41.5 million of inventory write downs recorded in fiscal 2001 in connection with the implementation of our operational review and our decision to accelerate the disposition of aged inventory. Excluding these special charges, gross profit as a percentage of net revenues was 49.6%. This improvement reflects increased wholesale gross margins as a result of the acquisition of Poloco, which generates higher margins than our domestic wholesale operations. Additionally, gross profit was favorably impacted by the increase in licensing revenue in fiscal 2001. These improvements were offset by declines in our retail gross margins as we incurred higher markdowns in fiscal 2001.

Selling, General and Administrative Expenses Selling, general and administrative ("SG&A") expenses as a percentage of net revenues increased to 36.9% in fiscal 2001 from 35.2% in fiscal 2000. This increase in SG&A expenses as a percentage of net revenues was primarily due to a charge of $18.1 million recorded in the second quarter of fiscal 2001 relating to nonrecurring charges associated with targeted opportunities for improvement, including the termination of operating contracts, streamlining of certain corporate and operating functions, and employee-related matters. Additionally, SG&A expenses as a percentage of net revenues increased due to an increase in depreciation and amortization expense, start-up costs associated with the expansion of our retail operations and the acquisition of Poloco.

Interest Expense Interest expense increased to $25.1 million in fiscal 2001 from $15.0 million in fiscal 2000. This increase was due to a higher level of borrowings during the current period attributable to the additional financing used for the acquisition of Poloco.

Income Taxes The effective tax rate decreased to 39.5% in fiscal 2001 from 40.8% in fiscal 2000. This decline is primarily a result of the benefit of tax strategies implemented by the Company. We expect to lower our effective tax rate to 38.5% in fiscal 2002 as a result of tax strategies implemented.

FISCAL 2000 COMPARED TO FISCAL 1999

Net Sales Net sales increased 13.2% to $1.7 billion in fiscal 2000 from $1.5 billion in fiscal 1999. Wholesale net sales increased 3.0% to $885.2 million in fiscal 2000 from $859.5 million in fiscal 1999. Wholesale growth primarily reflected increased unit sales of our existing brands and luxury products. These unit increases were partially offset by a decline in average selling prices resulting from changes in product mix.

Retail sales increased by 26.5% to $834.0 million in fiscal 2000 from $659.4 million in fiscal 1999. This increase was primarily attributable to a $209.9 million benefit from the following:

- new store openings in fiscal 2000 (23 stores, net of closures);
- a full year impact of new stores opened in fiscal 1999; and
- the acquisition of 70 Club Monaco stores in the quarter ended July 3, 1999.

Although our stores remained highly productive, comparable store sales, which represent net sales of stores open in both reporting periods for the full portion of such periods, decreased by 4.6%, excluding the unfavorable impact of a 53rd week in fiscal 1999. The decline was due to a promotionally driven retail environment, an inadequate inventory of leading products, and the effects of a mature and challenging outlet store environment.

Licensing Revenue Licensing revenue increased 13.6% to $236.3 million in fiscal 2000 from $208.0 million in fiscal 1999. This increase is primarily attributable to increases in sales of existing licensed products, particularly Lauren, Polo Jeans and Home Collection.

Gross Profit Gross profit as a percentage of net revenues increased to 48.7% in fiscal 2000 from 47.6% in fiscal 1999. This increase was attributable to an increase in retail gross margins due to a higher concentration of retail sales to net revenues in the current period as a result of the acquisition of Club Monaco in fiscal 2000 and lower markdowns taken in fiscal 2000. Retail gross margins were negatively impacted by higher markdowns in fiscal 1999 as we implemented a strategic initiative in our fourth fiscal quarter of 1999 to reduce inventory levels and move excess product. Additionally, gross profit was favorably impacted by the increase in licensing revenue in fiscal 2000. Wholesale gross margins were consistent with prior years.

Selling, General and Administrative Expenses SG&A expenses as a percentage of net revenues was 35.2% in fiscal 2000 and fiscal 1999. Despite increases in depreciation expense from the shop-within-shops development program and start-up costs incurred with the expansion of our retail operations, these expenses, as a percentage of net revenues, were consistent with the prior year period as we were able to achieve expense leveraging from revenue growth in fiscal 2000.

Interest Expense Interest expense increased to $15.0 million in fiscal 2000 from $2.8 million in fiscal 1999. This increase was due to a higher level of borrowings incurred during the current period to fund the acquisitions of Club Monaco and Poloco.

LIQUIDITY AND CAPITAL RESOURCES

Our cash requirements primarily derive from working capital needs, construction and renovation of shop-within-shops, retail expansion and other corporate activities. Our main sources of liquidity are cash flows from operations, credit facilities and other borrowings.

Net cash provided by operating activities decreased to $100.3 million in fiscal 2001 from $242.7 million in fiscal 2000. Net cash provided by operations was negatively impacted by the cash portion of charges recorded in our second quarter of fiscal 2001 in connection with the implementation of our operational review and increases in inventories and accounts receivable due to timing of shipments. Net cash used in investing activities decreased to $182.0 million in fiscal 2001 from $318.3 million in fiscal 2000. The decrease principally reflects the use of funds to acquire Poloco in fiscal 2000. Net cash used by financing activities was $25.9 million in fiscal 2001 as compared to cash provided of $201.6 million in fiscal 2000. This change is primarily due to proceeds received from the Euro offering in fiscal 2000.

In June 1997, we entered into a credit facility with a syndicate of banks which provides for a $225.0 million revolving line of credit available for the issuance of letters of credit, acceptances and direct borrowings and matures on December 31, 2002. Borrowings under the syndicated bank credit facility bear interest, at our option, at a base rate equal to the higher of the Federal Funds rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar rate plus an interest margin.

In March 1999, in connection with our acquisition of Club Monaco, we entered into a $100.0 million senior credit facility with a syndicate of banks consisting of a $20.0 million revolving line of credit and an $80.0 million term loan. The revolving line of credit is available for working capital needs and general corporate purposes and matures on June 30, 2003. The term loan was used to finance the acquisition of all of the outstanding common stock of Club Monaco and to repay indebtedness of Club Monaco. The term loan is also repayable on June 30, 2003. Borrowings under the 1999 syndicated bank credit facility bear interest, at our option, at a base rate equal to the higher of the Federal Funds rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar rate plus an interest margin. In April 1999, we entered into interest rate swap agreements with a notional amount of $100.0 million to convert the variable interest rate on our 1999 senior credit facility to a fixed rate of 5.5%.

The syndicated bank credit facility and our 1999 senior bank credit facility contain customary representations, warranties, covenants and events of default, including covenants regarding maintenance of net worth and leverage ratios, limitations on

indebtedness, loans, investments and incurrences of liens, and restrictions on sales of assets and transactions with affiliates. Additionally, the agreements provide that an event of default will occur if Mr. Ralph Lauren and related entities fail to maintain a specified minimum percentage of the voting power of our common stock.

In November 1999, we issued Euro 275.0 million of 6.125% notes due November 2006. Our Euro debt is listed on the London Stock Exchange. The net proceeds from the Euro offering were $281.5 million based on the Euro exchange rate on the issuance date. Interest on the Euro debt is payable annually. A portion of the net proceeds from the issuance was used to acquire Poloco while the remaining net proceeds were retained for general corporate purposes. We acquired Poloco for an aggregate cash consideration of $209.7 million, plus the assumption of $10.0 million in short-term debt.

During fiscal 2001, we repurchased Euro 27.5 million, or $25.3 million based on Euro exchange rates, of our outstanding Euro debt.

As of March 31, 2001, we had $86.1 million outstanding in direct borrowings, $80.0 million outstanding under the term loan and $217.0 million outstanding in Euro debt based on the year-end Euro exchange rate. We were also contingently liable for $34.2 million in outstanding letters of credit related primarily to commitments for the purchase of inventory. The weighted average interest rate on borrowings at March 31 2001, was 5.9%.

During the second quarter of fiscal 2001, we completed an internal operational review and formalized our plans to enhance the growth of our international luxury retail business, to better manage inventory and to increase our overall profitability. Total cash outlays related to the operational review are expected to be approximately $24.7 million, $16.8 million of which has been paid through March 31, 2001. We expect to settle the remaining liabilities in accordance with contract terms which extend until fiscal 2003. On October 18, 2000, we received consent from our lenders under the credit facilities permitting us to incur the charges we recorded in connection with the operational review (see Note 3 to our consolidated financial statements) up to specified thresholds.

Total cash outlays related to the 1999 restructuring plan are approximately $39.5 million, $33.5 million of which has been paid through March 31, 2001. The remaining obligations approximated $6.0 million at March 31, 2001, and primarily relate to severance and lease termination agreements, which extend until fiscal 2003.

Capital expenditures were $105.2 million in fiscal 2001, $122.0 million in fiscal 2000 and $141.7 million in fiscal 1999. Capital expenditures primarily reflect costs associated with the following:

- the expansion of our distribution facilities;
- the shop-within-shops development program which includes new shops, renovations and expansions;
- the expansion of our retail operations;
- our information systems; and
- other capital projects.

We plan to invest approximately $90.0 million, net of landlord incentives, over the next fiscal year primarily for our retail stores, our European expansion, the shop-within-shops development program, our information systems and other capital projects.

In March 1998, our Board of Directors authorized the repurchase, subject to market conditions, of up to $100.0 million of our Class A common stock. Share repurchases under this plan were made in the open market over the two-year period which commenced April 1, 1998. On March 2, 2000, the Board of Directors authorized a two-year extension of the stock repurchase program. Shares acquired under the repurchase program will be used for stock option programs and for other corporate purposes. As of March 31, 2001, we had repurchased 3,771,806 shares of our Class A common stock at an aggregate cost of $71.2 million.

