



RL-07

Celebrating 40 Years

POLO RALPH LAUREN

2007

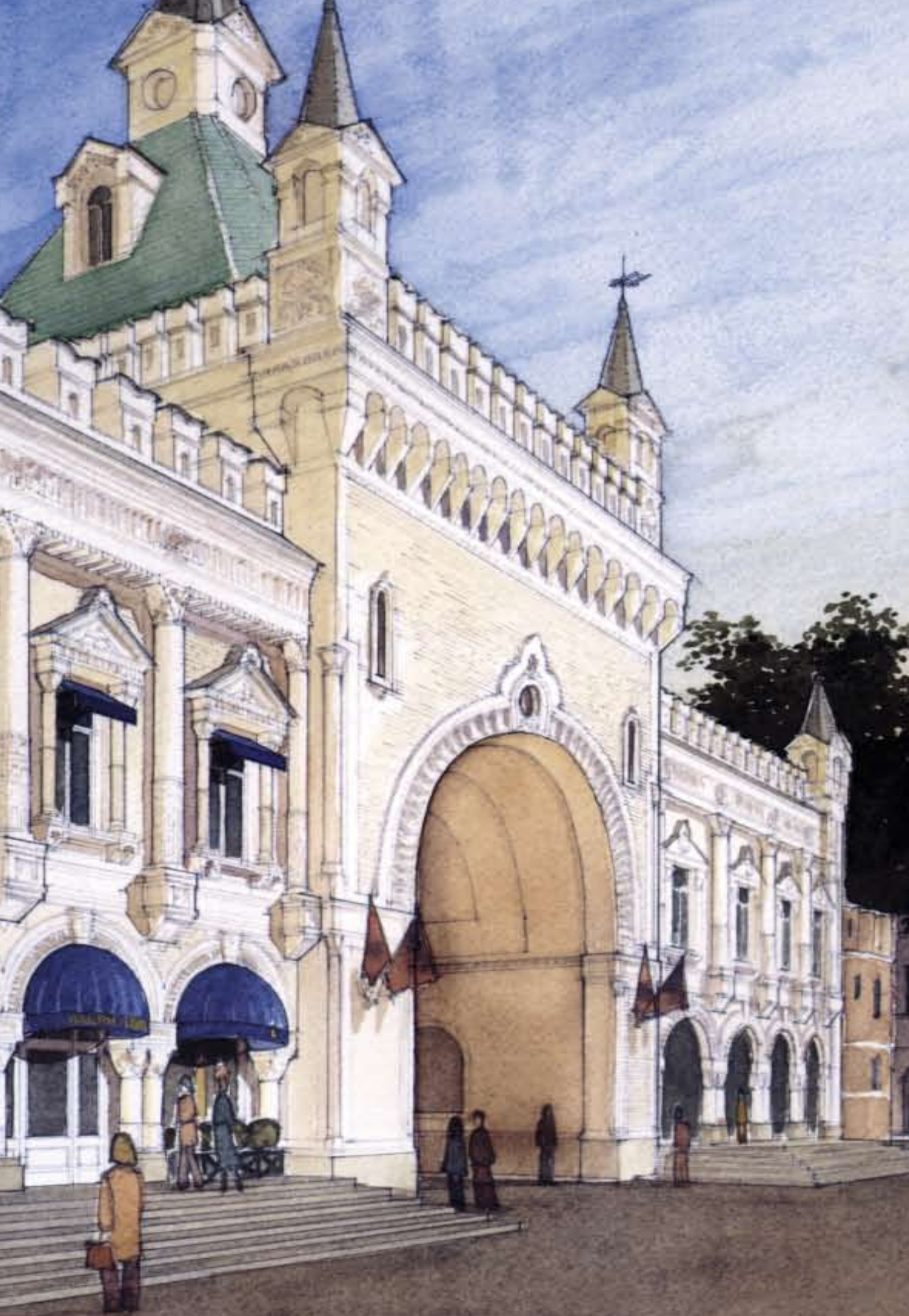


IN 1967, RALPH LAUREN INTRODUCED THE WORLD TO AN ICONIC BRAND OF LUXURY AND ELEGANCE that has attracted an ever-expanding audience the world over. He created Polo Ralph Lauren with a vision of enduring style — one that has continued under his leadership to achieve unparalleled success and recognition in the marketplace, today encompassing lifestyle categories from apparel and accessories to fragrances and home decor. As we celebrate our 40th anniversary, we see that our heritage, which draws on the best traditions of American style, only strengthens our belief in our future.

With a dedication to superior quality and design, a disciplined business approach, and a deep understanding of our customer, we continue to elevate and extend our brand around the world. We have a global viewpoint that allows us to enhance our presence and maximize our operations in key international markets. We are pioneering innovative partnerships to create and develop new, targeted brands. And we remain passionately committed to providing our customers with an extraordinary assortment of luxury merchandise that personifies our heritage, presented in unique retail destinations that exemplify the Polo Ralph Lauren lifestyle.

Today, we have set the standard for our industry, and we enter our fifth decade positioned for even greater growth. Our designs and our business continue to succeed, guided by a singular vision that remains a timeless inspiration for those who enjoy life with elegance and style.















RALPH LAUREN

Chairman of the Board
Chief Executive Officer

DEAR FELLOW SHAREHOLDERS

I am pleased to report that we enjoyed one of the finest years in the history of Polo Ralph Lauren. This year, we celebrate our 40th anniversary — and our 10th as a publicly owned corporation. We have every reason to look back with pride. And we have every reason to look forward with excitement.

Polo Ralph Lauren is one of the world's premier brands. It speaks of sophistication and luxury, superior quality and design. Our constant goal is to elevate and extend the brand through distinctive merchandising and effective marketing. We do this by deeply understanding our customers and by designing and making sought-after products. And we bring our brand to new customers as well. In the past year we have broadened our reach even further into Europe and Asia. All of our efforts are supported by continuously improving the ways in which we do business.

As our results continue to prove, what we do works. You will find our performance numbers elsewhere in this report. We are proud of them. Because of our strong results, we have been able to invest back into our growing business. We have used our financial strength to build new stores and shops-within-shops in department and specialty stores. We have invested significantly in our infrastructure, including showrooms, office space to house our growing operations, and new technology to support our global business. And we invested in acquiring several key licensees that we believe will enable us to better align those businesses with our global strategies. We believe passionately in the long term and that these investments will play an integral role in our ongoing success.

We substantially increased our commitment in Japan, and by extension to Asia, through strategic acquisitions. Most notably, we recently acquired our Japanese men's, women's and jeans apparel, and accessories licensee, and the remaining 50% interest in our Japanese Master Licensee. This was the most complex transaction we've ever undertaken — and one of the most significant. Japan, 30 years ago, was our first international market. Today, it's a vital market for luxury companies, and, as with other selected licensee buybacks, this transaction allows us to better control our own destiny. We will enhance our presence in major Japanese stores; we will build Ralph Lauren stores; and we will strengthen the infrastructure that supports these activities.

We are increasingly a worldwide presence. Everything we do today has a global sensibility, one that is central to our future growth potential and profitability. Across Europe, our performance was excellent, with especially strong demand for our collection products. We created the Global Brand Concepts (GBC) group, a pioneering effort that will seek to partner with specialty and department stores to develop new lifestyle brands. We believe the potential for this business is significant as the pipeline of new opportunities to introduce further partnerships is robust. Products from the first brand created by a GBC partnership, American Living, are expected to launch in JCPenney in January 2008, and we look forward to bringing them to market. We formed the Ralph Lauren Watch and Jewelry Company with Richemont to help us fulfill the tremendous potential we see in the global luxury accessories market. Consistent with our near-term strategy and focus on accessories, we also completed the buyback of our licensee for men's and women's belts and other small leather goods to better build this growing category.

Our retail group has been very successful this year. We saw strong performance worldwide, and across our retail formats. Our Ralph Lauren stores, Club Monaco, and our factory stores, as well as RalphLauren.com, have all made important contributions to our sales. During the year, we bought the 50% of Ralph Lauren Media previously owned by NBC and their affiliates, giving us total control of our internet business operating as RalphLauren.com. The site has become both a significant business contributor domestically and a popular, powerful marketing tool worldwide. In addition, we followed up the success of our flagship stores in Tokyo and Milan by opening two licensed stores last month in Moscow, which we consider an important luxury retail market.

I am extremely pleased with the momentum we are seeing across all our brands and products. Customers have responded extremely well to our offerings, and there is clear demand for our luxury apparel and accessories. Our menswear and womenswear collections continue to be strong drivers, and sales in our wholesale business are robust.

We are in a very healthy financial condition. We are conservative in our approach to balance sheet management and judicious in our use of leverage. Over the past five years, we have reinvested more than \$1.6 billion in our business — for acquisitions, for licensee buybacks, for new stores and for improvements to our infrastructure. We are very comfortable with our ability to support our ambitious growth plans for the future. One noteworthy external measure of our growth: during the year, we became part of the Standard & Poor's 500 Index, one of the primary indicators of the value of the U.S. stock markets.

We believe deeply in helping others, and we care greatly about our communities. I'd like to highlight just a few characteristic efforts among many. We continue our efforts to support cancer care and prevention through our global Pink Pony initiative, with hundreds of our employees participating in the Pink Pony Walk this year, and with our long-term commitment to the Ralph Lauren Center for Cancer Care and Prevention. In addition to the financial support we provide through our Foundation, we have established numerous programs that share our expertise and offer opportunities for employees to volunteer their time. Our Polo Volunteer employees participated in the Hurricane Katrina relief by building two homes in Mobile, Alabama, and we established an Adopt-a-School program with seven schools in the U.S.

We welcomed three new members to our Board of Directors this year: Bob Wright, Vice Chairman and Executive Officer of General Electric Company; John Alchin, Executive Vice President and Co-Chief Financial Officer of Comcast Corporation; and Jacki Nemerov, Executive Vice President of Polo Ralph Lauren, who is responsible for our wholesale, licensing and manufacturing businesses. We value greatly the perspectives they bring to the board.

I've said many times that our management team is the best in the business. It's as true today as ever. And none of what we do would be possible without the creativity, energy and commitment of our 14,000 employees. To all of them, I offer my sincerest gratitude.

A handwritten signature in black ink that reads "Ralph Lauren". The signature is written in a cursive, flowing style with a prominent loop at the end of the word "Lauren".





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**WE CONTINUE TO ELEVATE OUR BRAND
WORLDWIDE WITH UNIQUE PRODUCTS
THAT EMBODY OUR VISION OF STYLE.**

MERCHANDISE DEVELOPMENT



One of the keys to our 40 years of success has been our ability to capture the essence of Ralph Lauren's vision in the design of each and every product category, from apparel to home decor to our broad line of accessories. What makes us unique is our ability to take Ralph's design direction and interpret it through multiple lifestyles and price points, giving substantial breadth and depth to the range of products we offer, but with a single heritage-driven point of view.

The development of our global luxury accessories business has been a key focus in elevating our luxury status worldwide. We continue to assemble the right talent and develop the infrastructure to support this initiative. This year we made significant progress by partnering with companies that have an established global reach in the luxury accessories market. Earlier this year, we announced a partnership with Richemont establishing the Ralph Lauren Watch and Jewelry Company to design luxury watches and fine jewelry. This is our first foray into the precious jewelry and luxury watch business, and we believe we will benefit enormously from Richemont's expertise. In addition, through our partnership with Luxottica, a global leader in optical and fashion eyewear with an extensive worldwide retail distribution network, we successfully introduced new eyewear products. Response to the product has been strong, and we are pleased to continue elevating our eyewear business through this partnership. We also acquired our men's and women's belts and small leather goods licensee, and we continue to build this important category consistent with our brand strategy.

As we continue to invest in growth initiatives such as denim and childrenswear, we believe they will be important contributors in the future. Early response to the introduction of our Lauren Jeans Company and our men's premium Polo Ralph Lauren denim has been positive, and we believe the denim category presents enormous global opportunities for all the brands in our portfolio. Childrenswear, the fastest-growing merchandise category on RalphLauren.com, continues to be a strong performer domestically and abroad, and we have extended the brand into broader assortments in outerwear, swimwear and denim.

Earlier this year, we introduced our Global Brand Concepts group, which will enable us to partner with specialty and department stores to develop new and innovative lifestyle brands. For our first initiative, called American Living, we will create a full lifestyle brand for women, men and children, as well as intimate apparel, accessories and home exclusively for JCPenney. GBC presents a unique opportunity for growth, and we believe it will become a significant revenue contributor in the years to come.

We have built a powerful business because we employ a consistent vision, design aesthetic and approach in developing and merchandising products. As we enter into our fifth decade of business, we remain committed to product excellence and will continue to design and create much sought-after products that personify our brand heritage and Ralph's unique vision.

EXPANDING SPECIALTY RETAIL



Ralph Lauren has led the way in creating environments that showcase his complete fashion lifestyle, with approximately 300 stores stretching from Buenos Aires to Beverly Hills, Palm Beach to Paris. Our customers come to visit our many retail destinations to participate in our signature shopping experience, which through a combination of luxury and quality merchandise, uniquely designed specialty stores and dedication to service, enables them to be a part of the Polo Ralph Lauren lifestyle.

Our retail and specialty store performance this past year is a tribute to the enduring appeal of our brand and our merchandise — and our growing appeal as a luxury leader outside of our domestic borders. After successfully launching the brand’s luxury presence in Tokyo last year, we have recently capitalized on a growing Russian customer base with the launch of two licensed flagship stores in Moscow.

In addition, we believe there is tremendous opportunity to expand a number of our other proven retail concepts internationally. The two variations on our retail formats — the flagships, which represent dramatic statements about the most luxurious part of our assortment, and neighborhood stores that are scaled to the streetscapes of smaller shopping areas and reflect a more casually oriented presentation — are viable concepts that we believe will continue to translate well across Europe. In addition, we believe the distinctive, youthful character of Rugby, which currently operates in nine key markets in the United States, will have strong appeal in the years to come in select markets in Europe and Asia. While this past year was one of tremendous excitement in our international markets, we also continued to expand our domestic presence with our Ralph Lauren stores, and we enhanced RalphLauren.com with new features and brands.

In the last few years RalphLauren.com has evolved into a strong and growing retail business that combines creativity and commerce in a virtual flagship store. In March, we acquired full ownership of Ralph Lauren Media so we can better leverage our retail operational expertise online and take advantage of the tremendous growth opportunities for the business internationally. Today, more than 30% of the traffic on RalphLauren.com comes from international domains. Even though international shopping is not currently offered, consumers want to browse and experience the world of Ralph Lauren.

Club Monaco’s performance was very strong this year as our efforts to reposition the brand have been successful. Club Monaco has established a strong following, and, due to upgrades in quality, fit and price points, is experiencing significant growth across all aspects of the business.

Overall, our retail business is a significant contributor to our revenues and operating profit. We have a very clear merchandising message that supports our global luxury position. To meet the growing demand of our customers, we continue to deliver fresh and unique products, many of which remain exclusive to our retail stores. We will continue to develop our retail business and the infrastructure that allows us to run a successful global enterprise. Ralph’s vision is at the heart of our current success and future growth plans, and we remain passionately committed to providing our customers with the ultimate, unique shopping experience.

**OUR ULTIMATE SHOPPING EXPERIENCE
DRIVES THE DEMAND FOR OUR LUXURY
LIFESTYLE BRAND AROUND THE GLOBE.**

**OUR ABILITY TO GUIDE OUR DISTINCTIVE
BRAND ACROSS CONTINENTS AND CULTURES
CONTINUES TO FUEL OUR SUCCESS IN
INTERNATIONAL MARKETS.**

INTERNATIONAL EXPANSION



When Polo Ralph Lauren began its international expansion nearly 30 years ago, it was one of the first American fashion houses with the foresight to envision a global brand. Today, international operations account for more than \$3 billion of the brand's retail presence and represent approximately 30% of the Company's business worldwide.

For many years, our international businesses were managed through a series of licensee arrangements in Asia and Europe. More recently, we have been developing an infrastructure that allows us to successfully run a global business, and we have changed our business model from one that was mostly licensed to one that is more directly owned and operated. We believe this is important for our future growth, as it will enable us to better align our international businesses with our overall global strategy.

Our first licensee acquisition, in Europe seven years ago, established the model for our global expansion. At that time, our European business was approximately \$220 million in sales and driven by core sportswear classics. Since then, we have focused on elevating the brand and bringing more fashion and luxury assortments to the European customer in an effort to significantly grow our international business. We have committed the time, money and energy to build the necessary infrastructure to support that growth. This past fiscal year, Europe represented nearly \$800 million of revenues.

We achieved an important milestone in our Company's global growth when we acquired our Japanese Master Licensee and its largest sub-licensee through a series of transactions. Our Japanese business has grown significantly over the years, reflecting the growing appetite among Japanese consumers for our product, whether purchased in their home country or in our international markets. We addressed this demand and made a new and important luxury statement in Tokyo when we opened a flagship in the Omotesando shopping district last year, expanding the available assortment of our luxury products.

With the successful completion of the acquisitions in Japan, we will begin to execute long-term initiatives that are consistent with how we operate our business worldwide. We will elevate the brand through product assortment and presentations that support our luxury position around the world. We will refine our distribution in key locations as we look to selectively expand the portfolio of Ralph Lauren stores that best showcase Ralph's vision. Consistent with our global view, we will continue to explore opportunities to expand our advertising and marketing messages, and we will invest in new talent and the development of the Japanese market. All of this will be integrated with our world-class infrastructure, based on a global platform.

Today, our global presence and appeal is as strong as ever. The success we have enjoyed in extending our brands across the world stems from our clarity and understanding of the brand and Ralph's point of view. The past 40 years have taught us how to grow and change with our customers in a way they can relate to, and how to enhance and maximize every point of distribution, including those in key global marketplaces. We will continue to look for opportunities to introduce our brands into new markets and to expand our product offerings in markets where we already have a strong and successful presence.



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RALPH LAUREN

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BEVERLY HILLS





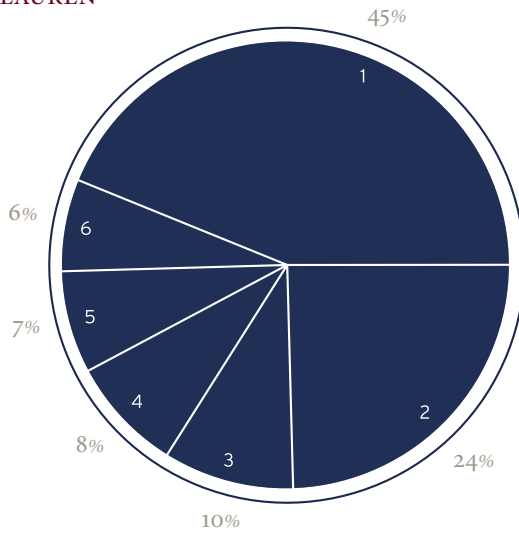




WORLDWIDE WHOLESALE NET SALES

FISCAL 2007 WORLDWIDE
WHOLESALE NET SALES
OF POLO RALPH LAUREN
PRODUCTS⁽¹⁾

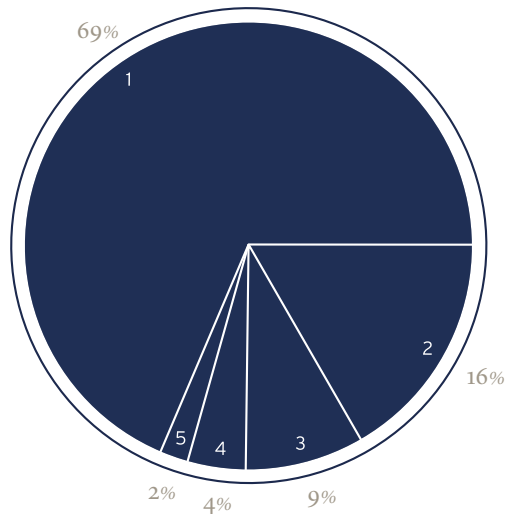
(dollars in millions)



1 MEN'S	\$ 2,493
2 WOMEN'S	1,320
3 CHILDREN'S	526
4 FRAGRANCES	433
5 HOME	390
6 ACCESSORIES	338
<i>total</i>	\$ 5,500

FISCAL 2007 WORLDWIDE
WHOLESALE NET SALES
BY GEOGRAPHIC
LOCATION⁽¹⁾

(dollars in millions)



1 UNITED STATES	\$ 3,835
2 EUROPE	862
3 JAPAN	477
4 PACIFIC RIM/KOREA	226
5 OTHER (Australia, Canada, South America, etc.)	100
<i>total</i>	\$ 5,500

(1) Represents the total wholesale net sales of Polo Ralph Lauren products generated by our wholesale operations and our licensing partners. Wholesale net sales for Ralph Lauren products sold by our licensing partners have been derived from information obtained from our licensing partners. Includes our wholesale sales of \$2.3 billion and additional amounts representing transfers of products to our wholly-owned, full-price retail stores and to our wholly-owned outlet stores at wholesale prices.

OPERATIONAL REVIEW

2007 has been a spectacular year as we delivered results in excess of our plan but consistent with our strategies. We achieved \$4.30 billion in revenues, an increase of 15% over the prior year, and generated gross profit dollars of \$2.34 billion, a 16% increase over Fiscal 2006. Our gross profit rate improved 40 basis points to 54.4% due to strong merchandise margins in our wholesale and retail businesses, and improved inventory management. Our operating income increased 26% to \$653 million while operating margin increased 140 basis points to 15.2%.

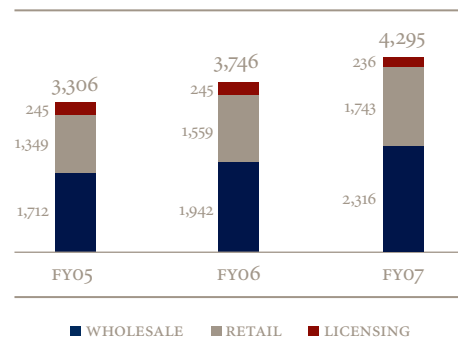
Our success has been achieved through the consistent execution of our global strategies of expanding our direct-to-customer business, growing our international business, and developing new merchandise categories. We have successfully created unique businesses centered on our core and heritage-driven brand and we have diversified and expanded our product assortments, price points, distribution channels and geographic regions. We've taken more aggressive control of our brand and have been more selective with its distribution and positioning. We are expanding our specialty store portfolio with a variety of store sizes, formats and concepts, growing our internet sales, and developing our international business through both direct ownership and global strategic partnerships. We've continued to develop the infrastructure that allows us to run a global business successfully, while investing in our employees through ongoing training and development. Our accomplishments have been achieved with a conservative balance sheet and a commitment to reinvesting our significant cash flows back into our growing business, and our strong results affirm the execution of these strategies.

WHOLESALE

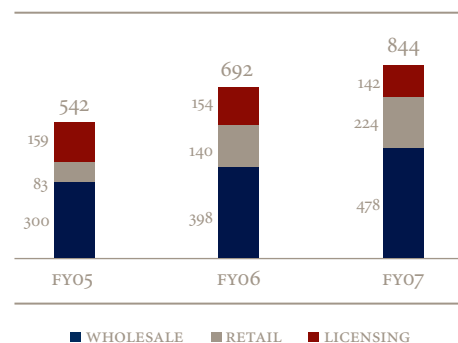
In the wholesale area, we expanded our luxury product offerings and enhanced our presentation through shop fixtures in the appropriate doors. We looked at the productivity and sell-through of each of our key doors to improve results via better tailored assortments by door. The result has been higher inventory turns, better full-price sell-throughs and higher gross margins.

For Fiscal 2007, wholesale sales were up 19% to \$2.32 billion, compared to \$1.94 billion in the same period last year. Excluding the effect of the Polo Jeans and footwear acquisitions, revenues increased 9% primarily due to increased sales in Europe as well as domestic sales gains in Lauren, Chaps for women and children, and in the men's business. Wholesale operating income increased 20% in Fiscal 2007 to \$478 million, compared to \$398 million in the same period last year. Wholesale operating margin was 20.6% in the full year, compared to 20.5% last year as growth in sales and an improved gross profit rate were partially offset by increases in SG&A expenses to support new product lines.

SEGMENT REVENUES
(\$ millions)



SEGMENT OPERATING INCOME
(\$ millions)

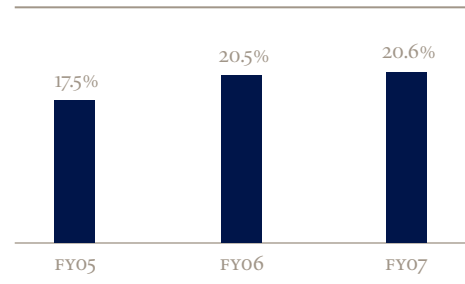


OPERATIONAL REVIEW

What makes us unique is our ability to take Ralph’s design direction and interpret it through multiple lifestyles. Our Lauren business, which we took back four years ago, is the number one brand in its category and continues to have strong retail sell-throughs. Our childrenswear business, an important category we bought back in 2004, has also delivered strong global results. Earlier this year, we launched our Lauren and men’s denim initiatives. Early response has been positive and our retailers’ response to our recent fall denim market was strong as we thoughtfully brought this category into domestic department and specialty stores. We believe this category presents enormous global opportunities for all the brands in the world of Ralph Lauren.

We began executing our channel diversification strategy two years ago with the launch of Chaps products for Kohl’s. In addition to our successful men’s, women’s and children’s Chaps business, we launched our Chaps home business with Kohl’s in May 2007. Customers are responding very well to our fashion offerings and we are pleased with the first phase of our growing home business in this channel. We continue to gain expertise in this broad-based distribution channel, both from a product standpoint, as we now have more than 50 merchandise categories under the Chaps brand, as well as operationally in logistics, marketing and in-store presentation. We believe this experience will serve us well as we undertake our most ambitious launch with the premiere of American Living at JCPenney next year.

WHOLESALE OPERATING MARGINS



Over the past two years, we have added and expanded key categories to our growing luxury accessories business. We began the development of this business with our footwear acquisition in 2005. While this business requires more rebuilding than some of our other license buybacks, we continue to believe in its long-term growth potential. In addition, we recently acquired our small leather goods licensee to better build this category of business. Our handbag licensee expires at the end of calendar 2007, and we anticipate bringing the business in-house at the close of this year.

Internationally, we have modified our business model from one that was mostly licensed, to one that is more directly operated. Since acquiring our European business seven years ago, we have made great progress in our business both in how the brand is presented and in the profits we realized in the region. Europe now represents nearly \$800 million in revenues and is our fastest-growing geographic region.

We are using our European success as a template for the growth of our Japanese business. With the recent successful completion of our Japanese transactions behind us, we will begin to execute on our long-term initiatives that are consistent with how we operate our business worldwide. We will refine our distribution throughout key locations in Japan. We will look to selectively expand our portfolio of Ralph Lauren stores that best showcase Ralph’s vision. In addition, we will look for opportunities to expand our advertising and marketing messages, and will invest in talent and the development of our employees in the Japanese market. Japan is an important country for our brand and we view it as an important stepping stone to growing our business throughout Asia and the Pacific Rim.

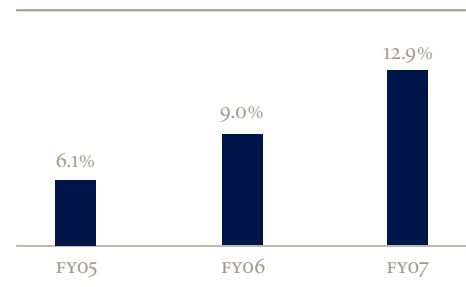
OPERATIONAL REVIEW

RETAIL

Our retail segment has grown meaningfully in both sales and profit in the past year. Our stores allow us to create and display the “World of Ralph Lauren” by providing the widest selection of our assortment of luxury products and offer exclusive products that are not available in other channels. In retail, we continue to focus on the fresh flow of the right products and managing inventory, driving full-price sell-throughs, and expanding our gross margins.

Retail sales for the full year were up 12% to \$1.74 billion, compared to \$1.56 billion last year. Total comparable store sales increased 7.9%, reflecting an increase of 10.9% at Club Monaco stores, 8.1% in our factory stores and 6.6% at Ralph Lauren stores. RalphLauren.com sales grew 29% over the prior year. Retail operating income increased 60% in Fiscal 2007 to \$224 million, compared to \$140 million last year. Retail operating margin improved 390 basis points to 12.9% in the fiscal year compared to 9.0% last year as a result of increased sales and improved gross profit rates, as well as the absence of an \$11 million non-cash impairment charge recognized in Fiscal Year 2006. At the end of Fiscal 2007, we operated 292 stores with a total of approximately 2.3 million square feet and our international licensing partners operated 80 Ralph Lauren stores and 20 Club Monaco stores and dedicated shops.

RETAIL OPERATING MARGINS



Looking ahead, we believe our internet business will be an important part of growth in our retail segment. We acquired the remaining 50% interest of Ralph Lauren Media. Now that the business is fully owned, we will integrate its operations into our global retail business. We have begun exploring new international opportunities for RalphLauren.com and we believe it will be a large growth driver in the future. To support this growing business, we are investing in a distribution center and a new customer service center that is scalable for future needs, both domestically and internationally.

LICENSING

Our last business segment is our licensing business, which, at one time, represented one of the largest parts of our business. While we have acquired several of our major apparel and geographic licenses, we have been able to maintain much of our royalty income and profit through both improved economic terms in our remaining license agreements and expansion of brands such as Chaps into more licensed categories.

Licensing royalties for Fiscal 2007 were down 4% to \$236 million compared to \$245 million last year. Excluding the loss of licensing revenues of Polo Jeans and footwear which we now own, licensing royalties would have increased 3%. For the year, licensing operating income decreased 8% to \$142 million, compared to \$154 million last year. An increase in international royalties and the receipt and recognition of approximately \$8 million in connection with the termination of a license was offset by the loss of licensing royalties from Polo Jeans and footwear.

In early 2007, we began delivery of new optical and sunwear products created by our new eyewear licensee, Luxottica, to both Ralph Lauren stores and Luxottica’s retail stores, and we are extremely pleased with the assortments. In March 2007, we formed the Ralph Lauren Watch and Jewelry Company, a joint venture with

OPERATIONAL REVIEW

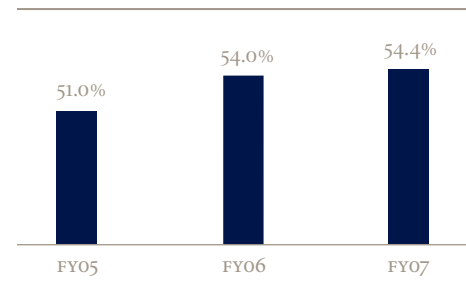
Richemont. This is our first expansion into the precious jewelry and luxury watch business which we believe will be a growing and important aspect of our global accessories business. The first products are expected to launch in fall 2008 in select Ralph Lauren stores, as well as in fine independent jewelry and luxury watch retailers worldwide.