We extend credit to our customers, including those who have accounted for significant portions of our net revenues. We had three customers, Dillard Department Stores, Inc., Federated Department Stores, Inc. and The May Department Stores Company, who in aggregate constituted approximately 52.0% and 54.0% of trade accounts receivable outstanding at March 31, 2001 and April 1, 2000. Additionally, we had four licensing partners, Jones Apparel Group, Inc., WestPoint Stevens, Inc., Seibu Department Stores, Ltd. and Warnaco, Inc., who in aggregate constituted approximately 53.0%, 58.0% and 55.0% of licensing revenue in fiscal 2001, fiscal 2000 and fiscal 1999. Accordingly, we may have significant exposure in collecting accounts receivable from our wholesale customers and licensees. We have credit policies and procedures which we use to manage our credit risk.

We believe that cash from ongoing operations and funds available under our credit facilities and from our Euro offering will be sufficient to satisfy our current level of operations, the operational review, the restructuring plan, capital requirements, the stock repurchase program and other corporate activities for the next 12 months. We do not currently intend to pay dividends on our common stock in the next 12 months.

SEASONALITY AND QUARTERLY FLUCTUATIONS

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

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). This Statement, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivatives, whether designated in hedging relationships or not, as either assets or liabilities in the statement of financial position, and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative is dependent upon the intended use of the derivative. SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. SFAS No. 133 is effective for our first quarter of fiscal 2002.

We have entered into interest rate swap agreements and forward foreign exchange contracts which qualify as cash flow hedges under SFAS No. 133. In accordance with SFAS No. 133, we will record the fair value of these derivatives at April 1, 2001, and the resulting net unrealized gain, after taxes, of approximately $4.2 million will be recorded in other comprehensive income as a cumulative transition adjustment.

In April 2001, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 00-25, "Vendor Income Statement Characteristics of Consideration Paid to a Reseller of the Vendor's Products" ("EITF No. 00-25"). EITF No. 00-25 concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for our first quarter of fiscal 2003. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in interest rates or foreign currency exchange rates. We manage these exposures through operating and financing activities and, when appropriate, through the use of derivative financial instruments. Our policy allows for the use of derivative financial instruments for identifiable market risk exposures, including interest rate and foreign currency fluctuations. The following quantitative disclosures were derived using quoted market prices and theoretical pricing models obtained through independent pricing sources for the same or similar types of financial instruments, taking into consideration the underlying terms and maturities. The quantitative disclosures discussed below do not represent the maximum possible loss nor any expected loss that may occur since actual results may differ from those estimates.

Foreign Currency Exchange Rates Foreign currency exposures arise from transactions, including firm commitments and anticipated contracts, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues translated into U.S. dollars. From time to time, we hedge exposures to foreign currency exchange rate fluctuations with forward foreign exchange contracts. With respect to foreign operations, substantially all of our foreign subsidiaries operate in their respective functional currencies. Our primary foreign currency exposures relate to our Euro debt and Euro investments. The potential loss in value at March 31, 2001, on our Euro debt and Euro investments based on a hypothetical 10.0% adverse change in the Euro rate would have been $21.7 million and $4.5 million. As of March 31, 2001, a hypothetical immediate 10.0% adverse change in the Euro rate on the Euro debt and Euro investments would have a $1.3 million and $0.2 million unfavorable impact on our earnings and cash flows in fiscal 2002.

Interest Rates Our primary interest rate exposure relates to our fixed and variable rate debt. The fair value of our fixed Euro debt was $217.1 million based on its quoted market price as listed on the London Stock Exchange and using Euro exchange rates in effect as of March 31, 2001. The potential loss in value at March 31, 2001, on our fixed Euro debt based on a hypothetical 10.0% adverse change in the interest rate would have been $21.7 million. At March 31, 2001, the carrying value of amounts outstanding of $166.1 million under our variable debt borrowing arrangements under our bank credit facilities approximated their fair value. We employ an interest rate hedging strategy utilizing swaps to effectively fix a portion of our interest rate exposure on our floating rate financing arrangements. At March 31, 2001, we had interest rate swap agreements with a notional amount of $100.0 million which fixed the interest rate on our variable rate debt at 5.5%. As of March 31, 2001, a hypothetical immediate 10.0% adverse change in interest rates relating to our unhedged portion of our variable rate debt would have a $0.4 million unfavorable impact on our earnings and cash flows in fiscal 2002.

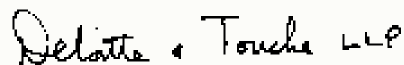
INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF POLO RALPH LAUREN CORPORATION
NEW YORK, NEW YORK

We have audited the accompanying consolidated balance sheets of Polo Ralph Lauren Corporation and subsidiaries as of March 31, 2001 and April 1, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Polo Ralph Lauren Corporation and subsidiaries as of March 31, 2001 and April 1, 2000, and the results of their operations and their cash flows for each of the years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.



DELOITTE & TOUCHE LLP

New York, New York
May 23, 2001

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	MARCH 31, 2001	APRIL 1, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 51,498	$ 164,571
Marketable securities	50,721	–
Accounts receivable, net of allowances of $12,090 and $16,631	269,010	204,447
Inventories	425,594	390,953
Deferred tax assets	31,244	40,378
Prepaid expenses and other	73,654	52,542
TOTAL CURRENT ASSETS	901,721	852,891
PROPERTY AND EQUIPMENT, NET	328,929	372,977
DEFERRED TAX ASSETS	61,056	11,068
GOODWILL, NET	249,391	277,822
OTHER ASSETS, NET	84,996	105,804
	$ 1,626,093	$ 1,620,562
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes and acceptances payable–banks	$ 86,112	$ 86,131
Accounts payable	178,293	151,281
Accrued expenses and other	175,172	168,816
TOTAL CURRENT LIABILITIES	439,577	406,228
LONG-TERM DEBT	296,988	342,707
OTHER NONCURRENT LIABILITIES	80,219	99,190
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
STOCKHOLDERS' EQUITY:		
Common stock		
Class A, par value $.01 per share; 500,000,000 shares authorized: 34,948,730 and 34,381,653 shares issued	349	344
Class B, par value $.01 per share; 100,000,000 shares authorized: 43,280,021 shares issued and outstanding	433	433
Class C, par value $.01 per share; 70,000,000 shares authorized: 22,720,979 shares issued and outstanding	227	227
Additional paid-in-capital	463,001	450,030
Retained earnings	430,047	370,785
Treasury stock, Class A, at cost (3,771,806 and 2,952,677 shares)	(71,179)	(57,346)
Accumulated other comprehensive income	(10,529)	9,655
Unearned compensation	(3,040)	(1,691)
TOTAL STOCKHOLDERS' EQUITY	809,309	772,437
	$ 1,626,093	$ 1,620,562

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

FISCAL YEAR ENDED:

(Dollars in thousands, except share data)	MARCH 31, 2001	APRIL 1, 2000	APRIL 3, 1999
NET SALES	$ 1,982,419	$ 1,719,226	$ 1,518,850
LICENSING REVENUE	243,355	236,302	208,009
NET REVENUES	2,225,774	1,955,528	1,726,859
COST OF GOODS SOLD	1,162,727	1,002,390	904,586
GROSS PROFIT	1,063,047	953,138	822,273
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	822,272	689,227	608,128
RESTRUCTURING CHARGE	123,554	–	58,560
TOTAL EXPENSES	945,826	689,227	666,688
INCOME FROM OPERATIONS	117,221	263,911	155,585
FOREIGN CURRENCY GAINS	5,846	–	–
INTEREST EXPENSE	(25,113)	(15,025)	(2,759)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	97,954	248,886	152,826
PROVISION FOR INCOME TAXES	38,692	101,422	62,276
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	59,262	147,464	90,550
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES	–	3,967	–
NET INCOME	$ 59,262	$ 143,497	$ 90,550
INCOME PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE–BASIC AND DILUTED	$ 0.61	$ 1.49	$ 0.91
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAXES, PER SHARE–BASIC AND DILUTED	–	0.04	–
NET INCOME PER SHARE–BASIC AND DILUTED	$ 0.61	$ 1.45	$ 0.91
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING–BASIC	96,773,282	98,926,993	99,813,328
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING–DILUTED	97,446,482	99,035,781	99,972,152

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock at Cost		Accumulated Other Comprehensive Income	Unearned Compensation	Total
	Shares	Amount			Shares	Amount			
BALANCE AT MARCH 28, 1998	100,273,726	$ 1,003	$ 447,918	$ 136,738	–	$ –	$ –	$ (1,333)	$ 584,326
COMPREHENSIVE INCOME:									
NET INCOME				90,550					
TOTAL COMPREHENSIVE INCOME									90,550
EXERCISE OF STOCK OPTIONS	4,352		113						113
REPURCHASES OF COMMON STOCK					603,864	(16,084)			(16,084)
RESTRICTED STOCK GRANTS	104,575	1	1,999					(2,000)	–
BALANCE AT APRIL 3, 1999	100,382,653	$ 1,004	$ 450,030	$ 227,288	603,864	$ (16,084)	$ –	$ (3,333)	$ 658,905
COMPREHENSIVE INCOME:									
NET INCOME				143,497					
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS, NET OF INCOME TAXES OF $6.2 MILLION							9,655		
TOTAL COMPREHENSIVE INCOME									153,152
REPURCHASES OF COMMON STOCK					2,348,813	(41,262)			(41,262)
RESTRICTED STOCK AMORTIZATION								1,642	1,642
BALANCE AT APRIL 1, 2000	100,382,653	$ 1,004	$ 450,030	$ 370,785	2,952,677	$ (57,346)	$ 9,655	$ (1,691)	$ 772,437
COMPREHENSIVE INCOME:									
NET INCOME				59,262					
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS, NET OF INCOME TAX BENEFIT OF $13.2 MILLION							(20,184)		
TOTAL COMPREHENSIVE INCOME									39,078
REPURCHASES OF COMMON STOCK					819,129	(13,833)			(13,833)
EXERCISE OF STOCK OPTIONS	448,778	4	10,293						10,297
INCOME TAX BENEFIT FROM STOCK OPTION EXERCISES			679						679
RESTRICTED STOCK GRANTS	118,299	1	1,999					(2,000)	–
RESTRICTED STOCK AMORTIZATION								651	651
BALANCE AT MARCH 31, 2001	100,949,730	$ 1,009	$ 463,001	$ 430,047	3,771,806	$ (71,179)	$ (10,529)	$ (3,040)	$ 809,309