BALANCE SHEET

Building the business as we have done over the past few years has generated significant increases in operating cash flow, which we have used to fund acquisitions, support the capital needs of our business, and repurchase stock.

During the year, we invested \$184 million in capital expenditures, completed our acquisition of the remaining 50% equity interest in Ralph Lauren Media for \$175 million, and repurchased approximately 3.5 million shares of stock for \$231 million. We ended the year with \$564 million in cash, or \$165 million in net cash. Subsequent to the year's end, we successfully completed the tender offer for shares of our largest Japanese licensee and purchased the remaining balance of our Master Licensee for a combined amount of approximately \$160 million net of cash acquired. We have generated an aggregate return on investment of 32% as of the end of fiscal year 2007.

GROSS MARGIN



ORGANIZATIONAL GROWTH

In order to accomplish our past success as well as to support future growth, we are developing new programs that support our growing global organization. During the past year, we remained firm in our commitment to implement activities designed to strengthen leadership skills, promote team development and enhance the Company's unique culture. Included among these activities was the ongoing refinement of performance evaluation systems that provide us with the tools to track results and identify professional development opportunities against specific competency clusters. The core curriculum also includes business training and technology literacy.

A range of training and mentoring programs have been established to build bench strength and create future leaders for the Company, instill the Polo Ralph Lauren heritage, culture and philosophy and expose employees to a range of business and functions throughout the enterprise.

In addition to the activities identified above, we are most proud of our ongoing work in the area of Strategic Diversity Management. We recognize that a healthy, high-performing organization, operating on a global stage, is characterized by inclusion, where employees are recognized for their contribution and are able to grow, develop and achieve their optimal potential. At every level in the organization we have continued to enhance programs that enable us to access key talent resulting in important contributions and performance.

The most recent cultural audit held in 2006, designed to measure workplace acceptance of the Company's activities in the area of diversity, indicated that the Company is making great strides in this area based on the strong feedback from the employees. We remain highly committed to these ideals as we continue to build a fully inclusive work environment that reaches employees and customers throughout our global markets.

YEAR TWO THOUSAND SEVEN

FINANCIAL REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of financial condition and results of operations should be read together with our audited consolidated financial statements and the accompanying notes, which are included elsewhere in this Annual Report. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, Fiscal year 2007 ended on March 31, 2007 and reflected a 52-week period ("Fiscal 2007"); Fiscal year 2006 ended on April 1, 2006 and reflected a 52-week period ("Fiscal 2006"); and Fiscal year 2005 ended on April 2, 2005 and reflected a 52-week period ("Fiscal 2005").

FORWARD-LOOKING STATEMENTS

Various statements in this Annual Report, in the Form 10-K for Fiscal 2007 ("Fiscal 2007 10-K") or incorporated by reference into the Fiscal 2007 10-K, in future filings by us with the Securities and Exchange Commission (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. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "we believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from the future results, performance or achievements expressed in or implied by such forward-looking statements. Forward-looking statements include statements regarding, among other items:

- our anticipated growth strategies;
- our plans to expand internationally;
- our plans to open new retail stores;
- our ability to make certain strategic acquisitions of certain selected licenses held by our licensees;
- our intention to introduce new products or enter into new alliances;
- anticipated effective tax rates in future years;
- future expenditures for capital projects;
- our ability to continue to pay dividends and repurchase Class A common stock;
- our ability to continue to maintain our brand image and reputation;
- our ability to continue to initiate cost cutting efforts and improve profitability; and
- our efforts to improve the efficiency of our distribution system.

These forward-looking statements are based largely on our expectations and judgments and are subject to a number of risks and uncertainties, many of which are unforeseeable and beyond our control. Significant factors that have the potential to cause our actual results to differ materially from our expectations are described in Item 1A — "Risk Factors" included in the Fiscal 2007 10-K. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INTRODUCTION

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

- **Overview.** This section provides a general description of our business, including our objectives and risks, and a summary of financial performance for Fiscal 2007. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.
- **Results of operations.** This section provides an analysis of our results of operations for Fiscal 2007, Fiscal 2006 and Fiscal 2005.
- **Financial condition and liquidity.** This section provides an analysis of our cash flows for Fiscal 2007, Fiscal 2006 and Fiscal 2005, as well as a discussion of our financial condition and liquidity as of March 31, 2007. The discussion of our financial condition and liquidity includes (i) our available financial capacity under our credit facility, (ii) a summary of our key debt compliance measures and (iii) a summary of our outstanding debt and commitments as of March 31, 2007.
- **Market risk management.** This section discusses how we manage exposure to potential losses arising from adverse changes in interest rates, foreign currency exchange rates and fluctuations in the reported net assets of certain of our international operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- **Critical accounting policies.** This section discusses accounting policies considered to be important to our financial condition and results of operations and which require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Notes 3 and 4 to our accompanying audited consolidated financial statements.
- **Recently issued accounting standards.** This section discusses the potential impact to our reported financial condition and results of operations of accounting standards that have been issued, but which we have not yet adopted.

OVERVIEW

Our Business

Our Company is a global leader in the design, marketing and distribution of premium lifestyle products including men's, women's and children's apparel, accessories, fragrances and home furnishings. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands and international markets. Our brand names include *Polo*, *Polo by Ralph Lauren*, *Ralph Lauren Purple Label*, *Ralph Lauren Black Label*, *RLX*, *Ralph Lauren Blue Label*, *Lauren*, *RRL*, *Rugby*, *Chaps*, *Club Monaco* and *American Living*, among others.

We classify our businesses into three segments: Wholesale, Retail and Licensing. Our wholesale business (representing 54% of Fiscal 2007 net revenues) consists of wholesale-channel sales made principally to major department stores, specialty stores and golf and pro shops located throughout the U.S. and Europe. Our retail business (representing 41% of Fiscal 2007 net revenues) consists of retail-channel sales directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, South America and Asia, and through our retail internet site located at www.Polo.com. In addition, our licensing business (representing 5% of Fiscal 2007 net revenues) consists of royalty-based arrangements under which we license the right to third parties to use our various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods. Approximately 20% of our Fiscal 2007 net revenues was earned in the international regions outside of the U.S. and Canada. See Note 20 to the accompanying audited consolidated financial statements for a summary of net revenues by geographic location.

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 and key vacation travel, back-to-school and holiday periods in the Retail segment.

Our Objectives and Risks

We believe our core strengths, including a global luxury lifestyle brand, a strong and experienced management team, a proven ability to develop and extend our brands distributed through multiple retail channels in global markets, a disciplined investment philosophy and a solid balance sheet, have collectively enabled us to significantly increase stockholder value in recent years. Further, we believe those core strengths will continue to allow us to execute our strategy for long-term sustainable growth in revenue, net income and operating cash flow.

Our operating success has been driven by the Company's focus on six key objectives:

- Creating unique businesses primarily centered around one core and heritage-driven brand;
- Diversifying and expanding our products and prices, distribution channels and geographic regions;
- Improving brand control and positioning;
- Focusing on selective strategic partnerships;
- Implementing infrastructure improvements that support a worldwide business; and
- Funding our expansion through strong operating cash flow.

In connection with these objectives, we intend to continue to pursue opportunities for growth globally to expand our retail presence in various formats designed to meet consumer needs, to further develop a wide array of luxury accessories product offerings, and to create new lifestyle brands in partnership with select department and specialty stores.

Significant challenges and risks accompany our opportunities for long-term growth and our ability to increase stockholder value. See Item 1A — “*Risk Factors*” included in the Fiscal 2007 10-K for further discussion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

*Summary of Financial Performance***Operating Results**

During Fiscal 2007, we reported revenues of \$4.295 billion, net income of \$400.9 million and net income per diluted share of \$3.73. This compares to revenues of \$3.746 billion, net income of \$308.0 million and net income per diluted share of \$2.87 during Fiscal 2006. Our strong Fiscal 2007 operating performance was primarily driven by 14.7% revenue growth led by our Wholesale and Retail segments (including the effect of certain acquisitions that occurred in Fiscal 2006) and gross profit percentage expansion of 40 basis points to 54.4%. Excluding the effect of acquisitions, revenues increased by 10.0%. Operating income as a percentage of revenue increased 140 basis points to 15.2% during Fiscal 2007, reflecting our revenue growth, gross profit percentage expansion and improved leveraging of selling, general and administrative ("SG&A") expenses. SG&A expenses included stock-based compensation costs reflecting the adoption of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R"). Such costs were \$43.6 million on a pre-tax basis (\$26.1 million after-tax) in Fiscal 2007, compared to \$26.6 million on a pre-tax basis (\$16.2 million after-tax) in Fiscal 2006. In turn, net income per diluted share was reduced by stock-based compensation costs in the amount of \$0.24 per share during Fiscal 2007, compared to \$0.15 per share during Fiscal 2006. Offsetting the higher stock-based compensation costs and contributing to the growth in net income and net income per diluted share was a net reduction in Fiscal 2007 of \$19.0 million of pre-tax charges related to restructurings, asset impairments and credit card contingencies as compared to Fiscal 2006. See "*Transactions Affecting Comparability of Results of Operations and Financial Condition*" described below for further discussion of these transactions.

See Note 18 to the accompanying audited consolidated financial statements for further discussion of the impact of adopting FAS 123R.

Financial Condition and Liquidity

Our financial position continues to reflect the strength of our business results. We ended Fiscal 2007 with a net cash position (total cash and cash equivalents less total debt) of \$165.1 million, compared to \$5.3 million at the end of Fiscal 2006. In addition, our stockholders' equity increased to \$2.335 billion as of March 31, 2007, compared to \$2.050 billion as of April 1, 2006. During Fiscal 2007, we successfully completed the issuance of Euro 300 million principal amount of 4.50% notes due October 4, 2013 (the "2006 Euro Debt"). We used the net proceeds from this issuance to repay approximately Euro 227 million principal amount of Euro debt obligations that matured on November 22, 2006 (the "1999 Euro Debt") and for general corporate and working capital purposes. Also, during Fiscal 2007, we took advantage of our recent credit rating upgrades and amended our credit facility to increase our borrowing capacity, lower our financing costs and eliminate certain financial covenants (see Note 13 to the accompanying audited consolidated financial statements for further discussion).

We generated \$796.1 million of cash from operations during Fiscal 2007, compared to \$449.1 million in the prior fiscal year. Included in our cash from operations was approximately \$180 million (net of certain refundable tax withholdings) of prepaid royalty and design-service fees from Luxottica Group, S.p.A. and affiliates ("Luxottica") in connection with the start of our ten-year eyewear licensing agreement with Luxottica (see Note 22 to the accompanying audited consolidated financial statements for further discussion). We used our higher cash availability to reinvest in our business through capital spending and acquisitions, as well as in connection with the expansion of our common stock repurchase program. In particular, we had \$184 million of capital expenditures primarily associated with retail store expansion, construction and renovation of shop-in-shops in department stores and investments in our technological infrastructure. We used \$175 million to acquire the remaining 50% equity interest in RL Media, our e-commerce subsidiary, that we did not previously own (see "*Recent Developments*" for further discussion). We also acquired 3.5 million shares of Class A common stock at an aggregate cost of \$231.3 million.

Transactions Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results has been affected by certain acquisitions that occurred in Fiscal 2006 and Fiscal 2005. In particular, we acquired the Polo Jeans Business on February 3, 2006, the Footwear Business on July 15, 2005, and the Childrenswear Business on July 2, 2004 (each as defined in Note 5 to the accompanying audited consolidated financial statements). In addition, as noted above, the comparability of our operating results also has been affected by the change in accounting for stock-based compensation effective as of the beginning of Fiscal 2007, and by certain pre-tax charges related to restructurings,

MANAGEMENT'S DISCUSSION AND ANALYSIS

asset impairments, and credit card and other litigation-related contingencies during the fiscal years presented. A summary of the effect of these items on pre-tax income for each period presented is noted below:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
STOCK-BASED COMPENSATION COSTS (SEE NOTE 18)	\$ (43.6)	\$ (26.6)	\$ (12.9)
RESTRUCTURING CHARGES (SEE NOTE 11)	(4.6)	(9.0)	(2.3)
IMPAIRMENTS OF RETAIL ASSETS (SEE NOTE 7)	—	(10.8)	(1.5)
CREDIT CARD CONTINGENCY CHARGE (SEE NOTE 15)	(3.0)	(6.8)	(6.2)
JONES-RELATED LITIGATION CHARGE (SEE NOTE 5)	—	—	(100.0)
	\$ (51.2)	\$ (53.2)	\$ (122.9)

The following discussion of results of operations highlights, as necessary, the significant changes in operating results arising from these items and transactions. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users individually should consider the types of events and transactions that have affected operating trends.

Recent Developments

Japanese Business Acquisitions

On May 29, 2007, the Company completed its previously announced transactions to acquire control of certain of its Japanese businesses that were formerly conducted under licensed arrangements. In particular, the Company acquired approximately 77% of the outstanding shares of Impact 21 that it did not previously own in a cash tender offer (the "Impact 21 Acquisition"), thereby increasing its ownership in Impact 21 from approximately 20% to 97%. Impact 21 conducts the Company's men's, women's and jeans apparel and accessories business in Japan under a sub-license arrangement. In addition, the Company acquired the remaining 50% interest in Polo Ralph Lauren Japan Corporation ("PRL Japan"), which holds the master license to conduct Polo's business in Japan, from Onward Kashiya Co. Ltd and its subsidiaries ("Onward Kashiya") and The Seibu Department Stores, Ltd (the "PRL Japan Minority Interest Acquisition"). Collectively, the Impact 21 Acquisition and the PRL Japan Minority Interest Acquisition are hereafter referred to as the "Japanese Business Acquisitions."

The purchase price initially paid in connection with the Impact 21 Acquisition was approximately \$327 million. However, the Company intends to acquire, over the next several months, the remaining approximately 3% of the outstanding shares not exchanged as of the close of the tender offer period at an estimated aggregate cost of approximately \$12 million. In addition, the purchase price paid in connection with the PRL Japan Minority Interest Acquisition was approximately \$22 million.

The Company funded the Japanese Business Acquisitions with available cash on-hand and approximately \$170 million of Yen-based borrowings under a one-year term loan agreement on terms substantially similar to the Company's existing credit facility. The Company expects to repay the borrowing by its maturity date using a portion of the approximate \$200 million of Impact 21's cash on-hand acquired as part of the acquisition.

The results of operations for Impact 21 will be consolidated effective as of the beginning of Fiscal 2008. The results of operations for PRL Japan already are consolidated by the Company as described further in Note 2 to the accompanying audited consolidated financial statements.

The Company is in the process of preparing its assessment of the fair value of assets acquired and liabilities assumed for the allocation of the purchase price. The Company also has entered into a transition services agreement with Onward Kashiya which, along with its affiliates, was a former approximate 41% shareholder of Impact 21, to provide a variety of operational, human resources and information systems-related services over a period of up to two years.

The Company does not expect the results of the Japanese Business Acquisitions to contribute to its profitability until Fiscal 2009 primarily due to the dilutive effect of the anticipated non-cash costs to be recognized in connection with the allocation of a portion of the purchase price to inventory and certain intangible assets.

Acquisition of Small Leathergoods Business

On April 13, 2007, the Company acquired from Kellwood Company ("Kellwood") substantially all of the assets of New Campaign, Inc., the Company's licensee for men's and women's belts and other small leather goods under the Ralph Lauren, Lauren and Chaps brands in the U.S. The assets acquired from Kellwood will be operated under the name of "Polo Ralph Lauren Leathergoods" and will allow the Company to further expand its accessories business. The acquisition cost was approximately \$10 million and is subject to customary closing adjustments. Kellwood will provide various transition services for up to six months after the closing.

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The results of operations for the Polo Ralph Lauren Leathergoods business will be consolidated in the Company's results of operations commencing in Fiscal 2008.

Acquisition of RL Media Minority Interest

On March 28, 2007, the Company acquired the remaining 50% equity interest in Ralph Lauren Media, LLC ("RL Media") held by NBC Universal, Inc. and its related entities (37.5%) and Value Vision International, Inc. and its related entities (12.5%). RL Media conducts the Company's e-commerce initiatives through the Polo.com internet site and is consolidated by the Company as the primary beneficiary pursuant to the provisions of FIN 46R. The acquisition cost was \$175 million. In addition, Value Vision International, Inc. entered into a transition services agreement with the Company to provide order fulfillment and related services over a period of up to seventeen months from the date of the acquisition of the RL Media minority interest.

The Company expects the acquisition of the RL Media minority interest to have a dilutive effect on profitability in Fiscal 2008 due primarily to the non-cash costs to be recognized in connection with the allocation of a portion of the purchase price to inventory and certain intangible assets.

Formation of Ralph Lauren Watch and Jewelry Joint Venture

On March 5, 2007, the Company announced that it had agreed to form a joint venture with Financiere Richemont SA ("Richemont"), the Swiss Luxury Goods Group. The 50-50 joint venture will be a Swiss corporation named the Ralph Lauren Watch and Jewelry Company, S.A.R.L. (the "RL Watch Company"), whose purpose is to design, develop, manufacture, sell and distribute luxury watches and fine jewelry through Ralph Lauren boutiques, as well as through fine independent jewelry and luxury watch retailers throughout the world. The Company expects to account for its 50% interest in the RL Watch Company under the equity method of accounting. Royalty payments due to the Company under the related license agreement for use of certain of the Company's trademarks will be reflected as licensing revenue within the consolidated statement of operations. The RL Watch Company is expected to commence operations during the first quarter of Fiscal 2008.

The Company expects to incur certain start-up costs in Fiscal 2008 to support the launch of this business. However, the business is not expected to generate any sales until Fiscal 2009 as products are scheduled to be launched in the fall of calendar 2008.

Global Brand Concepts and Launch of American Living

On January 8, 2007, the Company announced it will begin to develop new lifestyle brands for specialty and department stores through its Global Brand Concepts ("GBC") group. The GBC group will work in partnership with select department and specialty stores and contribute its expertise in design, operations, marketing, merchandising and advertising in developing exclusive brands for those stores. Consistent with this strategic initiative, on February 1, 2007, the Company announced plans to launch *American Living*, a new lifestyle brand created exclusively for J.C. Penney Company, Inc. ("JCPenney"). *American Living* will include a full range of merchandise for women, men and children, as well as intimate apparel, accessories and home products.

The Company expects to incur certain start-up costs in Fiscal 2008 to support the launch of this new product line. However, the Company is not expected to generate any significant sales in Fiscal 2008 as the *American Living* product line is not scheduled to be available at JCPenney stores until the spring of calendar 2008.

Eyewear Licensing Agreement

In February 2006, the Company announced that it had entered into a ten-year exclusive licensing agreement with Luxottica Group, S.p.A. and affiliates ("Luxottica") for the design, production, sale and distribution of prescription frames and sunglasses under the Polo Ralph Lauren brand (the "Eyewear Licensing Agreement").

The Eyewear Licensing Agreement took effect on January 1, 2007 after the Company's pre-existing licensing agreement with another licensee expired. In early January, the Company received a prepayment of approximately \$180 million, net of certain tax withholdings, in consideration of the annual minimum royalty and design-services fees to be earned over the life of the contract. The prepayment is non-refundable, except with respect to certain breaches of the agreement by the Company, in which case only the unearned portion of the prepayment as determined based on the specific terms of the agreement would be required to be repaid (see Note 22 to the accompanying audited consolidated financial statements for further discussion).

See Note 5 to the accompanying audited consolidated financial statements for further discussion of the Company's acquisitions and joint venture formed during the fiscal years presented.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Fiscal 2007 Compared to Fiscal 2006

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statements captions:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	INCREASE/ (DECREASE)	PERCENT CHANGE
NET REVENUES	\$ 4,295.4	\$ 3,746.3	\$ 549.1	14.7%
COST OF GOODS SOLD ^(a)	(1,959.2)	(1,723.9)	(235.3)	13.7%
GROSS PROFIT	2,336.2	2,022.4	313.8	15.5%
GROSS PROFIT AS % OF NET REVENUES	54.4%	54.0%		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ^(a)	(1,663.4)	(1,476.9)	(186.5)	12.6%
SG&A AS % OF NET REVENUES	38.7%	39.4%		
AMORTIZATION OF INTANGIBLE ASSETS	(15.6)	(9.1)	(6.5)	71.4%
IMPAIRMENTS OF RETAIL ASSETS	-	(10.8)	10.8	(100.0)%
RESTRUCTURING CHARGES	(4.6)	(9.0)	4.4	(48.9)%
OPERATING INCOME	652.6	516.6	136.0	26.3%
OPERATING INCOME AS % OF NET REVENUES	15.2%	13.8%		
FOREIGN CURRENCY GAINS (LOSSES)	(1.5)	(5.7)	4.2	(73.7)%
INTEREST EXPENSE	(21.6)	(12.5)	(9.1)	72.8%
INTEREST INCOME	26.1	13.7	12.4	90.5%
EQUITY IN INCOME OF EQUITY-METHOD INVESTEEES	3.0	4.3	(1.3)	(30.2)%
MINORITY INTEREST EXPENSE	(15.3)	(13.5)	(1.8)	13.3%
INCOME BEFORE PROVISION FOR INCOME TAXES	643.3	502.9	140.4	27.9%
PROVISION FOR INCOME TAXES	(242.4)	(194.9)	(47.5)	24.4%
EFFECTIVE TAX RATE ^(b)	37.7%	38.8%		
NET INCOME	\$ 400.9	\$ 308.0	\$ 92.9	30.2%
NET INCOME PER SHARE - BASIC	\$ 3.84	\$ 2.96	\$ 0.88	29.8%
NET INCOME PER SHARE - DILUTED	\$ 3.73	\$ 2.87	\$ 0.86	30.0%

^(a) Includes total depreciation expense of \$129.1 million and \$117.9 million for Fiscal 2007 and Fiscal 2006, respectively.

^(b) Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

Net Revenues. Net revenues increased by \$549.1 million, or 14.7%, to \$4.295 billion in Fiscal 2007 from \$3.746 billion in Fiscal 2006. The increase was experienced in all geographic regions and was due to a combination of organic growth and acquisitions. Wholesale revenues increased by \$373.4 million, primarily as a result of revenues from the newly acquired Polo Jeans Business, the successful launch of the new Chaps for women and children product lines, and increased sales in our global menswear and womenswear product lines. The increase in net revenues also was driven by a revenue increase of \$184.6 million in our Retail segment as a result of improved comparable global retail store sales, continued store expansion (including our new Tokyo flagship store) and growth in Polo.com sales. Licensing revenue decreased by \$8.9 million primarily due to the loss of product licensing revenue related to the Polo Jeans and Footwear Businesses (now included as part of the Wholesale segment). Net revenues for our three business segments are provided below:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	INCREASE/ (DECREASE)	PERCENT CHANGE
NET REVENUES:				
WHOLESALE	\$ 2,315.9	\$ 1,942.5	\$ 373.4	19.2%
RETAIL	1,743.2	1,558.6	184.6	11.8%
LICENSING	236.3	245.2	(8.9)	(3.6)%
TOTAL NET REVENUES	\$ 4,295.4	\$ 3,746.3	\$ 549.1	14.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

Wholesale net sales — the net increase primarily reflects:

- the inclusion of \$190 million of revenues from our newly acquired Footwear and Polo Jeans Businesses;
- a \$156 million aggregate net increase led by our global menswear, womenswear and childrenswear businesses, primarily driven by strong growth in our Lauren product line, increased full-price sell-through performance in our menswear business and the effects from the successful domestic launch of our new Chaps for women and children product lines. These increases were partially offset by a decline in footwear sales (excluding the impact from acquisition) due to our planned integration efforts as we repositioned the related product line; and
- a \$27 million increase in revenues due to a favorable foreign currency effect, primarily related to the strengthening of the Euro in comparison to the U.S. dollar in Fiscal 2007.

Retail net sales — For purposes of the discussion of retail operating performance below, we refer to the measure “comparable store sales.” Comparable store sales refer to the growth of sales in stores that are open for at least one full fiscal year. Sales for stores that are closing during a fiscal year are excluded from the calculation of comparable store sales. Sales for stores that are either relocated, enlarged (as defined by gross square footage expansion of 25% or greater) or closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until stores have been in their location for at least a full fiscal year. Comparable store sales information includes both Ralph Lauren stores and Club Monaco stores.

The increase in retail net sales primarily reflects:

- an aggregate \$104 million increase in comparable full-price and factory store sales on a global basis. This increase was driven by a 6.6% increase in comparable full-price Ralph Lauren store sales, a 10.9% increase in comparable full-price Club Monaco store sales, and an 8.1% increase in comparable factory store sales. Excluding a net aggregate favorable \$9 million effect on revenues from foreign currency exchange rates, comparable full-price Ralph Lauren store sales increased 5.7%, comparable full-price Club Monaco store sales increased 10.9%, and comparable factory store sales increased 7.5%;
- an increase in sales from non-comparable stores, primarily relating to new store openings within the past fiscal year. There was a net increase in global store count of 3 stores compared to the prior fiscal year, to a total of 292 stores. The net increase in store count was primarily due to several new openings of full-price stores, partially offset by the closure of certain Club Monaco Caban Concept and factory stores and Polo Jeans factory stores; and
- a \$26 million increase in sales at Polo.com.

Licensing revenue — the net decrease primarily reflects:

- the loss of licensing revenues from our Polo Jeans and Footwear Businesses now included as part of the Wholesale segment;
- a decline in eyewear-related royalties due to the wind-down of the Company's pre-existing licensing agreement prior to the commencement of the new Eyewear Licensing Agreement which took effect on January 1, 2007;
- a decline in Home licensing royalties; and
- a partially offsetting increase in international licensing royalties and the accelerated receipt and recognition of approximately \$8 million of minimum royalty and design-service fees in connection with the termination of a domestic license agreement during Fiscal 2007.

Cost of Goods Sold. Cost of goods sold increased by \$235.3 million, or 13.7%, to \$1.959 billion in Fiscal 2007 from \$1.724 billion in Fiscal 2006. Cost of goods sold expressed as a percentage of net revenues decreased to 45.6% in Fiscal 2007 from 46.0% in Fiscal 2006. The net reduction in cost of goods sold as a percentage of net revenues primarily reflects the ongoing focus on improved inventory management, including sourcing efficiencies and reduced markdown activity as a result of better full-price sell-through of our products.

Gross Profit. Gross profit increased by \$313.8 million, or 15.5%, to \$2.336 billion in Fiscal 2007 from \$2.022 billion in Fiscal 2006. Gross profit as a percentage of net revenues also increased to 54.4% in Fiscal 2007 from 54.0% in Fiscal 2006. The increase in gross profit reflected higher net sales and improved merchandise margins in our wholesale and retail businesses, including the continued emphasis on shifting the mix from off-price to full-price sales across our wholesale product lines, as well as the focus on improved inventory management discussed above. However, the overall improvement in gross profit margins was partially offset by the lower gross profit performance of our newly acquired Polo Jeans Business associated with the liquidation of existing inventory in anticipation of the redesign and launch of our new denim and casual sportswear product lines during spring of calendar 2007. Gross profit margins related to our Footwear Business have also been negatively impacted during Fiscal 2007, primarily by integration efforts as we repositioned the related product line.

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Selling, General and Administrative Expenses. SG&A expenses primarily include compensation and benefits, marketing, distribution, information technology, facilities, legal and other costs associated with finance and administration. SG&A expenses increased by \$186.5 million, or 12.6%, to \$1.663 billion in Fiscal 2007 from \$1.477 billion in Fiscal 2006. SG&A expenses as a percent of net revenues decreased to 38.7% in Fiscal 2007 from 39.4% in Fiscal 2006. The 70 basis point improvement is primarily indicative of our ability to successfully leverage our global infrastructure as we acquire businesses and grow product lines organically. The \$186.5 million net increase in SG&A expenses was primarily driven by:

- higher compensation-related expenses (excluding stock-based compensation) of approximately \$69 million, principally relating to increased selling costs associated with higher retail sales and our ongoing worldwide retail store and product line expansion, and higher investment in infrastructure to support the ongoing growth of our businesses;
- the inclusion of SG&A costs for our newly acquired Footwear and Polo Jeans Businesses, including costs incurred pursuant to transition service arrangements;
- a \$38 million increase in brand-related marketing and facilities costs to support the ongoing growth of our businesses;
- an approximate \$10 million increase in depreciation costs in connection with our increased capital expenditures and global expansion;
- incremental stock-based compensation expense of approximately \$17 million as a result of the adoption of FAS 123R as of April 2, 2006 (see Note 18 to the accompanying audited consolidated financial statements for further discussion); and
- a net reduction in credit card contingency charges of approximately \$4 million.

The Company expects to incur significantly greater stock-based compensation expense in Fiscal 2008 as compared to the related expense recognized in Fiscal 2007 primarily due to the approximate 45% increase in the Company's share price during Fiscal 2007.

Amortization of Intangible Assets. Amortization of intangible assets increased by \$6.5 million, to \$15.6 million in Fiscal 2007 from \$9.1 million in Fiscal 2006. The increase was due to the amortization of intangible assets related to the Polo Jeans Business acquired in February 2006 and the Footwear Business acquired in July 2005.

Impairments of Retail Assets. A non-cash impairment charge of \$10.8 million was recognized during Fiscal 2006 to reduce the carrying value of fixed assets largely relating to our Club Monaco brand. No impairment charges were recognized in Fiscal 2007.

Restructuring Charges. Restructuring charges decreased by \$4.4 million, to \$4.6 million in Fiscal 2007 from \$9.0 million in Fiscal 2006. Restructuring charges recognized in both periods were principally associated with the Club Monaco retail business. See Note 11 to the accompanying audited consolidated financial statements for further discussion.