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEAR ENDED: (Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000	APRIL 3, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	$ 59,262	$ 143,497	$ 90,550
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
(Benefit from) provision for deferred income taxes	(23,430)	6,761	(25,771)
Depreciation and amortization	78,599	66,280	46,414
Cumulative effect of change in accounting principle	–	3,967	–
Provision for losses on accounts receivable	547	2,734	1,060
Changes in deferred liabilities	(27,989)	3,155	(4,782)
Provision for restructuring	98,836	–	19,040
Foreign currency gains	(5,846)	–	–
Other	(9,885)	4,770	2,073
Changes in assets and liabilities, net of acquisitions			
Accounts receivable	(68,968)	(32,746)	(9,542)
Inventories	(44,626)	53,325	(76,396)
Prepaid expenses and other	(22,967)	1,216	(25,526)
Other assets	8,042	(9,801)	(9,095)
Accounts payable	30,683	31,281	(13,452)
Accrued expenses and other	28,028	(31,750)	43,950
NET CASH PROVIDED BY OPERATING ACTIVITIES	100,286	242,689	38,523
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment, net	(105,170)	(122,010)	(141,692)
Investments in marketable securities	(50,721)	–	–
Acquisitions, net of cash acquired	(20,929)	(235,144)	(6,981)
Proceeds from (payments of) restricted cash for Club Monaco acquisition	–	44,217	(44,217)
Cash surrender value–officers' life insurance	(5,152)	(5,385)	(3,339)
NET CASH USED IN INVESTING ACTIVITIES	(181,972)	(318,322)	(196,229)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchases of common stock	(13,833)	(41,262)	(16,084)
Proceeds from issuance of common stock	10,297	–	113
Proceeds from (repayments of) short-term borrowings, net	2,939	(39,400)	115,500
Repayments of long-term debt	(25,289)	(37,358)	(337)
Proceeds from long-term debt	–	319,610	44,217
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(25,886)	201,590	143,409
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,501)	(5,844)	–
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(113,073)	120,113	(14,297)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	164,571	44,458	58,755
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 51,498	$ 164,571	$ 44,458
SUPPLEMENTAL CASH FLOW INFORMATION:			
CASH PAID FOR INTEREST	$ 25,318	$ 7,713	$ 2,776
CASH PAID FOR INCOME TAXES	$ 72,599	$ 112,202	$ 77,877
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
FAIR VALUE OF ASSETS ACQUIRED, EXCLUDING CASH		$ 398,737	$ 14,868
LESS:			
Cash paid		235,144	6,981
Acquisition obligation		21,637	–
Promissory notes issued		–	5,000
LIABILITIES ASSUMED		$ 141,956	$ 2,887

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ORGANIZATION

(a) Basis of Presentation Polo Ralph Lauren Corporation ("PRLC") was incorporated in Delaware in March 1997. The consolidated financial statements include the accounts of PRLC and its wholly and majority owned subsidiaries. All intercompany balances and transactions have been eliminated. PRLC and its subsidiaries are collectively referred to herein as "we," "us," "our" and "ourselves."

We have included the December 31, 2000 consolidated balance sheet and January 6, 2000 combined balance sheet of Poloco (as defined), our wholly owned subsidiary, in the accompanying March 31, 2001 and April 1, 2000, consolidated balance sheets. We also have consolidated the results of operations of Poloco for the year ended December 31, 2000, in the March 31, 2001 consolidated statements of income, stockholders' equity and cash flows.

(b) Acquisition and Joint Venture On February 7, 2000, we announced the formation of Ralph Lauren Media, LLC ("RL Media"), a joint venture between National Broadcasting Company, Inc. and certain affiliated companies ("NBC") and ourselves. RL Media was created to bring our American lifestyle experience to consumers via multiple media platforms, including the Internet, broadcast, cable and print. Under the 30-year joint venture agreement, RL Media will be owned 50% by us and 50% by NBC. In exchange for a 50% interest, we will provide marketing through our annual print advertising campaign, make our merchandise available at initial cost of inventory and sell RL Media's excess inventory through our outlet stores, among other things. NBC will contribute $110.0 million of television and online advertising. NBC will also contribute $40.0 million in online distribution and promotion and a cash funding commitment up to $50.0 million. Under the terms of the joint venture agreement, for tax purposes, we will not absorb any losses from the joint venture up to the first $50.0 million incurred and will share proportionately in the net income or losses thereafter. Additionally, we will receive a royalty on the sale of our products by RL Media based on specified percentages of net sales over a predetermined threshold, subject to certain limitations; to date, no such royalty income has been recognized. RL Media's managing board will have equal representation from NBC and us. The joint venture has been accounted for under the equity method from the effective date of its formation. We have not recognized any losses in excess of our financial basis.

On January 6, 2000, we completed the acquisition of stock and certain assets of Poloco S.A.S. and certain of its affiliates ("Poloco"), which hold licenses to sell our men's and boys' apparel, our men's and women's Polo Jeans apparel, and certain of our accessories in Europe. In addition to acquiring Poloco's wholesale business, we acquired one flagship store in Paris and six outlet stores located in France, the United Kingdom and Austria. We acquired Poloco for an aggregate cash consideration of $209.7 million, plus the assumption of $10.0 million in short-term debt. We used a portion of the net proceeds from the Eurobond Offering (as defined) to finance this acquisition. During the quarter ended July 1, 2000, the final 10% of the acquisition price for Poloco in the amount of $20.9 million was distributed in accordance with the terms of the agreement. This acquisition has been accounted for as a purchase. The purchase price has been allocated based upon the fair values of the net assets acquired at the date of acquisition. This allocation resulted in an excess of purchase price over the estimated fair value of net assets acquired of $198.3 million, which has been recorded as goodwill and is being amortized on a straight-line basis over an estimated useful life of 40 years.

The following table sets forth unaudited pro forma combined statement of income information for fiscal 2000 had the acquisition of Poloco occurred at the beginning of the period:

FISCAL YEAR:

(Dollars in thousands, except per share data)	2000 (UNAUDITED)
PRO FORMA NET REVENUES	$ 2,135,736
PRO FORMA NET INCOME	162,398
PRO FORMA NET INCOME PER SHARE–BASIC AND DILUTED	$ 1.64

The unaudited pro forma information above has been prepared for comparative purposes only and includes certain adjustments to our historical statements of income, such as additional amortization as a result of goodwill and increased interest expense on acquisition debt. The results do not purport to be indicative of the results of operations that would have resulted had the acquisition occurred at the beginning of the period, or of future results of operations of the consolidated entities.

On April 6, 1999, PRL Acquisition Corp., a Nova Scotia unlimited liability corporation and our wholly owned subsidiary, acquired, through a tender offer, 98.83% of the outstanding shares of Club Monaco Inc. ("Club Monaco"), a corporation organized under the laws of the Province of Ontario, Canada. On May 3, 1999, PRL Acquisition Corp. acquired the remaining outstanding 1.17% shares pursuant to a statutory compulsory acquisition. The total purchase price was $51.0 million in cash based on foreign exchange rates in effect on the dates indicated. We used funds from our credit facility to finance this acquisition and to repay in full assumed debt of Club Monaco of $35.0 million. We have accounted for this acquisition as a purchase and have consolidated the operations of Club Monaco in the accompanying financial statements from the effective date of the transaction. The purchase price has been allocated based upon the fair values of the net assets acquired at the date of the acquisition. This allocation resulted in an excess of purchase price over the estimated fair value of net assets acquired of $44.5 million, which has been recorded as goodwill and is being amortized on a straight-line basis over an estimated useful life of 40 years.

(c) Business We design, license, contract for the manufacture of, market and distribute men's and women's apparel, accessories, fragrances, skin care products and home furnishings. Our sales are principally to major department and specialty stores located throughout the United States and Europe. We also sell directly to consumers through full price, flagship, outlet and Club Monaco stores located throughout the United States, Canada, Europe, Great Britain and Asia.

We are party to licensing agreements which grant the licensee exclusive rights to use our various trademarks in connection with the manufacture and sale of designated products in specified geographical areas. The license agreements typically provide for designated terms with renewal options based on achievement of specified sales targets. The agreements also require that certain minimum amounts be spent on advertising for licensed products. Additionally, as part of the licensing arrangements, each licensee is typically required to enter into a design services agreement pursuant to which design and other creative services are provided. The license and design services agreements provide for payments based on specified percentages of net sales of licensed products. Additionally, we have granted royalty-free licenses to independent parties to operate Polo stores to promote the sale of our merchandise and our licensees' merchandise both domestically and internationally.

A significant amount of our products are produced in the Far East, through arrangements with independent contractors. As a result, our operations could be adversely affected by political instability resulting in the disruption of trade from the countries in which these contractors are located, by the imposition of additional duties or regulations relating to imports, by the contractors' inability to meet our production requirements or by other factors.

2. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year Our fiscal year ends on the Saturday nearest to March 31. All references to "2001," "2000" and "1999" represent the 52- or 53-week fiscal years ended March 31, 2001, April 1, 2000 and April 3, 1999. Fiscal 2001 and 2000 reflect a 52-week period and fiscal 1999 reflects a 53-week period.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates embodied in the consolidated financial statements include reserves for accounts receivable, inventories and restructuring.