Operating Income. Operating income increased by \$136.0 million, or 26.3%, to \$652.6 million in Fiscal 2007 from \$516.6 million in Fiscal 2006. Operating income as a percentage of revenue increased 140 basis points, to 15.2% in Fiscal 2007 from 13.8% in Fiscal 2006, reflecting our revenue growth, gross profit percentage expansion and improved SG&A expense leveraging. Operating income for our three business segments is provided below:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	INCREASE/ (DECREASE)	PERCENT CHANGE
OPERATING INCOME:				
WHOLESALE	\$ 477.8	\$ 398.3	\$ 79.5	20.0%
RETAIL	224.2	140.0	84.2	60.1%
LICENSING	141.6	153.5	(11.9)	(7.8)%
	843.6	691.8	151.8	21.9%
LESS:				
UNALLOCATED CORPORATE EXPENSES	(183.4)	(159.1)	(24.3)	15.3%
UNALLOCATED LEGAL AND RESTRUCTURING CHARGES	(7.6)	(16.1)	8.5	(52.8)%
TOTAL OPERATING INCOME	\$ 652.6	\$ 516.6	\$ 136.0	26.3%

Wholesale operating income increased by \$79.5 million, primarily as a result of higher net sales and improved gross margin rates in most product lines, as well as the incremental contribution from the newly acquired Polo Jeans Business and the new Chaps product lines. These increases were partially offset by increases in SG&A expenses in support of new product lines across all geographic territories and higher amortization expenses associated with intangible assets recognized in acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Retail operating income increased by \$84.2 million, primarily as a result of increased net sales and improved gross margin rates, as well as the absence of a non-cash impairment charge of \$10.8 million recognized in Fiscal 2006. These increases were partially offset by an increase in selling related salaries and associated costs in connection with the increase in retail sales, including Polo.com, and worldwide store expansion, including the new Tokyo flagship store.

Licensing operating income decreased by \$11.9 million primarily due to the loss of royalty income formerly collected in connection with the Footwear and Polo Jeans Businesses, which have now been acquired. The decline in Home royalties also contributed to the decrease along with the decline in eyewear royalties, due to the wind-down of the Company's pre-existing licensing agreement. These decreases were partially offset by an increase in international royalties, as well as the accelerated receipt and recognition of approximately \$8 million of minimum royalty and design-service fees in connection with the termination of a domestic license agreement during Fiscal 2007.

Unallocated corporate expenses increased by \$24.3 million, primarily as a result of increases in brand-related marketing, payroll-related and facilities costs to support the ongoing growth of our businesses. The increase in compensation-related costs includes higher stock-based compensation expense due to the adoption of FAS 123R (as further discussed in Note 18 to the accompanying audited consolidated financial statements).

Unallocated legal and restructuring charges were \$7.6 million during Fiscal 2007, compared to \$16.1 million during Fiscal 2006. Fiscal 2007 charges were principally associated with the Club Monaco Restructuring Plan charges of \$4.0 million (as defined in Note 11 to the accompanying audited consolidated financial statements) and costs of \$3.0 million related to the Credit Card Matters (as defined in Note 15 to the accompanying audited consolidated financial statements). Fiscal 2006 charges also primarily included the Club Monaco Restructuring Plan charges of \$9.0 million and legal costs of \$6.8 million associated with the Credit Card Matters.

Foreign Currency Gains (Losses). The effect of foreign currency exchange rate fluctuations resulted in a loss of \$1.5 million in Fiscal 2007, compared to a loss of \$5.7 million in Fiscal 2006. The decrease in foreign currency losses compared to the prior fiscal year is due to the timing of the settlement of intercompany receivables and payables (that were not of a long-term investment nature) between certain of our international and domestic subsidiaries. Foreign currency gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

Interest Expense. Interest expense includes the borrowing cost of our outstanding debt, including amortization of debt issuance costs and the loss (gain) on interest rate swap hedging contracts. Interest expense increased by \$9.1 million to \$21.6 million in Fiscal 2007 from \$12.5 million in Fiscal 2006. The increase is primarily due to an increase in interest on capitalized leases due to additional obligations in Fiscal 2007 compared to the prior fiscal year and overlapping interest on debt during the period between the issuance of the 2006 Euro Debt and the repayment of the 1999 Euro Debt. In addition, prior year interest expense was favorably impacted by the interest rate swap agreements which were terminated at the end of Fiscal 2006.

Interest Income. Interest income increased by \$12.4 million, to \$26.1 million in Fiscal 2007 from \$13.7 million in Fiscal 2006. This increase is primarily driven by higher average interest rates and higher balances on our invested excess cash.

Equity in Income of Equity-Method Investees. Equity in the income of equity-method investees decreased by \$1.3 million, to \$3.0 million in Fiscal 2007 from \$4.3 million in Fiscal 2006. This income relates to our 20% investment in Impact 21, a company that holds the sublicense with PRL Japan for our men's, women's and jeans businesses in Japan. See "Recent Developments" for further discussion of the Company's Japanese Business Acquisitions that occurred in May 2007.

Minority Interest Expense. Minority interest expense increased by \$1.8 million, to \$15.3 million in Fiscal 2007 from \$13.5 million in Fiscal 2006. The net increase is primarily related to the improved operating performance of RL Media compared to the prior period and the associated allocation of income to the minority partners. As of March 28, 2007, the Company acquired the remaining 50% interest in RL Media held by the minority partners (see "Recent Developments" for further discussion).

Provision for Income Taxes. The provision for income taxes represents federal, foreign, state and local income taxes. The provision for income taxes increased by \$47.5 million, or 24.4%, to \$242.4 million in Fiscal 2007 from \$194.9 million in Fiscal 2006. This increase is a result of the increase in our pre-tax income, partially offset by a decrease in our reported effective tax rate, to

MANAGEMENT'S DISCUSSION AND ANALYSIS

37.7% in Fiscal 2007 from 38.8% in Fiscal 2006. The lower effective tax rate is primarily due to a change in the mix of earnings, which resulted in more income being taxed at lower rates than in the previous fiscal year. The effective tax rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year-to-year based on non-recurring and recurring factors including, but not limited to, the geographic mix of earnings, the timing and amount of foreign dividends, enacted tax legislation, state and local taxes, tax audit findings and settlements, and the interaction of various global tax strategies. See "Critical Accounting Policies" for a discussion on the accounting for uncertain tax positions and the Company's adoption of FIN 48 in Fiscal 2008.

Net Income. Net income increased by \$92.9 million, or 30.2%, to \$400.9 million in Fiscal 2007 from \$308.0 million in Fiscal 2006. The increase in net income principally related to our \$136.0 million increase in operating income, as previously discussed, offset in part by an increase of \$47.5 million in our provision for income taxes.

Net Income Per Diluted Share. Net income per diluted share increased by \$0.86, or 30.0%, to \$3.73 per share in Fiscal 2007 from \$2.87 per share in Fiscal 2006. The increase in diluted per share results was primarily due to the higher level of net income, partially offset by higher weighted-average diluted shares outstanding for Fiscal 2007.

Fiscal 2006 Compared to Fiscal 2005

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statements captions:

FISCAL YEARS ENDED: (millions)	APRIL 1, 2006	APRIL 2, 2005	INCREASE/ (DECREASE)	PERCENT CHANGE
NET REVENUES	\$ 3,746.3	\$ 3,305.4	\$ 440.9	13.3%
COST OF GOODS SOLD ^(a)	(1,723.9)	(1,620.9)	(103.0)	6.4%
GROSS PROFIT	2,022.4	1,684.5	337.9	20.1%
GROSS PROFIT AS % OF NET REVENUES	54.0%	51.0%		
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ^(a)	(1,476.9)	(1,377.6)	(99.3)	7.2%
SG&A AS % OF NET REVENUES	39.4%	41.7%		
AMORTIZATION OF INTANGIBLE ASSETS	(9.1)	(3.4)	(5.7)	167.6%
IMPAIRMENTS OF RETAIL ASSETS	(10.8)	(1.5)	(9.3)	620.0%
RESTRUCTURING CHARGES	(9.0)	(2.3)	(6.7)	291.3%
OPERATING INCOME	516.6	299.7	216.9	72.4%
OPERATING INCOME AS % OF NET REVENUES	13.8%	9.1%		
FOREIGN CURRENCY GAINS (LOSSES)	(5.7)	6.1	(11.8)	(193.4)%
INTEREST EXPENSE	(12.5)	(11.0)	(1.5)	13.6%
INTEREST INCOME	13.7	4.6	9.1	197.8%
EQUITY IN INCOME OF EQUITY-METHOD INVESTEEES	4.3	6.4	(2.1)	(32.8)%
MINORITY INTEREST EXPENSE	(13.5)	(8.0)	(5.5)	68.8%
INCOME BEFORE PROVISION FOR INCOME TAXES	502.9	297.8	205.1	68.9%
PROVISION FOR INCOME TAXES	(194.9)	(107.4)	(87.5)	81.5%
EFFECTIVE TAX RATE ^(b)	38.8%	36.1%		
NET INCOME	\$ 308.0	\$ 190.4	\$ 117.6	61.8%
NET INCOME PER SHARE - BASIC	\$ 2.96	\$ 1.88	\$ 1.08	57.4%
NET INCOME PER SHARE - DILUTED	\$ 2.87	\$ 1.83	\$ 1.04	56.8%

^(a) Includes total depreciation expense of \$117.9 million and \$98.7 million for Fiscal 2006 and Fiscal 2005, respectively.

^(b) Effective tax rate is calculated by dividing the provision for income taxes by income before provision for income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Revenues. Net revenues increased by \$440.9 million, or 13.3%, to \$3.746 billion in Fiscal 2006 from \$3.305 billion in Fiscal 2005. Wholesale revenues increased by \$230.4 million, primarily as a result of revenues from the sale of newly acquired Footwear and Polo Jeans products, the inclusion of a full year of sales for our childrenswear business, which was acquired in July 2004 (the "Childrenswear Business"), the successful launch of the Chaps for women and boys product lines, and increased sales in our global menswear and womenswear product lines. The increase in net revenues also was due to a \$210.0 million revenue increase in our Retail segment as a result of improved comparable retail store sales, continued store expansion and growth in Polo.com sales. Net revenues for our three business segments are provided below:

FISCAL YEARS ENDED: (millions)	APRIL 1, 2006	APRIL 2, 2005	INCREASE/ (DECREASE)	PERCENT CHANGE
NET REVENUES:				
WHOLESALE	\$ 1,942.5	\$ 1,712.1	\$ 230.4	13.5%
RETAIL	1,558.6	1,348.6	210.0	15.6%
LICENSING	245.2	244.7	0.5	0.2%
TOTAL NET REVENUES	\$ 3,746.3	\$ 3,305.4	\$ 440.9	13.3%

Wholesale net sales — the net increase primarily reflects:

- the inclusion of \$58 million of revenue from the newly acquired Footwear Business;
- the inclusion of \$35 million of revenues from the newly acquired Polo Jeans Business;
- a \$74 million increase in revenues from our childrenswear product line that was acquired in July 2004, including the effects from the successful launch of our Chaps for boys product line and a one-time benefit of \$59 million due to the inclusion of a full year of sales in Fiscal 2006;
- a \$73 million aggregate constant-dollar increase in our global menswear and womenswear businesses, primarily driven by strong growth in our Lauren product line and the effects from the successful domestic launch of our Chaps for women product line; and
- a \$14 million decrease in revenues due to an unfavorable foreign currency effect relating to the strengthening of the U.S. dollar in comparison to the Euro during Fiscal 2006.

Retail net sales — the net increase primarily reflects:

- an aggregate \$74 million increase in comparable full-price and factory store sales. This increase was driven by a 6.0% increase in comparable full-price Ralph Lauren store sales, a 8.1% increase in comparable full-price Club Monaco store sales, and a 6.3% increase in comparable factory store sales. Excluding an unfavorable aggregate \$4 million effect on revenues from foreign currency exchange rates, comparable full-price Ralph Lauren store sales increased 6.6%, comparable full-price Club Monaco store sales increased 8.1%, and comparable factory store sales increased 6.6%;
- a net increase in global store count of 11 stores compared to the prior year, to a total of 289 stores, as several new openings were offset by the closure of certain Club Monaco stores in the fourth quarter of Fiscal 2006; and
- a \$29 million increase in sales at Polo.com.

Licensing revenues — Licensing revenues were essentially flat in Fiscal 2006 compared to Fiscal 2005, as increased revenue from our international licensing business and the domestic launch of the Chaps brand extensions for the menswear and accessories businesses offset the decreases in product licensing revenue resulting from our Fiscal 2006 purchase of the Footwear and Polo Jeans Businesses (now included as part of the Wholesale segment).

Cost of Goods Sold. Cost of goods sold increased by \$103.0 million, or 6.4%, to \$1.724 billion in Fiscal 2006 from \$1.621 billion in Fiscal 2005. Cost of goods sold expressed as a percentage of net revenues decreased to 46.0% in Fiscal 2006 from 49.0% in Fiscal 2005. The net reduction in cost of goods sold as a percentage of net revenues primarily reflected a continued focus on sourcing efficiencies and reduced markdown activity as a result of better full-price sell-through of our products.

Gross Profit. Gross profit increased by \$337.9 million, or 20.1%, to \$2.022 billion in Fiscal 2006 from \$1.685 billion in Fiscal 2005. This increase reflected higher net sales, improved merchandise margins and sourcing efficiencies, generally across our wholesale and retail businesses. Gross profit as a percentage of net revenues also increased to 54.0% in Fiscal 2006 from 51.0% in Fiscal 2005. This 300 basis point increase resulted primarily from the factors discussed above and a shift in mix away from off-price sales towards more full-price sales in our Wholesale segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Selling, General and Administrative Expenses. SG&A expenses increased by \$99.3 million, or 7.2%, to \$1.477 billion in Fiscal 2006 from \$1.378 billion in Fiscal 2005. SG&A expenses in Fiscal 2005 included a \$100 million charge in connection with the Jones-related Litigation. On a reported basis, SG&A as a percent of net revenues decreased by 2.2%, to 39.4% in Fiscal 2006 from 41.7% in Fiscal 2005. However, excluding the effect from the Jones-related Litigation charge, SG&A as a percentage of net revenues increased by 0.8%, to 39.4% in Fiscal 2006 from 38.7% in Fiscal 2005. Excluding the Jones-related Litigation charge, the \$199.3 million net increase in SG&A was primarily driven by:

- higher payroll-related expenses of approximately \$89 million, principally related to increased selling costs associated with higher retail sales and our worldwide retail store expansion, higher stock-based compensation charges associated with our strong operating performance and increasing stock price, and higher investment in infrastructure to support the ongoing growth of our businesses;
- an increase in brand-related marketing and facilities costs of approximately \$69 million to support the ongoing growth of our businesses;
- higher depreciation costs of approximately \$19 million in connection with our increased capital expenditures and global expansion; and
- the inclusion of SG&A costs for our newly acquired Footwear and Polo Jeans Businesses, and the costs for the Childrenswear Business for a full year.

Amortization of Intangible Assets. Amortization of intangible assets increased by \$5.7 million, to \$9.1 million in Fiscal 2006 from \$3.4 million in Fiscal 2005. The increase related to the addition of intangible assets acquired as part of the Childrenswear Business in July 2004, the Footwear Business in July 2005 and the Polo Jeans Business in February 2006.

Impairments of Retail Assets. A non-cash impairment charge of \$10.8 million was recognized during Fiscal 2006 to reduce the carrying value of fixed assets used in certain of our retail stores, largely related to our Club Monaco retail business that includes our Caban Concept and Club Monaco factory stores. This impairment charge primarily related to lower-than-expected store performance and preceded the implementation of a plan to restructure these operations in February 2006. A \$1.5 million impairment charge also was recognized in Fiscal 2005 related to Club Monaco retail stores.

Restructuring Charges. Restructuring charges increased by \$6.7 million, to \$9.0 million in Fiscal 2006 from \$2.3 million in Fiscal 2005. The Fiscal 2006 restructuring charge related to the Club Monaco retail business and included the intended closure of all five Club Monaco factory stores and the intended disposal of all eight of Club Monaco's Caban Concept stores. The Fiscal 2005 restructuring charge principally related to severance obligations incurred in connection with a consolidation of our European operations.

Operating Income. Operating income increased by \$216.9 million, or 72.4%, to \$516.6 million in Fiscal 2006 from \$299.7 million in Fiscal 2005. Operating income for Fiscal 2005 was reduced by the \$100 million Jones-related Litigation charge. Operating income for our three business segments is provided below:

FISCAL YEARS ENDED: (millions)	APRIL 1, 2006	APRIL 2, 2005	INCREASE/ (DECREASE)	PERCENT CHANGE
OPERATING INCOME:				
WHOLESALE	\$ 398.3	\$ 299.7	\$ 98.6	32.9%
RETAIL	140.0	82.8	57.2	69.1%
LICENSING	153.5	159.5	(6.0)	(3.8)%
	691.8	542.0	149.8	27.6%
LESS:				
UNALLOCATED CORPORATE EXPENSES	(159.1)	(133.8)	(25.3)	18.9%
UNALLOCATED LEGAL AND RESTRUCTURING CHARGES	(16.1)	(108.5)	92.4	(85.2)%
TOTAL OPERATING INCOME	\$ 516.6	\$ 299.7	\$ 216.9	72.4%

Wholesale operating income increased by \$98.6 million, primarily as a result of higher sales and improved gross margin rates, partially offset by increases in SG&A expenses and higher amortization expenses associated with intangible assets recognized in acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Retail operating income increased by \$57.2 million, primarily as a result of increased net sales and improved gross margin rates. These increases were partially offset by an increase in selling salaries and related costs in connection with the increase in retail sales and worldwide store expansion, along with higher retail store impairment charges.

Licensing operating income decreased by \$6.0 million, primarily due to the loss of royalty income formerly collected in connection with the Footwear, Polo Jeans, and Childrenswear Businesses, which have now been acquired. This decrease was partially offset by improved sell-through in our international licensing businesses.

Unallocated corporate expenses increased by \$25.3 million, primarily as a result of increases in brand-related marketing, payroll-related and facilities costs to support the ongoing growth of our businesses.

Unallocated legal and restructuring charges. Unallocated legal and restructuring charges decreased by \$92.4 million, to \$16.1 million in Fiscal 2006 from \$108.5 million in Fiscal 2005. Unallocated legal and restructuring charges included a \$100 million Jones-related Litigation charge in Fiscal 2005. No related charge was recognized in Fiscal 2006. The decrease was offset in part by higher restructuring charges of \$9.0 million related to the Club Monaco Restructuring Plan and legal costs of \$6.8 million associated with the credit card contingency recognized in Fiscal 2006.

Foreign Currency Gains (Losses). The effect of foreign currency exchange rate fluctuations resulted in a loss of \$5.7 million during Fiscal 2006, compared to a \$6.1 million gain during Fiscal 2005. The increased losses in Fiscal 2006 primarily related to unfavorable foreign exchange movements associated with intercompany receivables and payables that were not of a long-term investment nature and were settled by our international subsidiaries. These gains and losses are unrelated to the impact of changes in the value of the U.S. dollar when operating results of our foreign subsidiaries are translated to U.S. dollars.

Interest Expense. Interest expense increased by \$1.5 million, to \$12.5 million in Fiscal 2006 from \$11.0 million in Fiscal 2005. This increase was principally related to higher variable interest rates during the year under our interest rate swap agreements that were subsequently terminated.

Interest Income. Interest income increased by \$9.1 million, to \$13.7 million in Fiscal 2006 from \$4.6 million in Fiscal 2005. This increase principally related to a higher level of excess cash reinvestment and higher interest rates on our investments during Fiscal 2006.

Equity in Income of Equity-Method Investees. Equity in the income of equity-method investees decreased by \$2.1 million, to \$4.3 million in Fiscal 2006 from \$6.4 million in Fiscal 2005. The decrease principally related to higher amortization in Fiscal 2006 of a basis difference associated with our 20% investment in Impact 21. See "Recent Developments" for further discussion of the Company's Japanese Business Acquisitions that occurred in May 2007.

Minority Interest Expense. Minority interest expense increased by \$5.5 million, to \$13.5 million in Fiscal 2006 from \$8.0 million in Fiscal 2005. The net increase is primarily related to the improved operating performance of RL Media compared to the prior period and the associated allocation of income to the minority partners. As of March 28, 2007, the Company acquired the remaining 50% interest in RL Media held by the minority partners (see "Recent Developments" for further discussion).

Provision for Income Taxes. The provision for income taxes increased by \$87.5 million, or 81.5%, to \$194.9 million in Fiscal 2006 from \$107.4 million in Fiscal 2005. This increase is a result of an increase in our effective tax rate to 38.8% in Fiscal 2006 from 36.1% in Fiscal 2005, as well as the increase in our pre-tax income. The increase in our effective tax rate principally resulted from the continued growth of our domestic wholesale and retail businesses, which led to a higher state tax impact.

Net Income. Net income increased by \$117.6 million, or 61.8%, to \$308.0 million in Fiscal 2006 from \$190.4 million in Fiscal 2005. The increase in net income principally related to the \$216.9 million increase in operating income previously discussed, including the effect of the \$100 million Jones-related Litigation charge recognized in Fiscal 2005. These benefits were offset in part by higher foreign currency losses of \$11.8 million and higher taxes of \$87.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Income Per Diluted Share. Net income per diluted share increased by \$1.04, or 56.8%, to \$2.87 in Fiscal 2006 from \$1.83 in Fiscal 2005. The improvement in diluted per share results was due to the higher level of net income and the absence of the \$100 million Jones-related Litigation charge recognized in Fiscal 2005, offset in part by higher dilution associated with higher average shares outstanding in Fiscal 2006.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

(millions)	MARCH 31, 2007	APRIL 1, 2006	INCREASE/ (DECREASE)
CASH AND CASH EQUIVALENTS	\$ 563.9	\$ 285.7	\$ 278.2
CURRENT MATURITIES OF DEBT	—	(280.4)	280.4
LONG-TERM DEBT	(398.8)	—	(398.8)
NET CASH ^(a)	\$ 165.1	\$ 5.3	\$ 159.8
STOCKHOLDERS' EQUITY	\$ 2,334.9	\$ 2,049.6	\$ 285.3

^(a) Defined as total cash and cash equivalents less total debt.

The increase in the Company's net cash position principally relates to its growth in operating cash flows (including approximately \$180 million of net proceeds received in conjunction with the Eyewear Licensing Agreement) and the excess proceeds raised through the third-quarter refinancing of its Euro debt, partially offset by the \$175 million use of cash to fund the acquisition of the remaining 50% equity interest in RL Media that it did not previously own, \$184 million of capital expenditures and \$231 million to repurchase shares of common stock in connection with its common stock repurchase program. The increase in stockholders' equity principally relates to the Company's strong earnings growth during Fiscal 2007 and proceeds received from the exercise of stock options, offset in part by the effects from its common stock repurchase program.

Cash Flows

Fiscal 2007 Compared to Fiscal 2006

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	INCREASE/ (DECREASE)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 796.1	\$ 449.1	\$ 347.0
NET CASH USED IN INVESTING ACTIVITIES	(434.6)	(539.2)	104.6
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(95.2)	33.5	(128.7)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	11.9	(8.2)	20.1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 278.2	\$ (64.8)	\$ 343.0

Net Cash Provided by Operating Activities. Net cash provided by operating activities increased to \$796.1 million during Fiscal 2007, compared to \$449.1 million for Fiscal 2006. This \$347.0 million increase in operating cash flow was driven primarily by the increase in net income, the receipt of approximately \$180 million under the new Eyewear Licensing Agreement (net of certain tax withholdings) and the absence of the \$100 million payment to settle the Jones-related Litigation in Fiscal 2006, partially offset by higher tax payments made in Fiscal 2007. Also offsetting the increase in operating cash flow was an increase in working capital needs during Fiscal 2007, primarily as a result of recent expansions and the overall growth in the business. This increase was partially offset by a decrease in accounts receivable days sales outstanding as a result of improved cash collections in the Company's Wholesale segment. On a comparative basis, operating cash flows were reduced by \$33.7 million as a result of a change in the reporting of excess tax benefits from stock-based compensation arrangements. That is, prior to the adoption of FAS 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. FAS 123R requires excess tax benefits to be reported as a financing cash inflow rather than in operating cash flows as a reduction of taxes paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Cash Used in Investing Activities. Net cash used in investing activities was \$434.6 million for Fiscal 2007, as compared to \$539.2 million for Fiscal 2006. The net decrease in cash used in investing activities is primarily due to acquisition-related activities. In Fiscal 2007, the Company used \$175 million to fund the acquisition of the remaining 50% equity interest in RL Media that it did not previously own, whereas in Fiscal 2006, approximately \$380 million was used primarily to fund the acquisition of the Polo Jeans and Footwear Businesses. In addition, net cash used in investing activities for Fiscal 2007 included \$74.5 million of restricted cash placed in escrow with certain banks as collateral to secure guarantees of a corresponding amount made by the banks to certain international tax authorities on behalf of the Company (see Note 3 to the accompanying audited consolidated financial statements for further discussion). Net cash used in investing activities also included \$184.0 million relating to capital expenditures, as compared to \$158.6 million in the comparable prior year.

Net Cash (Used in)/Provided by Financing Activities. Net cash used in financing activities was \$95.2 million for Fiscal 2007, compared to net cash provided by financing activities of \$33.5 million in Fiscal 2006. The increase in net cash used in financing activities during Fiscal 2007 principally related to the repayment of approximately Euro 227 million principal amount (\$291.6 million) of the Company's 1999 Euro Debt and the repurchase of 3.5 million shares of Class A common stock pursuant to its common stock repurchase program at a cost of \$231.3 million. Partially offsetting the increase was the receipt of proceeds from the issuance of Euro 300 million principal amount (approximately \$380 million) of 2006 Euro Debt. This net increase in cash used in financing activities was partially offset by the change in the reporting of excess tax benefits from stock-based compensation arrangements of \$33.7 million.

Fiscal 2006 Compared to Fiscal 2005

FISCAL YEARS ENDED: (millions)	APRIL 1, 2006	APRIL 2, 2005	INCREASE/ (DECREASE)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 449.1	\$ 382.0	\$ 67.1
NET CASH USED IN INVESTING ACTIVITIES	(539.2)	(417.4)	(121.8)
NET CASH PROVIDED BY FINANCING ACTIVITIES	33.5	31.5	2.0
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8.2)	2.1	(10.3)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (64.8)	\$ (1.8)	\$ (63.0)

Net Cash Provided by Operating Activities. Net cash provided by operating activities increased to \$449.1 million during Fiscal 2006, compared to \$382.0 million in Fiscal 2005. This \$67.1 million increase in cash flow was driven primarily by an increase in net income and lower working capital requirements, partially offset by a \$100 million payment to settle the Jones-related Litigation. The lower working capital requirements in Fiscal 2006 primarily related to a decrease in accounts receivable days sales outstanding as a result of improved cash collections in the Company's Wholesale segment, partially offset by higher inventory balances primarily due to the newly acquired Polo Jeans and Footwear Businesses.

Net Cash Used in Investing Activities. Net cash used in investing activities was \$539.2 million in Fiscal 2006, compared to \$417.4 million in Fiscal 2005. The increase in cash used in investing activities principally related to acquisition-related activities. In Fiscal 2006, the Company used approximately \$380 million primarily to fund the acquisition of the Polo Jeans and Footwear Businesses, whereas in Fiscal 2005, approximately \$243 million was used principally to fund the acquisition of the Childrenswear Business. In addition, net cash used in investing activities included capital expenditures of \$158.6 million in Fiscal 2006, compared to \$174.1 million in Fiscal 2005.

Net Cash Provided by Financing Activities. Net cash provided by financing activities was \$33.5 million in Fiscal 2006, compared to \$31.5 million in Fiscal 2005. The \$2.0 million increase in cash provided by financing activities was primarily related to the settlement of an interest rate swap agreement and an increase in proceeds received from the exercise of stock options, partially offset by the cost associated with repurchases of common stock. The Company repurchased common stock under its common stock repurchase program at an aggregate cost of approximately \$4 million in Fiscal 2006. No shares of common stock were repurchased in Fiscal 2005. Proceeds received from the exercise of stock options were approximately \$55 million in Fiscal 2006, compared to approximately \$53 million in Fiscal 2005. Cash dividends paid were approximately \$21 million in Fiscal 2006, compared to approximately \$22 million in Fiscal 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Liquidity

The Company's primary sources of liquidity are the cash flow generated from its operations, \$450 million of availability under its credit facility, available cash and equivalents and other potential sources of financial capacity relating to its under-leveraged capital structure. These sources of liquidity are needed to fund the Company's ongoing cash requirements, including working capital requirements, retail store expansion, construction and renovation of shop-in-shops, investment in technological infrastructure, acquisitions, dividends, debt repayment, stock repurchases and other corporate activities. Management believes that the Company's existing resources of cash will be sufficient to support its operating and capital requirements for the foreseeable future, including the acquisitions and plans for business expansion discussed above under the section entitled "*Recent Developments*."

As discussed below under the section entitled "*Debt and Covenant Compliance*," the Company had no borrowings under its credit facility as of March 31, 2007. However, as discussed further below, the Company may elect to draw on its credit facility or other potential sources of financing for, among other things, a material acquisition, settlement of a material contingency or a material adverse business development. Also, as discussed below, in October 2006, the Company completed the issuance of Euro 300 million principal amount of 2006 Euro Debt. The Company used the net proceeds from the financing to repay approximately Euro 227 million principal amount of its 1999 Euro Debt. The balance of such proceeds was used for general corporate and working capital purposes. The Company also amended its Credit Facility in November 2006, which extended the term to 2011, as a result of recent upgrades in the Company's credit ratings from Standard & Poors (to BBB+) and Moody's (to Baa1). See "Revolving Credit Facility" described below.

In May 2007, the Company completed the Japanese Business Acquisitions. These transactions were funded with available cash on-hand and approximately \$170 million of Yen-based borrowings under a one-year term loan agreement on terms substantially similar to the Company's existing credit facility (the "Term Loan"). Borrowings under the Term Loan bear interest at a LIBOR rate for yen loans for an interest period of 12 months plus the applicable margin. The maturity date of the Term Loan is on the 12-month anniversary of the drawing date of the Term Loan. The Company expects to repay the borrowing by its maturity date using a portion of Impact 21's cash on-hand of approximately \$200 million acquired as part of the acquisition.

Common Stock Repurchase Program

In November 2006, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows the Company to repurchase up to \$500 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions. In Fiscal 2007, share repurchases under the expanded and pre-existing programs amounted to 3.5 million shares of Class A common stock at a cost of \$231.3 million. The remaining availability under the common stock repurchase program was \$368.3 million as of March 31, 2007.

In Fiscal 2006, the Company repurchased 69.3 thousand shares of Class A common stock at a cost of approximately \$4 million. No shares of Class A common stock were repurchased in Fiscal 2005.

Dividends

The Company intends to continue to pay regular quarterly dividends on its outstanding common stock. However, any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board of Directors and will depend on, among other things, the Company's results of operations, cash requirements, financial condition and other factors that the Board of Directors may deem relevant.

The Company declared a quarterly dividend of \$0.05 per outstanding share in each quarter of Fiscal 2007 and Fiscal 2006. The aggregate amount of dividend payments was \$21 million in Fiscal 2007, \$21 million in Fiscal 2006 and \$22 million in Fiscal 2005.