Cash and Cash Equivalents Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

Marketable Securities We determine the appropriate classification of our investments in debt securities at the time of purchase and reevaluate such determinations at each balance sheet date. At March 31, 2001, we had invested in debt securities which we do not intend to hold to maturity. Accordingly, these investments are classified as available-for-sale securities and are carried at fair value, with the unrealized gains and losses, net of income taxes, reported in stockholders' equity. The amortized cost of available-for-sale securities approximated their fair value at March 31, 2001. Gross realized gains and losses on sales of available-for-sale securities were not material.

Our investments in debt securities are diversified among high-credit quality securities in accordance with our risk management policy. The following is a summary of our investments in available-for-sale marketable securities at March 31, 2001:

(Dollars in thousands)	MARCH 31, 2001
CORPORATE DEBT SECURITIES	$ 18,462
COMMERCIAL PAPER	9,584
MONEY MARKET FUNDS	22,675
	$ 50,721

The contractual maturities of debt securities at March 31, 2001, are as follows: $44.6 million due in one year or less and $6.1 million due between one and two years. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

Inventories Inventories are valued at the lower of cost (first-in, first-out ("FIFO") method) or market. Effective April 4, 1999, we changed our method of valuing our retail inventories from the retail method to the FIFO method. The impact of this change was not material.

Store Pre-opening Costs Effective April 4, 1999, we adopted the provisions of Statement of Position No. 98-5 ("SOP No. 98-5"), "Reporting on the Costs of Start-up Activities." SOP No. 98-5 requires that costs of start-up activities, including store pre-opening costs, be expensed as incurred. Prior to the adoption of SOP No. 98-5, our accounting policy was to capitalize store pre-opening costs as prepaid expenses and amortize such costs over a 12-month period following store opening. As a result of adopting SOP No. 98-5, we recorded a charge of $4.0 million, after taxes, in fiscal 2000 as the cumulative effect of a change in accounting principle in the accompanying consolidated financial statements.

Property, Equipment, Depreciation and Amortization Property and equipment are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the related assets on a straight-line basis. The range of useful lives is as follows: buildings—37.5 years; furniture and fixtures and machinery and equipment—3 to 10 years. Leasehold improvements are amortized using the straight-line method over the lesser of the term of the related lease or the estimated useful life (up to 28 years). Major additions and betterments are capitalized, and repairs and maintenance are charged to operations in the period incurred. Additionally, we capitalize our share of the cost of constructing shop-within-shops under agreements with retailers and amortize such costs using the straight-line method over their estimated useful lives of 3 to 5 years.

Goodwill Goodwill represents the excess of purchase cost over the fair value of net assets of businesses acquired. We amortize goodwill on a straight-line basis over its estimated useful life, ranging from 11 to 40 years. Amortization expense was $8.0 million, $3.7 million and $1.6 million in fiscal 2001, 2000 and 1999. Accumulated amortization was $13.9 million and $5.9 million at March 31, 2001 and April 1, 2000.

Impairment of Long-Lived and Intangible Assets We assess the carrying value of long-lived and intangible assets, including unamortized goodwill, as current facts and circumstances indicate that they may be impaired. In evaluating the fair value and future benefits of such assets, we perform an analysis of the anticipated undiscounted future net cash flows of the individual assets over the remaining amortization period and would recognize an impairment loss if the carrying value exceeded the expected future cash flows. The impairment loss would be measured based upon the difference between the fair value of the asset and its recorded carrying value. See Note 3 for long-lived and intangible asset write downs recorded in connection with our fiscal 2001 Operational Plan (as defined - see Note 3) and fiscal 1999 Restructuring Plan (as defined - see Note 3).

Officers' Life Insurance We maintain key man life insurance policies on several of our senior executives, the majority of which contain split dollar arrangements. The key man policies are recorded at their cash surrender value, while the policies with split dollar arrangements are recorded at the lesser of their cash surrender value or premiums paid. Amounts recorded under these policies aggregated $42.0 million and $36.9 million at March 31, 2001 and April 1, 2000, and are included in other assets in the accompanying consolidated balance sheets.

Revenue Recognition Sales are recognized upon shipment of products to customers since title passes upon shipment and, in the case of sales by our retail and outlet stores, when goods are sold to consumers. Allowances for estimated uncollectible accounts and discounts are provided when sales are recorded. Licensing revenue is recognized based upon shipment of licensed products sold by our licensees, net of allowances.

Advertising We expense the production costs of advertising, marketing and public relations expenses upon the first showing of the related advertisement. Total advertising expenses, including cooperative advertising, amounted to $88.8 million, $73.6 million and $76.2 million in fiscal 2001, 2000 and 1999.

Income Taxes We account for income taxes under the liability method. Deferred tax assets and liabilities are recognized based on differences between financial statement and tax bases of assets and liabilities using presently enacted tax rates. A valuation allowance is recorded to reduce a deferred tax asset to that portion which is expected to more likely than not be realized.

Deferred Rent Obligations We account for rent expense under noncancelable operating leases with scheduled rent increases and landlord incentives on a straight-line basis over the lease term. The excess of straight-line rent expense over scheduled payment amounts and landlord incentives is recorded as a deferred liability. Unamortized deferred rent obligations amounted to $46.8 million and $52.9 million at March 31, 2001 and April 1, 2000, and are included in accrued expenses and other, and other noncurrent liabilities in the accompanying consolidated balance sheets.

Foreign Currency Transactions and Translations The financial position and results of operations of our foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities are translated at the exchange rate in effect at each year end. Results of operations are translated at the average rate of exchange prevailing throughout the period. Translation adjustments arising from differences in exchange rates from period to period are included in other comprehensive income, net of taxes, except for certain foreign-denominated debt. We have designated a portion of our Eurobond (as defined - See Note 7) debt as a hedge of our net investment in a foreign subsidiary. Transaction gains or losses on the unhedged portion resulting from changes in the euro rate are recorded in income and amounted to $5.8 million in fiscal 2001. Gains and losses from other foreign currency transactions are included in operating results and were not material.

Financial Instruments We, from time to time, use derivative financial instruments to reduce our exposure to changes in foreign exchange and interest rates. While these instruments are subject to risk of loss from changes in exchange or interest rates, those losses generally would be offset by gains on the related exposure.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). This Statement, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivatives, whether designated in hedging relationships or not, as either assets or liabilities in the statement of financial position, and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative is dependent upon the intended use of the derivative. SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings. SFAS No. 133 is effective for our first quarter of our fiscal year ending March 30, 2002.

As described further in Note 9, we have entered into interest rate swap agreements and forward foreign exchange contracts which qualify as cash flow hedges under SFAS No. 133. In accordance with SFAS No. 133, we will record the fair value of these derivatives at April 1, 2001 and the resulting net unrealized gain, after taxes, of approximately $4.2 million will be recorded in other comprehensive income as a cumulative transition adjustment.

Stock Options We use the intrinsic value method to account for stock-based compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and have adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Comprehensive Income Other comprehensive income consists of foreign currency translation adjustments, net of taxes, and is reflected in the consolidated statements of stockholders' equity.

Shipping and Handling Costs We reflect shipping and handling costs as a component of selling, general and administrative expenses in the consolidated statements of income. These costs approximated 2.0% of net sales in each of the fiscal years presented. We bill our wholesale customers for shipping and handling costs and record such revenues in net sales upon shipment.

Net Income per Share Basic net income per share was calculated by dividing net income by the weighted average number of shares outstanding during the period, excluding any potential dilution. Diluted net income per share was calculated similarly but includes potential dilution from the exercise of stock options and awards. The difference between the basic and diluted weighted average shares outstanding is due to the dilutive effect of stock options and restricted stock awards issued under our stock option plans.

Recent Accounting Pronouncements In April 2001, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 00-25, "Vendor Income Statement Characteristics of Consideration Paid to a Reseller of the Vendor's Products" ("EITF No. 00-25"). EITF No. 00-25 concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for our first quarter in the year ending March 29, 2003. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

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

3. RESTRUCTURING AND SPECIAL CHARGES

(a) 2001 Operational Plan During the second quarter of fiscal 2001, we completed an internal operational review and formalized our plans to enhance the growth of our worldwide luxury retail business, to better manage inventory and to increase our overall profitability (the "Operational Plan"). The major initiatives of the Operational Plan included: refining our retail strategy; developing efficiencies in our supply chain; and consolidating corporate strategic business functions and internal processes.

In connection with refining our retail strategy, we closed all 12 Polo Jeans Co. full-price retail stores and 11 under-performing Club Monaco retail stores. Costs associated with this aspect of the Operational Plan included lease and contract termination costs, store fixed asset write downs (primarily leasehold improvements of $21.5 million) and severance and termination benefits.

Additionally, as a result of changes in market conditions combined with our change in retail strategy in certain locations in which we operate full-price retail stores, we performed an evaluation of the recoverability of the assets of certain of these stores in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." We concluded from the results of this evaluation that a significant permanent impairment of long-lived assets had occurred. Accordingly, we recorded a write down of these assets (primarily leasehold improvements) to their estimated fair value based on discounted future cash flows.

In connection with the implementation of the Operational Plan, we recorded a pretax restructuring charge of $128.6 million in our second quarter of fiscal 2001. After extensive review of the Operational Plan, and changes in business conditions in certain markets in which we operate, we made an adjustment to the Operational Plan in our fourth quarter of fiscal 2001. We recorded a $5.0 million reduction of the liability for lease and contract termination costs resulting from the overestimation of costs associated with the closure of our retail stores due to market conditions that were more favorable than originally estimated. The major components of the charge and the activity through March 31, 2001, were as follows:

(Dollars in thousands)	SEVERANCE AND TERMINATION BENEFITS	ASSET WRITE DOWNS	LEASE AND CONTRACT TERMINATION COSTS	OTHER COSTS	TOTAL
2001 PROVISION	$ 7,947	$ 98,835	$ 15,638	$ 1,134	$ 123,554
2001 ACTIVITY	(5,005)	(98,835)	(11,469)	(352)	(115,661)
BALANCE AT MARCH 31, 2001	$ 2,942	$ –	$ 4,169	$ 782	$ 7,893

Our operational review also targeted our supply chain management as one of the most important areas for improvement. In connection with initiating this aspect of the Operational Plan, we recorded $37.9 million of inventory write downs in our second quarter of fiscal year 2001 associated with our planned acceleration in the reduction of aged inventory. In the fourth quarter of fiscal 2001, we determined that the original provision was not sufficient and recorded additional inventory write downs of $3.6 million. These charges are reflected in cost of goods sold in the accompanying consolidated statement of income.