Debt and Covenant Compliance

Euro Debt

The Company had outstanding approximately Euro 227 million principal amount of 6.125% notes that were due on November 22, 2006, from an original issuance of Euro 275 million in 1999 (the "1999 Euro Debt"). On October 5, 2006, the Company completed a new issuance of Euro 300 million principal amount of 4.50% notes due October 4, 2013 (the "2006 Euro Debt"). The Company used a portion of the net proceeds from the financing of approximately \$380 million (based on the exchange rate in effect upon issuance) to repay the remaining 1999 Euro Debt at par on its maturity date. The balance of such net proceeds was used for general corporate and working capital purposes. The Company has the option to redeem all of the 2006 Euro Debt at any time

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at a redemption price equal to the principal amount plus a premium. The Company also has the option to redeem all of the 2006 Euro Debt at any time at par plus accrued interest, in the event of certain developments involving U.S. tax law. Partial redemption of the 2006 Euro Debt is not permitted in either instance. In the event of a change of control of the Company, each holder of the 2006 Euro Debt has the option to require the Company to redeem the 2006 Euro Debt at its principal amount plus accrued interest.

As of March 31, 2007, the carrying value of the 2006 Euro Debt was \$398.8 million.

Revolving Credit Facility and Term Loan

The Company has a credit facility, which was amended on November 28, 2006, that provides for a \$450 million unsecured revolving line of credit (the "Credit Facility"). The Credit Facility also is used to support the issuance of letters of credit. As of March 31, 2007, there were no borrowings outstanding under the Credit Facility, but the Company was contingently liable for \$25.7 million of outstanding letters of credit (primarily relating to inventory purchase commitments).

The Company amended certain terms of its Credit Facility as a result of recent upgrades in its credit ratings from Standard & Poors and Moody's. Key changes under the amendment include:

- An increase in the ability of the Company to expand its additional borrowing availability from \$525 million to \$600 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments;
- An extension of the term of the Credit Facility to November 2011 from October 2009;
- A reduction in the margin over LIBOR paid by the Company on amounts drawn under the Credit Facility to 35 basis points from 50 basis points;
- A reduction in the commitment fee for the unutilized portion of the Credit Facility to 8 basis points from 12.5 basis points; and
- The elimination of the coverage ratio financial covenant.

There are no mandatory reductions in borrowing availability throughout the term of the Credit Facility.

Borrowings under the Credit Facility bear interest, at the Company's option, either at (a) a base rate determined by reference to the higher of (i) the prime commercial lending rate of JP Morgan Chase Bank, N.A. in effect from time to time and (ii) the weighted-average overnight Federal funds rate (as published by the Federal Reserve Bank of New York) plus 50 basis points or (b) a LIBOR rate in effect from time to time, as adjusted for the Federal Reserve Board's Euro currency liabilities maximum reserve percentage plus a margin defined in the Credit Facility ("the applicable margin"). The applicable margin of 35 basis points is subject to adjustment based on the Company's credit ratings.

The Credit Facility was amended as of May 22, 2007 to provide for the addition of a loan in a Japanese yen amount equal to approximately \$170 million. The Term Loan was made to Polo JP Acqui B.V., a wholly-owned subsidiary of the Company, and is guaranteed by the Company, as well as the other subsidiaries of the Company which currently guarantee the Credit Facility. The proceeds of the Term Loan have been used to finance the Tender Offer and the total related acquisition cost and the acquisition by the Company of the remaining 50% of the shares of PRL Japan the Company did not previously own. Borrowings under the Term Loan bear interest at a LIBOR rate for yen loans for an interest period of 12 months plus the applicable margin. The maturity date of the Term Loan is on the 12-month anniversary of the drawing date of the Term Loan. The Company expects to repay the borrowing by its maturity date using a portion of Impact 21's cash on-hand of approximately \$200 million acquired as part of the acquisition. See "*Recent Developments*" for further discussion of the Japanese Business Acquisitions.

In addition to paying interest on any outstanding borrowings under the Credit Facility, the Company is required to pay a commitment fee to the lenders under the Credit Facility in respect of the unutilized commitments. The commitment fee rate of 8 basis points under the terms of the Credit Facility also is subject to adjustment based on the Company's credit ratings.

The Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens and contingent liabilities; sell or dispose of assets, including equity interests; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Credit Facility requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio"), as such terms are defined in the Credit Facility. As of March 31, 2007, no Event of Default (as such term is defined pursuant to the Credit Facility) has occurred under the Company's Credit Facility.

Upon the occurrence of an Event of Default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility, and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (many of which are subject to applicable grace periods), including, among others, the failure to make timely principal and interest payments or to satisfy the covenants, including the financial covenant described above. Additionally, the Credit Facility provides that an Event of Default will occur if Mr. Ralph Lauren, the Company's Chairman and Chief Executive Officer, and related entities fail to maintain a specified minimum percentage of the voting power of the Company's common stock.

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*Contractual and Other Obligations***Firm Commitments**

The following table summarizes certain of the Company's aggregate contractual obligations as of March 31, 2007, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flow in future periods. The Company expects to fund the firm commitments with operating cash flow generated in the normal course of business and, if necessary, availability under its \$450 million credit facility or other potential sources of financing.

(millions)	FISCAL 2008	FISCAL 2009-2010	FISCAL 2011-2012	2013 AND THEREAFTER	TOTAL
EURO DEBT	\$ —	\$ —	\$ —	\$ 398.8	\$ 398.8
CAPITAL LEASES	1.6	2.8	2.6	23.2	30.2
OPERATING LEASES	156.7	279.2	208.2	556.8	1,200.9
INVENTORY PURCHASE COMMITMENTS	507.2	3.6	—	—	510.8
TOTAL	\$ 665.5	\$ 285.6	\$ 210.8	\$ 978.8	\$ 2,140.7

The following is a description of the Company's material, firmly committed contractual obligations as of March 31, 2007:

- **Euro Debt** represents the principal amount due at maturity of the Company's outstanding Euro Debt on a U.S. dollar-equivalent basis. Amounts do not include any fair value adjustments, call premiums or interest payments;
- **Lease Obligations** represent the minimum lease rental payments under noncancelable leases for the Company's real estate and operating equipment in various locations around the world. Approximately 67% of these lease obligations relates to the Company's retail operations. Information has been presented separately for operating and capital leases. In addition to such amounts, the Company is normally required to pay taxes, insurance and occupancy costs relating to its leased real estate properties; and
- **Inventory Purchase Commitments** represent the Company's legally binding agreements to purchase fixed or minimum quantities of goods at determinable prices.

The Company also has certain contractual arrangements that would require it to make payments if certain circumstances occur. See Note 15 to the accompanying audited consolidated financial statements for a description of the Company's contingent commitments not included in the above table.

Off-Balance Sheet Arrangements

The Company's off-balance sheet firm commitments, which include outstanding letters of credit and minimum funding commitments to investees, amounted to approximately \$35.9 million as of March 31, 2007. At the end of Fiscal 2007, the Company also was committed to pay a purchase price of approximately \$10 million in connection with the acquisition of New Campaign, which closed in April 2007.

The Company does not maintain any other off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon its financial condition or results of operations.

MARKET RISK MANAGEMENT

The Company has exposure to changes in foreign currency exchange rates relating to certain anticipated cash flows generated by its international operations and possible declines in the fair value of reported net assets of certain of its foreign operations, as well as exposure to changes in the fair value of its fixed-rate debt relating to changes in interest rates. Consequently, the Company periodically uses derivative financial instruments to manage such risks. The Company does not enter into derivative transactions for speculative purposes. The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions. Credit risk related to derivative financial instruments is considered low because the agreements are entered into with strong creditworthy counterparties. The following is a summary of the Company's risk management strategies and the effect of those strategies on the Company's consolidated financial statements.

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*Foreign Currency Risk Management***Foreign Currency Exchange Contracts**

The Company enters into forward foreign exchange contracts as hedges primarily relating to identifiable currency positions to reduce its risk from exchange rate fluctuations on inventory purchases and intercompany royalty payments made by certain of its international operations. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily exposure to changes in the value of the Euro and the Japanese Yen, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month to two-year period. In doing so, the Company uses foreign exchange contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period.

As of March 31, 2007, the Company had contracts for the sale of \$214 million of foreign currencies at fixed rates. Of these \$214 million of sales contracts, \$180 million were for the sale of Euros and \$34 million were for the sale of Japanese Yen. The total fair value of the forward contracts was an unrealized loss of \$1.9 million. As of April 1, 2006, the Company had contracts for the sale of \$90 million of foreign currencies at fixed rates. Of these \$90 million of sales contracts, \$22 million were for the sale of Euros and \$68 million were for the sale of Japanese Yen. The total fair value of the forward contracts was an unrealized loss of \$1.8 million.

The Company records foreign currency exchange contracts at fair value in its balance sheet and designates these derivative instruments as cash flow hedges in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and subsequent amendments (collectively, "FAS 133"). As such, the related gains or losses on these contracts are deferred in stockholders' equity as a component of accumulated other comprehensive income. These deferred gains and losses are then either recognized in income in the period in which the related royalties being hedged are received, or in the case of inventory purchases, recognized as part of the cost of the inventory being hedged when sold. However, to the extent that any of these foreign currency exchange contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties or inventory purchases being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in earnings. No significant gains or losses relating to ineffective hedges were recognized in the periods presented.

The Company had deferred net losses on foreign currency exchange contracts in the amount of approximately \$2 million at the end of Fiscal 2007, all of which is expected to be recognized in earnings in Fiscal 2008. Net losses on foreign currency exchange contracts in the amount of approximately \$1 million were deferred at the end of Fiscal 2006. The Company recognized net gains on foreign currency exchange contracts in earnings of approximately \$4 million for Fiscal 2007 and \$5 million for Fiscal 2006.

Based on the foreign currency exchange contracts outstanding as of March 31, 2007, a 10% devaluation of the U.S. dollar as compared to the level of foreign currency exchange rates for currencies under contract as of March 31, 2007 would result in approximately \$19 million of net unrealized losses. Conversely, a 10% appreciation of the U.S. dollar would result in approximately \$19 million of net unrealized gains. Because the foreign currency exchange contracts are designated as cash flow hedges of forecasted transactions, the unrealized loss or gain as a result of a 10% devaluation or appreciation would be largely offset by changes in the underlying hedged items.

Subsequent to the end of Fiscal 2007, the Company entered into foreign currency option contracts with a notional value of \$159 million for the right, but not the obligation, to purchase foreign currencies at fixed rates. These contracts hedged the majority of the foreign currency exposure related to the financing of the Japanese Business Acquisitions, but do not qualify under FAS 133 for hedge accounting treatment. The Company will recognize a gain or loss, limited to the premium paid for the option contracts, upon the settlement of the contracts during the first quarter of Fiscal 2008.

Hedge of a Net Investment in Certain European Subsidiaries

Prior to the Company's repayment of the 1999 Euro Debt in November 2006, the entire principal amount was designated as a hedge of the Company's net investment in certain of its European subsidiaries in accordance with FAS 133. Contemporaneous with this repayment, the Company designated the entire principal amount of the 2006 Euro Debt, issued in October 2006 (see Note 13 to the accompanying audited consolidated financial statements for further discussion), as a hedge of its net investment in certain of its European subsidiaries. As required by FAS 133, the changes in fair value of a derivative instrument or a non-derivative financial instrument (such as debt) that is designated as, and is effective as, a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment under Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," to the extent it is effective as a hedge. As such, changes in the fair value of the 1999 Euro Debt and the 2006 Euro Debt resulting from changes in the Euro exchange rate have been, and continue to be, reported in stockholders' equity as a component of accumulated other comprehensive income. The Company recorded aggregate gains (losses), net of tax, in stockholders' equity on the translation of the 1999 Euro Debt and 2006 Euro Debt to U.S. dollars in the amount of approximately \$(19) million for Fiscal 2007, \$4 million for Fiscal 2006 and \$(18) million for Fiscal 2005.

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Interest Rate Risk Management

Historically, the Company has used floating-rate interest rate swap agreements to hedge changes in the fair value of its fixed-rate 1999 Euro Debt. These interest rate swap agreements, which effectively converted fixed interest rate payments on the Company's 1999 Euro Debt to a floating-rate basis, were designated as a fair value hedge in accordance with FAS 133. All interest rate swap agreements were terminated in late Fiscal 2006 and there were no outstanding agreements at the end of Fiscal 2007 and Fiscal 2006.

During the first six months of Fiscal 2007, the Company entered into three forward-starting interest rate swap contracts aggregating Euro 200 million notional amount of indebtedness in anticipation of the Company's proposed refinancing of the 1999 Euro Debt, which was completed in October 2006. The Company designated these agreements as a cash flow hedge of a forecasted transaction to issue new debt in connection with the planned refinancing of its 1999 Euro Debt. The interest rate swaps hedged a total of Euro 200.0 million, a portion of the underlying interest rate exposure on the anticipated refinancing. Under the terms of the three interest swap contracts, the Company paid a weighted-average fixed rate of interest of 4.1% and received variable interest based upon six-month EURIBOR. The Company terminated the swaps on September 28, 2006, which was the date the interest rate for the 2006 Euro Debt was determined. As a result, the Company made a payment of approximately Euro 3.5 million (\$4.4 million based on the exchange rate in effect on that date) in settlement of the swaps. An amount of \$0.2 million was recognized as a loss for the three months ending September 30, 2006 due to the partial ineffectiveness of the cash flow hedge as a result of the forecasted transaction closing on October 5, 2006 instead of November 22, 2006 (the maturity date of the 1999 Euro Debt). The remaining loss of \$4.2 million has been deferred as a component of comprehensive income within stockholders' equity and is being recognized in income as an adjustment to interest expense over the seven-year term of the 2006 Euro Debt.

As of March 31, 2007, the Company had no variable-rate debt outstanding. As such, the Company's exposure to changes in interest rates primarily related to its fixed-rate 2006 Euro Debt. As of March 31, 2007, the carrying value of the 2006 Euro Debt was \$398.8 million and the fair value was \$394.7 million. A 25 basis point increase or decrease in the level of interest rates would, respectively, decrease or increase the fair value of the 2006 Euro Debt by approximately \$5 million. Such potential increases or decreases are based on certain simplifying assumptions, including no changes in euro currency exchange rates and an immediate across-the-board increase or decrease in the level of interest rates with no other subsequent changes for the remainder of the period.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to the Company's financial condition and results of operations and requires significant judgment and estimates on the part of management in its application. The Company's estimates are often based on complex judgments, probabilities and assumptions that we believe to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. The Company believes that the following list represents its critical accounting policies as contemplated by FRR 60. For a discussion of all of the Company's significant accounting policies, see Notes 3 and 4 to the accompanying audited consolidated financial statements.

Sales Allowances and Uncollectible Accounts

A significant area of judgment affecting reported revenue and net income is estimating the portion of revenues and related receivables that are not realizable. In particular, wholesale revenue is reduced by estimates of returns, discounts, end-of-season markdown allowances and operational chargebacks. Retail revenue, including e-commerce sales, also is reduced by estimates of returns.

In determining estimates of returns, discounts, end-of-season markdown allowances and operational chargebacks, management analyzes historical trends, seasonal results, current economic and market conditions and retailer performance. The Company reviews and refines these estimates on a quarterly basis. The Company's historical estimates of these costs have not differed materially from actual results.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are included, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers, and a receivables aging analysis that determines the percentage of receivables that has historically been uncollected by aged category. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible. Although management believes that the Company's major customers are sound and creditworthy, a severe adverse impact on their business operations could have a corresponding material adverse effect on the Company's net sales, cash flows and/or financial condition.