Our Operational Plan also included the consolidation of certain corporate strategic business functions and internal processes. Costs associated with this aspect of the plan included the termination of operating contracts, streamlining of certain corporate and operating functions, and employee related matters. These costs aggregated $18.1 million and are included in selling, general and administrative expenses in the accompanying consolidated statement of income.

Total severance and termination benefits as a result of the Operational Plan related to approximately 550 employees, 450 of whom have been terminated as of March 31, 2001. Total cash outlays related to the Operational Plan are expected to be approximately $24.7 million, $16.8 million of which have been paid to date. We expect to complete the implementation of the Operational Plan by the end of our second quarter of fiscal 2002 and expect to settle the remaining liabilities in accordance with contract terms which extend until fiscal 2003.

(b) 1999 Restructuring Plan During the fourth quarter of fiscal 1999, we formalized our plans to streamline operations within our wholesale and retail operations and reduce our overall cost structure (the "Restructuring Plan"). The major initiatives of the Restructuring Plan included the following: an evaluation of our retail operations and site locations; the realignment and operational integration of our wholesale operating units; and the realignment and consolidation of corporate strategic business functions and internal processes.

In an effort to improve the overall profitability of our retail operations, we closed three Polo stores and three outlet stores that were not performing at an acceptable level. Additionally, we converted two Polo stores and five outlet stores to new concepts expected to be more productive. Costs associated with this aspect of the Restructuring Plan included lease and contract termination costs, store fixed asset (primarily leasehold improvements) and intangible asset write downs and severance and termination benefits.

Our wholesale operations were realigned into two new operating units: Polo Brands and Collection Brands. Aspects of this realignment included: (i) the reorganization of the sales force and retail development areas; (ii) the streamlining of the design and development process; and (iii) the consolidation of the customer service departments. Additionally, we integrated the sourcing and production of our Polo Brands, outlet store and licensees' products into one consolidated unit. Costs associated with the wholesale realignment consisted primarily of severance and termination benefits and lease termination costs. Our review of our corporate business functions and internal processes resulted in a new management structure designed to better align businesses with similar functions and to identify and eliminate duplicative processes. Costs associated with the corporate realignment consisted primarily of severance and termination benefits and lease and contract termination costs.

In connection with the implementation of the Restructuring Plan, we recorded a pretax restructuring charge of $58.6 million in our fourth quarter of fiscal 1999. The major components of the restructuring charge and the activity through March 31, 2001, were as follows:

(Dollars in thousands)	SEVERANCE AND TERMINATION BENEFITS	ASSET WRITE DOWNS	LEASE AND CONTRACT TERMINATION COSTS	OTHER COSTS	TOTAL
1999 PROVISION	$ 15,277	$ 17,788	$ 24,665	$ 830	$ 58,560
1999 ACTIVITY	(3,318)	(17,788)	(1,112)	(105)	(22,323)
BALANCE AT APRIL 3, 1999	$ 11,959	$ –	$ 23,553	$ 725	$ 36,237
2000 ACTIVITY	(4,694)	–	(18,675)	(585)	(23,954)
BALANCE AT APRIL 1, 2000	$ 7,265	$ –	$ 4,878	$ 140	$ 12,283
2001 ACTIVITY	(3,019)	–	(3,131)	(140)	(6,290)
BALANCE AT MARCH 31, 2001	$ 4,246	$ –	$ 1,747	$ –	$ 5,993

After extensive review of the Restructuring Plan, and changes in business conditions in certain markets in which we operate, we made adjustments to the Restructuring Plan and incurred other restructuring related costs in fiscal 2000. These adjustments included the following: (i) a $0.9 million reduction of the liability for lease and contract termination costs resulting from the overestimation of costs associated with the closure and conversion of our retail stores due to improved market conditions; and (ii) a $0.9 million charge for the underestimation of severance and termination benefits recorded in the Restructuring Plan. The above adjustments had no net impact.

Total severance and termination benefits as a result of the Restructuring Plan related to 280 employees, all of whom have been terminated. Total cash outlays related to the Restructuring Plan are approximately $39.5 million, $33.5 million of which have been paid to date. We completed the implementation of the Restructuring Plan in fiscal 2000 and expect to settle the remaining liabilities in accordance with contract terms which extend until fiscal 2003.

4. INVENTORIES

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000
RAW MATERIALS	$ 7,024	$ 13,649
WORK-IN-PROCESS	6,251	6,337
FINISHED GOODS	412,319	370,967
	$ 425,594	$ 390,953

5. PROPERTY AND EQUIPMENT

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000
LAND AND IMPROVEMENTS	$ 3,408	$ 3,108
BUILDINGS	10,178	10,178
FURNITURE AND FIXTURES	229,824	192,444
MACHINERY AND EQUIPMENT	56,833	49,807
LEASEHOLD IMPROVEMENTS	304,681	350,367
	604,924	605,904
LESS: ACCUMULATED DEPRECIATION AND AMORTIZATION	275,995	232,927
	$ 328,929	$ 372,977

6. ACCRUED EXPENSES AND OTHER

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000
ACCRUED OPERATING EXPENSES	$ 108,441	$ 90,467
ACCRUED PAYROLL AND BENEFITS	37,760	26,621
ACCRUED RESTRUCTURING CHARGE	13,886	12,283
ACCRUED ACQUISITION OBLIGATION	–	21,637
ACCRUED SHOP-WITHIN-SHOPS	15,085	17,808
	$ 175,172	$ 168,816

7. FINANCING AGREEMENTS

On June 9, 1997, we entered into a credit facility with a syndicate of banks which consists of a $225.0 million revolving line of credit available for the issuance of letters of credit, acceptances and direct borrowings and matures on December 31, 2002 (the "Credit Facility"). Borrowings under the Credit Facility bear interest, at our option, at a Base Rate equal to the higher of the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar Rate plus an interest margin.

On March 30, 1999, in connection with our acquisition of Club Monaco, we entered into a $100.0 million senior credit facility (the "1999 Credit Facility") with a syndicate of banks consisting of a $20.0 million revolving line of credit and an $80.0 million term loan (the "Term Loan"). The revolving line of credit is available for working capital needs and general corporate purposes and matures on June 30, 2003. The Term Loan was used to finance the acquisition of the stock of Club Monaco and to repay existing indebtedness of Club Monaco. The Term Loan is repayable on June 30, 2003. Borrowings under the 1999 Credit Facility bear interest, at our option, at a Base Rate equal to the higher of the Federal Funds Rate, as published by the Federal Reserve Bank of New York, plus 1/2 of one percent, and the prime commercial lending rate of The Chase Manhattan Bank in effect from time to time, or at the Eurodollar Rate plus an interest margin. In April 1999, we entered into interest rate swap agreements with a notional amount of $100.0 million to convert the variable interest rate on the 1999 Credit Facility to a fixed rate of 5.5% (see Note 9).

The Credit Facility and 1999 Credit Facility (the "Credit Facilities") contain customary representations, warranties, covenants and events of default, including covenants regarding maintenance of net worth and leverage ratios, limitations on indebtedness, loans, investments and incurrences of liens, and restrictions on sales of assets and transactions with affiliates. Additionally, the agreements provide that an event of default will occur if Mr. Lauren and related entities fail to maintain a specified minimum percentage of the voting power of our common stock. On October 18, 2000, we received consent from our lenders under the Credit Facilities permitting us to incur the charges we recorded in connection with the Operational Plan (see Note 3) up to specified thresholds.

On November 22, 1999, we issued Euro 275.0 million of 6.125 percent Notes (the "Eurobonds") due November 2006 (the "Eurobond Offering"). The Eurobonds are listed on the London Stock Exchange. The net proceeds from the Eurobond Offering were $281.5 million based on the Euro exchange rate on the issuance date. A portion of the net proceeds from the issuance was used to finance the acquisition of stock and certain assets of Poloco while the remaining net proceeds were retained for general corporate purposes. Interest on the Eurobonds is payable annually. During fiscal 2001, we repurchased 27.5 million of our outstanding Eurobonds, or $25.3 million based on Euro exchange rates. The loss on this early extinguishment of debt was not material.

As discussed in Note 2 (b), in connection with the Poloco acquisition, the Company assumed borrowings under short-term facilities which represent overdraft positions on bank accounts. These borrowings bore interest at .5% to 1.0% over the Euro Overnight Indexed Average which was 5.16% and 3.75% at March 31, 2001 and April 1, 2000.

At March 31, 2001, we had $86.1 million outstanding in direct borrowings, $80.0 million outstanding under the Term Loan and $217.0 million outstanding in Eurobonds based on the year-end Euro exchange rate. We were also contingently liable for $34.2 million in outstanding letters of credit related primarily to commitments for the purchase of inventory. At April 1, 2000, we had $86.1 million outstanding in direct borrowings, $80.0 million outstanding under the Term Loan and $262.7 million outstanding in Eurobonds based on the year-end Euro exchange rate. The Credit Facilities bore interest primarily at the institution's prime rate (ranging from 5.9% to 8.5% at March 31, 2001 and 6.9% to 9.0% at April 1, 2000). The weighted average interest rate on borrowings was 6.3%, 6.1% and 7.4% in fiscal 2001, 2000 and 1999.

8. INCOME TAXES

The components of the provision for income taxes were as follows:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999
CURRENT:			
FEDERAL	$ 27,984	$ 71,565	$ 68,012
STATE AND LOCAL	21,605	17,398	15,080
FOREIGN	12,533	5,698	4,955
	62,122	94,661	88,047
DEFERRED:			
FEDERAL	(11,689)	4,527	(19,654)
STATE AND LOCAL	(11,741)	2,234	(6,117)
	(23,430)	6,761	(25,771)
	$ 38,692	$ 101,422	$ 62,276

The foreign and domestic components of income (loss) before income taxes were as follows:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999
DOMESTIC	$ 127,071	$ 215,270	$ 102,644
FOREIGN	(29,117)	33,616	50,182
	$ 97,954	$ 248,886	$ 152,826

The deferred tax assets reflect the net tax effect of temporary differences, primarily net operating loss carryforwards, property and equipment, and accounts receivable, between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. The components of the net deferred tax assets at March 31, 2001 and April 1, 2000, were as follows:

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000
DEFERRED TAX ASSETS:		
NET OPERATING LOSS CARRYFORWARDS	$ 30,651	$ 15,602
PROPERTY AND EQUIPMENT	27,622	1,082
ACCOUNTS RECEIVABLE	14,785	20,353
UNIFORM INVENTORY CAPITALIZATION	8,217	7,945
DEFERRED COMPENSATION	6,628	6,778
RESTRUCTURING RESERVES	5,106	4,709
TRADEMARK EXPENSES	4,473	2,924
ACCRUED EXPENSES	2,057	3,327
ACCRUED ROYALTY INCOME	1,941	3,519
OTHER	13,246	2,569
	114,726	68,808
LESS: VALUATION ALLOWANCE	22,426	17,362
	$ 92,300	$ 51,446

We have available Federal net operating loss carryforwards of approximately $17.2 million and state net operating loss carryforwards of approximately $202.2 million for tax purposes to offset future taxable income. The net operating loss carryforwards expire beginning in fiscal 2004. The utilization of the Federal net operating loss carryforwards is subject to the limitations of Internal Revenue Code Section 382 which applies following certain changes in ownership of the entity generating the loss carryforward. As a result of the limitation of Section 382, we believe that approximately $3.2 million of the federal net operating loss carryforwards will expire and not be utilized. A valuation allowance has been recorded against such net operating losses.

Also, we have available additional state and foreign net operating loss carryforwards of approximately $15.0 million and $20.4 million for which no net deferred tax asset has been recognized. A full valuation allowance has been recorded since we do not believe that we will more likely than not be able to utilize these carryforwards to offset future taxable income. Subsequent recognition of a substantial portion of the deferred tax asset relating to these Federal, state and foreign net operating loss carryforwards would result in a reduction of goodwill recorded in connection with acquisitions. Additionally, we have recorded a valuation allowance against certain other deferred tax assets relating to our Canadian operations. Subsequent recognition of these deferred tax assets, as well as a portion of the foreign net operating loss carryforwards, would result in an income tax benefit in the year of such recognition.

Provision has not been made for United States or additional foreign taxes on approximately $49.0 million of undistributed earnings of foreign subsidiaries. Those earnings have been and will continue to be reinvested. These earnings could become subject to tax if they were remitted as dividends, if foreign earnings were lent to PRLC or a subsidiary or U.S. affiliate of PRLC, or if the stock of the subsidiaries were sold. Determination of the amount of unrecognized deferred tax liability with respect to such earnings is not practical. We believe that the amount of the additional taxes that might be payable on the earnings of foreign subsidiaries, if remitted, would be partially offset by United States foreign tax credits.

The historical provision for income taxes in fiscal 2001, 2000 and 1999 differs from the amounts computed by applying the statutory Federal income tax rate to income before income taxes due to the following:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999
PROVISION FOR INCOME TAXES AT STATUTORY FEDERAL RATE	$ 34,284	$ 87,110	$ 53,489
INCREASE (DECREASE) DUE TO:			
STATE AND LOCAL INCOME TAXES, NET OF FEDERAL BENEFIT	6,005	12,761	5,825
FOREIGN INCOME, NET	(2,499)	753	1,055
OTHER	902	798	1,907
	$ 38,692	$ 101,422	$ 62,276

9. FINANCIAL INSTRUMENTS

In April 1999, we entered into interest rate swap agreements with commercial banks which expire in 2003 to hedge against interest rate fluctuations. The swap agreements effectively convert borrowings under the 1999 Credit Facility from variable rate to fixed rate obligations. Under the terms of these agreements, we make payments at a fixed rate of 5.5% and receive payments from the counterparty based on the notional amount of $100.0 million at a variable rate based on the London Inter-Bank Offer Rate ("LIBOR"). The net interest paid or received on this arrangement is included in interest expense. The fair value of these agreements was an unrealized loss of $1.4 million and an unrealized gain of $4.4 million at March 31, 2001 and April 1, 2000, based upon the estimated amount that we would have to pay or would receive to terminate the agreements, as determined by the financial institutions.

We entered into forward foreign exchange contracts as hedges relating to identifiable currency positions to reduce our risk from exchange rate fluctuations. Gains and losses on these contracts are deferred and recognized as adjustments to the basis of those assets. These gains and losses were not material. At March 31, 2001, we had foreign exchange contracts outstanding as follows: (i) to receive 60 million French Francs in fiscal 2001 in exchange for 5.6 million British Pounds; (ii) to deliver 279 million French Francs in fiscal 2001 in exchange for $50.0 million; (iii) to deliver 1.5 million British Pounds in fiscal 2001 in exchange for Euro 2.5 million; and (iv) to deliver $1.3 million in fiscal 2001 in exchange for Euro 1.5 million. The fair value of these contracts resulted in an unrealized gain of approximately $10.0 million at March 31, 2001.

The carrying amounts of financial instruments reported in the accompanying consolidated balance sheets at March 31, 2001 and April 1, 2000, approximated their estimated fair values, except for the Eurobonds, primarily due to either the short-term maturity of the instruments or their adjustable market rate of interest. The fair value of the Eurobonds, net of discounts, was $217.1 million and $258.6 million as of March 31, 2001 and April 1, 2000, based on its quoted market price as listed on the London Stock Exchange. Considerable judgment is required in interpreting certain market data to develop estimated fair values for certain financial instruments. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize in a current market exchange.

10. CONCENTRATION OF CREDIT RISK

We sell our merchandise primarily to major upscale department stores across the United States and extend credit based on an evaluation of the customer's financial condition generally without requiring collateral. Credit risk is driven by conditions or occurrences within the economy and the retail industry and is principally dependent on each customer's financial condition. A decision by the controlling owner of a group of stores or any substantial customer to decrease the amount of merchandise purchased from us or to cease carrying our products could have a material adverse effect. We had three customers who in aggregate constituted approximately 52.0% and 54.0% of trade accounts receivable outstanding at March 31, 2001 and April 1, 2000.

We had three significant customers who accounted for approximately 11.0%, 10.0% and 10.0% each of net sales in fiscal 2001, and for approximately 12.0%, 11.0% and 10.0% each of net sales in fiscal 2000. We had two significant customers who accounted for approximately 10.0% each of net sales in fiscal 1999. Additionally, we had four significant licensees who in aggregate constituted approximately 53.0%, 58.0% and 55.0% of licensing revenue in fiscal 2001, 2000 and 1999.

We monitor credit levels and the financial condition of our customers on a continuing basis to minimize credit risk. We believe that adequate provision for credit loss has been made in the accompanying consolidated financial statements.

We are also subject to concentrations of credit risk with respect to our cash and cash equivalents, marketable securities, interest rate swap agreements and forward foreign exchange contracts which we attempt to minimize by entering into these arrangements with major banks and financial institutions and investing in high-quality instruments. We do not expect any counterparties to fail to meet their obligations.

11. EMPLOYEE BENEFITS

Profit Sharing Retirement Savings Plans We sponsor two defined contribution benefit plans covering substantially all eligible U.S. employees not covered by a collective bargaining agreement. The plans include a savings plan feature under Section 401(k) of the Internal Revenue Code. We make discretionary contributions to the plans and contribute an amount equal to 50% of the first 6% of an employee's contribution. Under the terms of the plans, a participant is 100% vested in our matching and discretionary contributions after five years of credited service. Contributions under these plans approximated $7.4 million, $4.3 million and $8.7 million in fiscal 2001, 2000 and 1999.

Union Pension We participate in a multi-employer pension plan and are required to make contributions to the Union of Needletrades Industrial and Textile Employees (the "Union") for dues based on wages paid to union employees. A portion of these dues is allocated by the Union to a retirement fund which provides defined benefits to substantially all unionized workers. We do not participate in the management of the plan and have not been furnished with information with respect to the type of benefits provided, vested and nonvested benefits or assets.

Under the Employee Retirement Income Security Act of 1974, as amended, an employer, upon withdrawal from or termination of a multi-employer plan, is required to continue funding its proportionate share of the plan's unfunded vested benefits. Such withdrawal liability was assumed in conjunction with the acquisition of certain assets from a nonaffiliated licensee. We have no current intention of withdrawing from the plan.

Deferred Compensation We have deferred compensation arrangements for certain key executives which generally provide for payments upon retirement, death or termination of employment. The amounts accrued under these plans were $18.1 million and $16.7 million at March 31, 2001 and April 1, 2000 and are reflected in other noncurrent liabilities in the accompanying consolidated balance sheets. Total compensation expense recorded was $3.2 million, $2.6 million and $2.7 million in fiscal 2001,

2000 and 1999. We fund a portion of these obligations through the establishment of trust accounts on behalf of the executives participating in the plans. The trust accounts are reflected in other assets in the accompanying consolidated balance sheets.

12. COMMON STOCK

All of our outstanding Class B Common Stock is owned by Mr. Ralph Lauren and related entities and all of our outstanding Class C Common Stock is owned by certain investment funds affiliated with The Goldman Sachs Group, Inc., (collectively, the "GS Group"). Shares of Class B Common Stock are convertible at any time into shares of Class A Common Stock on a one-for-one basis and may not be transferred to anyone other than affiliates of Mr. Lauren. Shares of Class C Common Stock are convertible at any time into shares of Class A Common Stock on a one-for-one basis and may not be transferred to anyone other than among members of the GS Group or, until April 15, 2002, any successor of a member of the GS Group. The holders of Class A Common Stock generally have rights identical to holders of Class B Common Stock and Class C Common Stock, except that holders of Class A Common Stock and Class C Common Stock are entitled to one vote per share and holders of Class B Common Stock are entitled to ten votes per share. Holders of all classes of Common Stock entitled to vote will vote together as a single class on all matters presented to the stockholders for their vote or approval except for the election and the removal of directors and as otherwise required by applicable law. Class A Common Stock, Class B Common Stock and Class C Common Stock are collectively referred to herein as "Common Stock."

13. STOCK INCENTIVE PLANS

On June 9, 1997, our Board of Directors adopted the 1997 Long-Term Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan authorizes the grant of awards to any officer or other employee, consultant to, or director with respect to a maximum of 10.0 million shares of our Class A Common Stock (the "Shares"), subject to adjustment to avoid dilution or enlargement of intended benefits in the event of certain significant corporate events, which awards may be made in the form of: (i) nonqualified stock options; (ii) stock options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code; (iii) stock appreciation rights; (iv) restricted stock and/or restricted stock units; (v) performance awards; and (vi) other stock-based awards. On June 13, 2000, our Board of Directors increased the maximum number of Shares that can be granted under the Stock Incentive Plan to 20.0 million shares. At March 31, 2001, we had an additional 11.0 million Shares reserved for issuance under this plan.

On June 9, 1997, our Board of Directors adopted the 1997 Stock Option Plan for Non-Employee Directors (the "Non-Employee Directors Plan"). Under the Non-Employee Directors Plan, grants of options to purchase up to 500,000 Shares may be granted to non-employee directors. Stock options vest in equal installments over two years and expire ten years from the date of grant. In fiscal 2001, 2000 and 1999, our Board of Directors granted options to purchase 12,250, 12,000 and 28,500 Shares with exercise prices equal to the stock's fair market value on the date of grant. At March 31, 2001, we had 417,250 options reserved for issuance under this plan.

Stock options were granted in fiscal 2001, 2000 and 1999 under the plans with an exercise price equal to the stock's fair market value on the date of grant. These options vest in equal installments primarily over three years for officers and other key employees and over two years for all remaining employees and non-employee directors. The options expire ten years from the date of grant. No compensation cost has been recognized in the accompanying consolidated financial statements in accordance with APB No. 25. If compensation cost had been recognized for stock options granted under the plans based on the fair value of the stock options at the grant date in accordance with SFAS No. 123, our historical net income and net income per share in fiscal 2001, 2000 and 1999 would have been reduced to the following pro forma amounts:

FISCAL YEAR: (Dollars in thousands, except per share data)	2001	2000	1999
PRO FORMA NET INCOME	$ 43,120	$ 128,000	$ 77,953
PRO FORMA NET INCOME PER SHARE–			
BASIC	$ 0.45	$ 1.29	$ 0.78
DILUTED	$ 0.44	$ 1.29	$ 0.78

We used the Black-Scholes option-pricing model to determine the fair value of grants made. The weighted average fair value of options granted was $11.14, $12.33 and $14.02 per share in fiscal 2001, 2000 and 1999. The following assumptions were applied in determining the fair value of options granted:

FISCAL YEAR:	2001	2000	1999
RISK-FREE INTEREST RATE	6.35%	5.81%	5.46%
EXPECTED DIVIDEND YIELD	0%	0%	0%
WEIGHTED AVERAGE EXPECTED OPTION LIFE	6.0 yrs.	6.0 yrs.	6.0 yrs.
EXPECTED STOCK PRICE VOLATILITY	85.0%	65.0%	44.0%

Stock option activity for the Stock Incentive Plan and Non-Employee Directors Plan in fiscal 2001, 2000 and 1999 was as follows:

(Shares in thousands)	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
BALANCE AT MARCH 28, 1998	4,084	$ 26.00
GRANTED	1,736	27.70
EXERCISED	(4)	26.00
FORFEITED	(518)	26.24
BALANCE AT APRIL 3, 1999	5,298	$ 26.53
GRANTED	2,767	19.07
EXERCISED	–	–
FORFEITED	(815)	25.64
BALANCE AT APRIL 1, 2000	7,250	$ 23.77
GRANTED	2,831	14.73
EXERCISED	(449)	22.95
FORFEITED	(764)	22.00
BALANCE AT APRIL 1, 2001	8,868	$ 20.79

Additional information relating to options outstanding as of March 31, 2001, was as follows:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE OF OPTIONS OUTSTANDING	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE OF EXERCISABLE OPTIONS
$13.94 - $17.06	2,576	9.2	$ 14.28	9	$ 17.06
$17.13 - $19.56	2,144	8.2	19.00	607	18.98
$20.19 - $25.19	328	8.6	22.14	95	22.52
$26.00 - $29.91	3,820	6.5	26.71	3,414	6.53
	8,868	7.8	$ 20.79	4,125	$ 25.31

In March 1998, our Board of Directors authorized the repurchase, subject to market conditions, of up to $100.0 million of our Shares. Share repurchases were made in the open market over the two-year period which commenced April 1, 1998. On March 2, 2000, our Board of Directors authorized a two-year extension to the stock repurchase program. Shares acquired under the repurchase program will be used for stock option programs and other corporate purposes. The repurchased Shares have been accounted for as treasury stock at cost. At March 31, 2001, we had repurchased 3,771,806 Shares at an aggregate cost of $71.2 million.

14. COMMITMENTS AND CONTINGENCIES

Leases We lease office, warehouse and retail space and office equipment under operating leases which expire through 2029. As of March 31, 2001, aggregate minimum annual rental payments under noncancelable operating leases with lease terms in excess of one year were payable as follows:

FISCAL YEAR ENDING:
(Dollars in thousands)

2002	$ 80,842
2003	73,473
2004	69,055
2005	62,669
2006	54,891
THEREAFTER	318,553
	$ 659,483

Rent expense charged to operations was $75.6 million, $66.7 million and $59.6 million, net of sublease income of $2.2 million, $1.7 million and $1.6 million, in fiscal 2001, 2000 and 1999. Substantially all outlet and retail store leases provide for contingent rentals based upon sales and require us to pay taxes, insurance and occupancy costs. Certain rentals are based solely on a percentage of sales, and one significant lease requires a fair market value adjustment at January 1, 2004. Contingent rental charges included in rent expense were $6.1 million, $5.3 million and $4.1 million in fiscal 2001, 2000 and 1999.

Employment Agreements We are party to employment agreements with certain executives which provide for compensation and certain other benefits. The agreements also provide for severance payments under certain circumstances.

Taxes The predecessor of Poloco, which we acquired in January 2000, has been subject to a tax audit in France for the years 1996, 1997 and 1998. In late December 1999, the French tax authorities issued a notification preliminarily advising that additional taxes, penalties and interest would be due for the years in question. Poloco and its former parent, S.A. Louis Dreyfus ("Dreyfus") are contesting the assessment. We are indemnified by Dreyfus under the purchase agreement.

Legal Matters In January 1999, two actions were filed in California naming as defendants more than a dozen United States-based companies that source apparel garments from Saipan (Commonwealth of the Northern Mariana Islands) and a large number of Saipan-based factories. The actions assert that the Saipan factories engage in unlawful practices relating to the recruitment and employment of foreign workers and that the apparel companies, by virtue of their alleged relationships with the factories, have violated various Federal and state laws. One action, filed in California Superior Court in San Francisco by a union and three public interest groups, alleges unfair competition and false advertising and seeks equitable relief, unspecified amounts for restitution and disgorgement of profits, interest and an award of attorney's fees. The second, filed in Federal Court for the Central District of California and subsequently transferred to the United States District Court for the District of Hawaii, is brought on behalf of a purported class consisting of the Saipan factory workers. It alleges claims under the Federal civil RICO statute, Federal peonage and involuntary servitude laws, the Alien Tort Claims Act, and state tort law, and seeks equitable relief and unspecified damages, including treble and punitive damages, interest and an award of attorney's fees. Although we were not named as a defendant in these suits, we source products in Saipan, and counsel for the plaintiffs in these actions informed us that we are a potential defendant in these or similar actions. We have since entered into an agreement to settle any claims for nonmaterial consideration. The settlement agreement is subject to court approval. We have denied any liability and are not in a position to evaluate the likelihood of a favorable or unfavorable outcome if the settlement is not approved and litigation proceeds.

As part of the settlement, we have since been named as a defendant, along with certain other apparel companies, in a State Court action in California styled Union of Needletrades Industrial and Textile Employees, et al. v. Brylane, L.P., et al., in the San Francisco County Superior Court for the District of Hawaii, that mirrors portions of the larger State and Federal Court actions but does not include RICO and certain of the other claims alleged in those actions. The newly filed actions are expected to remain inactive unless settlement is not finally approved by the Federal Court.

We are from time to time involved in legal claims, involving trademark and intellectual property, licensing, employee relations and other matters incidental to our business. In our opinion, the resolution of any matter currently pending will not have a material adverse effect on our consolidated financial condition or results of operations.

15. QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of certain unaudited quarterly financial information for fiscal 2001 and 2000:

FISCAL 2001 (Dollars in thousands, except per share data)	JULY 1, 2000	SEPT. 30, 2000	DEC. 30, 2000	MAR 31, 2001
NET REVENUES	$ 487,297	$ 586,217	$ 613,740	$ 538,520
GROSS PROFIT	252,547	250,133	297,520	262,847
NET INCOME (LOSS)	23,983	(62,821)	50,603	47,497
NET INCOME (LOSS) PER SHARE–				
BASIC	$ 0.25	$ (0.65)	$ 0.52	$ 0.49
DILUTED	0.25	(0.65)	0.52	0.48
SHARES OUTSTANDING–BASIC	97,092	96,713	96,530	96,740
SHARES OUTSTANDING–DILUTED	97,350	97,256	97,347	98,164

FISCAL 2000 (Dollars in thousands, except per share data)	JULY 3, 1999	OCT. 2, 1999	JAN. 1, 2000	APRIL 1, 2000
NET REVENUES	$ 434,421	$ 543,885	$ 510,299	$ 466,923
GROSS PROFIT	216,975	269,415	239,580	227,168
NET INCOME	24,110	55,349	32,268	31,770
NET INCOME PER SHARE–BASIC AND DILUTED	$ 0.24	$ 0.56	$ 0.33	$ 0.32
SHARES OUTSTANDING–BASIC	99,533	99,118	98,808	98,243
SHARES OUTSTANDING–DILUTED	99,704	99,251	98,938	98,347

16. SEGMENT REPORTING

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

Our wholesale segment consists of two operating units: Polo Brands and Collection Brands. Each unit designs, sources, markets and distributes discrete brands. Both units primarily sell products to major department and specialty stores and to our owned and licensed retail stores.

The retail segment operates two types of stores: outlet and full price stores, including flagship stores. The stores sell our products purchased from our wholesale segment, our licensees and our suppliers.

The licensing segment, which consists of product, international and home collection, generates revenues from royalties through its licensing alliances. The licensing agreements grant the licensee rights to use our various trademarks in connection with the manufacture and sale of designated products in specified geographical areas.

The accounting policies of the segments are consistent with those described in Note 2, Significant Accounting Policies. Intersegment sales and transfers are recorded at cost and treated as a transfer of inventory. All intercompany revenues and profits or losses are eliminated in consolidation. We do not review these sales when evaluating segment performance. We evaluate each segment's performance based upon income or loss from operations before interest, nonrecurring gains and losses and income taxes. Corporate overhead expenses are allocated to each segment based upon each segment's usage of corporate resources.

Our net revenues, income from operations, depreciation and amortization expense and capital expenditures for fiscal 2001, 2000 and 1999, and total assets as of March 31, 2001, April 1, 2000 and April 3, 1999, for each segment were as follows:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999
NET REVENUES:			
WHOLESALE	$ 1,053,842	$ 885,246	$ 859,498
RETAIL	928,577	833,980	659,352
LICENSING	243,355	236,302	208,009
	$ 2,225,774	$ 1,955,528	$ 1,726,859
INCOME FROM OPERATIONS:			
WHOLESALE	$ 127,040	$ 81,139	$ 59,796
RETAIL	27,710	26,176	31,840
LICENSING	145,598	149,900	122,509
	300,348	257,215	214,145
LESS: UNALLOCATED RESTRUCTURING AND SPECIAL CHARGES	183,127	–	58,560
ADD: CUMULATIVE EFFECT OF PRETAX ACCOUNTING CHANGE	–	6,696	–
	$ 117,221	$ 263,911	$ 155,585
DEPRECIATION AND AMORTIZATION:			
WHOLESALE	$ 31,642	$ 23,004	$ 21,111
RETAIL	35,896	36,393	20,349
LICENSING	11,061	6,883	4,954
	$ 78,599	$ 66,280	$ 46,414
CAPITAL EXPENDITURES:			
WHOLESALE	$ 20,957	$ 16,219	$ 32,013
RETAIL	57,836	60,778	59,568
LICENSING	6,217	3,813	7,817
CORPORATE	20,160	41,200	42,294
	$ 105,170	$ 122,010	$ 141,692

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000	APRIL 3, 1999
TOTAL ASSETS:			
WHOLESALE	$ 604,834	$ 524,223	$ 376,154
RETAIL	528,836	596,989	424,203
LICENSING	154,714	202,090	73,389
CORPORATE	337,709	297,260	230,838
	$ 1,626,093	$ 1,620,562	$ 1,104,584

Our net revenues for fiscal 2001, 2000 and 1999, and our long-lived assets as of March 31, 2001 and April 1, 2000, by geographic location were as follows:

FISCAL YEAR:

(Dollars in thousands)	2001	2000	1999
NET REVENUES:			
UNITED STATES	$ 1,875,223	$ 1,802,246	$ 1,648,092
FOREIGN COUNTRIES	350,551	153,282	78,767
	$ 2,225,774	$ 1,955,528	$ 1,726,859

	MARCH 31, 2001	APRIL 1, 2000
LONG-LIVED ASSETS:		
UNITED STATES	$ 286,257	$ 306,439
FOREIGN COUNTRIES	42,672	66,538
	$ 328,929	$ 372,977

SELECTED FINANCIAL DATA

FISCAL YEAR ENDED:

(Dollars in thousands, except share data)	MARCH 31, 2001	APRIL 1, 2000	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
STATEMENT OF INCOME:					
NET SALES	$ 1,982,419	$ 1,719,226	$ 1,518,850	$ 1,313,425	$ 1,051,104
LICENSING REVENUE	243,355	236,302	208,009	167,119	137,113
NET REVENUES	2,225,774	1,955,528	1,726,859	1,480,544	1,188,217
COST OF GOODS SOLD	1,162,727	1,002,390	904,586	759,988	652,000
GROSS PROFIT	1,063,047	953,138	822,273	720,556	536,217
SELLING, GENERAL, AND					
ADMINISTRATIVE EXPENSES	822,272	689,227	608,128	520,801	378,854
RESTRUCTURING CHARGE	123,554	–	58,560	–	–
TOTAL EXPENSES	945,826	689,227	666,688	520,801	378,854
INCOME FROM OPERATIONS	117,221	263,911	155,585	199,755	157,363
FOREIGN CURRENCY GAINS	5,846	–	–	–	–
INTEREST EXPENSE	(25,113)	(15,025)	(2,759)	(159)	(13,660)
EQUITY IN NET LOSS OF JOINT VENTURE	–	–	–	–	(3,599)
INCOME BEFORE INCOME TAXES AND					
CHANGE IN ACCOUNTING PRINCIPLE	97,954	248,886	152,826	199,596	140,104
PROVISION FOR INCOME TAXES	38,692	101,422	62,276	52,025	22,804
INCOME BEFORE CHANGE IN ACCOUNTING PRINCIPLE	59,262	147,464	90,550	147,571	117,300
CUMULATIVE EFFECT OF CHANGE					
IN ACCOUNTING PRINCIPLE, NET OF TAXES	–	3,967	–	–	–
NET INCOME	$ 59,262	$ 143,497	$ 90,550	$ 147,571	$ 117,300
INCOME PER SHARE BEFORE					
CHANGE IN ACCOUNTING PRINCIPLE	$ 0.61	$ 1.49	$ 0.91		
CUMULATIVE EFFECT OF CHANGE					
IN ACCOUNTING PRINCIPLE, NET PER SHARE	–	0.04	–		
NET INCOME PER SHARE–BASIC AND DILUTED	$ 0.61	$ 1.45	$ 0.91		
COMMON SHARES OUTSTANDING–BASIC	96,773,282	98,926,993	99,813,328		
COMMON SHARES OUTSTANDING–DILUTED	97,446,482	99,035,781	99,972,152		

(Dollars in thousands)	MARCH 31, 2001	APRIL 1, 2000	APRIL 3, 1999	MARCH 28, 1998	MARCH 29, 1997
BALANCE SHEET DATA:					
WORKING CAPITAL	$ 462,144	$ 446,663	$ 331,482	$ 354,206	$ 209,038
INVENTORIES	425,594	390,953	376,860	298,485	222,147
TOTAL ASSETS	1,626,093	1,620,562	1,104,584	825,130	588,758
TOTAL DEBT	383,100	428,838	159,717	337	140,900
STOCKHOLDERS' EQUITY AND PARTNERS' CAPITAL	809,309	772,437	658,905	584,326	260,685

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

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Polo Ralph Lauren Corporation

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President and Chief Executive Officer
The Hearst Corporation

DR. JOYCE F. BROWN
President
Fashion Institute of Technology

ROGER N. FARAH
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Polo Ralph Lauren Corporation

JOEL L. FLEISHMAN
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Polo Ralph Lauren Corporation

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Discovery Communications, Inc.

ALLEN QUESTROM
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J.C. Penney Company, Inc.

TERRY S. SEMEL
Chairman and Chief Executive Officer
Yahoo! Inc.

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President, Polo Retail Group

BUFFY BIRRITTELLA
Executive Vice President
Women's Design and Advertising

CHARLES E. FAGAN
Executive Vice President
Polo Retail Corporation

J. STUART FORBES
President and Chief Operating Officer
Polo Europe

JOY HERFEL
President, Polo Brands

JEROME LAUREN
Executive Vice President, Men's Design

JOHN MEHAS
President and Chief Executive Officer
Club Monaco

ALFREDO V. PAREDES
Executive Vice President, Creative Services,
Polo Shop Development and Home Collection
Design Studio

KENNETH J. ROOD
President, Ralph Lauren Home Collection

CHERYL L. STERLING UDELL
President, Collection Brands

NANCY VIGNOLA
President, New Business Development

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Chairman and Chief Executive Officer

F. LANCE ISHAM
Vice Chairman

ROGER N. FARAH
President and Chief Operating Officer

DOUGLAS L. WILLIAMS
Group President, Global Business Development

GERALD M. CHANEY
Senior Vice President of Finance, Chief Financial Officer

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INVESTOR RELATIONS

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Polo Ralph Lauren Corporation's
Class A Common Stock is listed
on the New York Stock Exchange.
TICKER SYMBOL: RL

ANNUAL MEETING

AUGUST 16, 2001, 9:30 A.M.
ST. REGIS HOTEL
2 EAST 55TH STREET
NEW YORK, NY 10022

REGISTRAR AND TRANSFER AGENT

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