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See "Accounts Receivable" under Note 3 to the accompanying audited consolidated financial statements for an analysis of the activity in the Company's reserves for sales allowances and uncollectible accounts for each of the three fiscal years presented.

Inventories

The Company holds inventory that is sold through wholesale distribution channels to major department stores and specialty retail stores, including its own retail stores. The Company also holds retail inventory that is sold in its own stores directly to consumers. Wholesale and retail inventories are stated at the lower of cost or estimated realizable value. Cost for wholesale inventories is determined using the first-in, first-out ("FIFO") method and cost for retail inventories is determined on a moving-average cost basis.

The Company continually evaluates the composition of its inventories, assessing slow-turning, ongoing product, as well as all fashion product. Estimated realizable value of distressed inventory is determined based on historical sales trends of the Company's individual product lines for this category of inventory, the impact of market trends and economic conditions, and the value of current orders in-house relating to the future sales of this category of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. The Company's historical estimates of these costs and its provisions have not differed materially from actual results.

Purchase Accounting

The Company accounts for its business acquisitions under the purchase method of accounting. As such, the total cost of acquisitions is allocated to the underlying net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items.

In addition, in connection with its recent business acquisitions, the Company has settled certain pre-existing relationships. These pre-existing relationships include licensing agreements and litigation in the case of the acquisition of the Polo Jeans Business. In accordance with the Emerging Issues Task Force ("EITF") Issue No. 04-1, "Accounting for Pre-existing Relationships between the Parties to a Business Combination," the Company is required to allocate the aggregate consideration exchanged in these transactions between the value of the business acquired and the value of the settlement of any pre-existing relationships in proportion to estimates of their respective fair values. If the terms of the pre-existing relationships were determined to not be reflective of market, a settlement gain or loss would be recognized in earnings. Accordingly, significant judgment is required to determine the respective fair values of the business acquired and the value of the settlement of the pre-existing relationship. The Company has historically utilized independent valuation firms to assist in the determination of fair value.

Impairment of Goodwill and Other Intangible Assets

Goodwill and other intangible assets are accounted for in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill, including any goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have indefinite useful lives are not amortized. Rather, goodwill and such indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values. Finite-lived intangible assets are amortized over their respective estimated useful lives and, along with other long-lived assets are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144").

In accordance with FAS 142, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary to be performed. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill

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with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value was the purchase price paid to acquire the reporting unit.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. To assist management in the process of determining goodwill impairment, the Company obtains appraisals from independent valuation firms. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions, including projected future cash flows (including timing), discount rates reflecting the risks inherent in future cash flows, perpetual growth rates and determination of appropriate market comparables.

The impairment test for other indefinite-lived intangible assets consists of a comparison of the fair value of the intangible asset with its carrying value. If the carrying value of the indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to the excess. In addition, in evaluating finite-lived intangible assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with FAS 144. To the extent the estimated future, undiscounted cash inflows attributable to the asset, less estimated future, undiscounted cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference.

There have been no impairment losses recorded in connection with the assessment of the recoverability of goodwill and other intangible assets during any of the three fiscal years presented.

Impairment of Other Long-Lived Assets

Property and equipment, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with FAS 144. In evaluating long-lived assets for recoverability, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

In determining future cash flows, the Company takes various factors into account, including changes in merchandising strategy, the impact of more experienced retail store managers, the impact of increased local advertising and the emphasis on retail store cost controls. Since the determination of future cash flows is an estimate of future performance, there may be future impairments in the event that future cash flows do not meet expectations.

There have been no impairment losses recorded in Fiscal 2007. In Fiscal 2006 and Fiscal 2005, the Company recognized impairment charges on retail fixed assets in the amounts of approximately \$11 million and \$2 million, respectively.

Income Taxes

Income taxes are provided using the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Under this method, income taxes (i.e., deferred tax assets and liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of any net operating loss, capital loss and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

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Significant judgment is required in determining the worldwide provision for income taxes. That is, in the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. It is the Company's policy to establish reserves for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes those reserves based upon management's assessment of the exposure associated with permanent tax differences and tax credits. However, the development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate. In addition, valuation allowances are established when management determines that it is more likely than not that some portion or all of a deferred tax asset will not be realized. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. If the Company determines that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of earnings at that time. Tax reserves and valuation allowances are analyzed periodically and adjusted as events occur, or circumstances change, that warrant adjustments to those balances.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of Statement of Financial Accounting Standards No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The Company first will be required to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the "more-likely-than-not" recognition threshold will then be measured to determine the amount of benefit to recognize in the financial statements based upon the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 is effective for the Company as of the beginning of Fiscal 2008 (April 1, 2007). While the Company continues to analyze the effect from adopting the provisions of FIN 48, it is currently anticipated that a cumulative effect adjustment of up to \$85 million will be charged to retained earnings during the first quarter of Fiscal 2008. This estimate is subject to change as the Company completes its analysis.

Contingencies

The Company periodically is exposed to various contingencies in the ordinary course of conducting its business, including certain litigation, alleged information system security breach matters, contractual disputes, employee relation matters, various tax audits, and trademark and intellectual property matters. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("FAS 5"), the Company records a liability for such contingencies to the extent that it concludes their occurrence is probable and the related losses are estimable. In addition, if it is reasonably possible that an unfavorable settlement of a contingency could exceed the established liability, the Company discloses the estimated impact on its liquidity, financial condition and results of operations. Management considers many factors in making these assessments. Because the ultimate resolution of contingencies is inherently unpredictable, these assessments can involve a series of complex judgments about future events including, but not limited to, court rulings, negotiations between affected parties and governmental actions. As a result, the accounting for loss contingencies relies heavily on estimates and assumptions.

Stock-Based Compensation

Effective April 2, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R"), using the modified prospective application transition method. Under this transition method, the compensation expense recognized in the consolidated statement of operations beginning April 2, 2006 includes compensation expense for (a) all stock-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("FAS 123") and (b) all stock-based payments granted subsequent to April 1, 2006 based on the grant-date fair value estimated in accordance with the provisions of FAS 123R.

Prior to April 2, 2006, the Company accounted for stock-based compensation plans under the intrinsic value method in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and adopted the disclosure-only provisions of FAS 123. Under this standard, the Company did not recognize compensation expense for the issuance of stock options with an exercise price equal to or greater than the market price at the date of grant. However, as required, the Company disclosed, in the notes to the consolidated financial statements, the pro forma expense impact of the stock

MANAGEMENT'S DISCUSSION AND ANALYSIS

option grants as if the fair-value-based recognition provisions of FAS 123 were applied. Compensation expense was previously recognized for restricted stock and restricted stock units. The effect of forfeitures on restricted stock and restricted stock units was recognized when such forfeitures occurred.

Stock Options

Stock options are granted to employees and non-employee directors with exercise prices equal to fair market value at the date of grant. The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of subjective assumptions. Certain key assumptions involve estimating future uncertain events. The key factors influencing the estimation process include the expected term of the option, the expected stock price volatility factor, the expected dividend yield and risk-free interest rate, among others. Generally, once stock option values are determined, current accounting practices do not permit them to be changed, even if the estimates used are different from the actuals.

Determining the fair value of stock-based compensation at the date of grant requires significant judgment by management, including estimates of the above Black-Scholes assumptions. In addition, judgment is required in estimating the number of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, if management changes its assumptions for future stock-based award grants, or if there are changes in market conditions, stock-based compensation expense and the Company's results of operations could be materially impacted.

Restricted Stock and Restricted Stock Units

The Company grants restricted shares of Class A common stock and service-based restricted stock units ("RSUs") to certain of its senior executives. In addition, the Company grants performance-based RSUs to such senior executives and other key executives, and certain other employees of the Company. The fair values of restricted stock shares and RSUs are based on the fair value of unrestricted Class A common stock, as adjusted to reflect the absence of dividends for those restricted securities that are not entitled to dividend equivalents. Compensation expense for performance-based RSUs is recognized over the related service period when attainment of the performance goals is deemed probable.

RECENT ACCOUNTING STANDARDS

Refer to Note 4 to the accompanying audited consolidated financial statements for a discussion of certain accounting standards the Company is not yet required to adopt which may impact its results of operations and/or financial condition in future reporting periods.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

For a discussion of the Company's exposure to market risk, see "Market Risk Management" presented elsewhere in this Annual Report.

DISCLOSURE CONTROLS AND PROCEDURES AND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are the controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as of the end of the fiscal year covered by this annual report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the fiscal year end covered by this annual report.

MANAGEMENT'S REPORT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. Generally Accepted Accounting Principles.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the fiscal year covered by this report based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Based on this evaluation, management concluded that the Company's internal controls over financial reporting were effective as of the fiscal year end covered by this annual report.

Management's assessment of the effectiveness of internal control over financial reporting as of March 31, 2007 was audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

Other than the remediation of the income tax accounting material weakness described below, there were no changes during the fourth quarter of Fiscal 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Prior to March 31, 2007, our management had concluded that our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting with respect to income tax accounting. This control deficiency, which management first determined to be a material weakness under the Public Company Accounting Oversight Board's Auditing Standard No. 2 in its Annual Report on Form 10-K for the fiscal year ended April 2, 2005, largely related to inadequate internal tax resources for a sufficient period of time, lack of formal training for tax personnel and inadequate controls and procedures over the tax accounting process to complete a comprehensive and timely review of the income tax accounts and required tax footnote disclosures. We undertook several remedial steps during the period covered by this report as well as during the course of Fiscal 2006, as described below, to enhance controls. As of the end of the period covered by this report, we believe we have taken the necessary steps to remediate the material weakness. Before concluding that the material weakness was remediated, management implemented and evaluated its new controls and procedures for income tax accounting and determined that these procedures were operating effectively for a sufficient period of time and subjected them to appropriate tests in order to conclude that they are operating effectively. Accordingly, management has concluded that the material weakness in our internal control over financial reporting with respect to income tax accounting was remediated as of March 31, 2007.

DISCLOSURE CONTROLS AND PROCEDURES AND
MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

REMEDIATION OF MATERIAL WEAKNESS

During Fiscal 2006 and 2007, the following remedial steps were taken to strengthen internal controls to address the material weakness described above:

- the upgrade and expansion of internal tax staff with appropriate qualifications and training in accounting for income taxes;
- instituting formal training of tax personnel;
- reviewing income tax accounting processes and implementing changes in order to strengthen the design and operation in internal controls; and
- developing and implementing policies to ensure that all significant tax accounts are properly reconciled on a timely basis and that all tax amounts reflected in our financial statements are fairly presented and supported by underlying tax calculations.

Management believes the aforementioned steps have resolved the material weakness in controls described above for a period of time sufficient to conclude that our controls over financial reporting are now effective.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Polo Ralph Lauren Corporation is responsible for the preparation, objectivity and integrity of the consolidated financial statements and other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include some amounts that are based on management's informed judgments and best estimates.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and have expressed herein their unqualified opinion on those financial statements.

The Audit Committee of the Board of Directors, which oversees all of the Company's financial reporting process on behalf of the Board of Directors, consists solely of independent directors, meets with the independent registered accountants, internal auditors and management periodically to review their respective activities and the discharge of their respective responsibilities. Both the independent registered public accountants and the internal auditors have unrestricted access to the Audit Committee, with or without management, to discuss the scope and results of their audits and any recommendations regarding the system of internal controls.

May 30, 2007



RALPH LAUREN
Chairman and Chief Executive Officer



TRACEY T. TRAVIS
Senior Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF POLO RALPH LAUREN CORPORATION

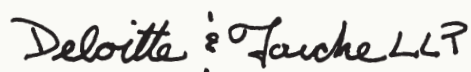
We have audited the accompanying consolidated balance sheets of Polo Ralph Lauren Corporation and subsidiaries (the “Company”) as of March 31, 2007 and April 1, 2006, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended March 31, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 the Company as of March 31, 2007 and April 1, 2006, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the consolidated financial statements, effective April 2, 2006, the Company elected application of Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” As discussed in Note 4 to the consolidated financial statements, effective April 2, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment”.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 30, 2007 expressed an unqualified opinion on management’s assessment of the effectiveness of the Company’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.



DELOITTE & TOUCHE LLP

New York, New York

May 30, 2007

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF POLO RALPH LAUREN CORPORATION

We have audited management's assessment, included in the accompanying Management's Report of Internal Control Over Financial Reporting, that Polo Ralph Lauren Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

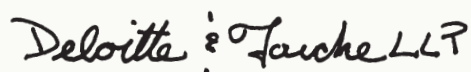
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of March 31, 2007, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company has maintained, in all material aspects, effective internal control over financial reporting as of March 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended March 31, 2007, of the Company and our report dated May 30, 2007, expressed an unqualified opinion on those financial statements and includes an explanatory paragraph relating to the Company's elected application of Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements", and the Company's adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment".



DELOITTE & TOUCHE LLP

New York, New York
May 30, 2007

CONSOLIDATED BALANCE SHEETS

(millions)	MARCH 31, 2007	APRIL 1, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 563.9	\$ 285.7
Accounts receivable, net of allowances of \$138.1 and \$115.0 million	467.5	484.2
Inventories	526.9	485.5
Deferred tax assets	44.4	32.4
Prepaid expenses and other	83.2	90.7
TOTAL CURRENT ASSETS	1,685.9	1,378.5
PROPERTY AND EQUIPMENT, NET	629.8	548.8
DEFERRED TAX ASSETS	56.9	—
GOODWILL	790.5	699.7
INTANGIBLE ASSETS, NET	297.7	258.5
OTHER ASSETS	297.2	203.2
TOTAL ASSETS	\$ 3,758.0	\$ 3,088.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 174.7	\$ 202.2
Income tax payable	74.6	46.6
Accrued expenses and other	391.0	314.3
Current maturities of debt	—	280.4
TOTAL CURRENT LIABILITIES	640.3	843.5
LONG-TERM DEBT	398.8	—
DEFERRED TAX LIABILITIES	—	20.8
OTHER NON-CURRENT LIABILITIES	384.0	174.8
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
TOTAL LIABILITIES	1,423.1	1,039.1
STOCKHOLDERS' EQUITY:		
Class A common stock, par value \$.01 per share; 68.6 million and 66.4 million shares issued; 60.7 million and 62.1 million shares outstanding	0.7	0.7
Class B common stock, par value \$.01 per share; 43.3 million shares issued and outstanding	0.4	0.4
Additional paid-in-capital	872.5	783.6
Retained earnings	1,742.3	1,379.2
Treasury stock, Class A, at cost (7.9 million and 4.3 million shares)	(321.5)	(87.1)
Accumulated other comprehensive income	40.5	15.5
Unearned compensation	—	(42.7)
TOTAL STOCKHOLDERS' EQUITY	2,334.9	2,049.6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,758.0	\$ 3,088.7

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS

FISCAL YEARS ENDED:

(millions, except per share data)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
NET SALES	\$ 4,059.1	\$ 3,501.1	\$ 3,060.7
LICENSING REVENUE	236.3	245.2	244.7
NET REVENUES	4,295.4	3,746.3	3,305.4
COST OF GOODS SOLD ^(a)	(1,959.2)	(1,723.9)	(1,620.9)
GROSS PROFIT	2,336.2	2,022.4	1,684.5
OTHER COSTS AND EXPENSES:			
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ^(a)	(1,663.4)	(1,476.9)	(1,377.6)
AMORTIZATION OF INTANGIBLE ASSETS	(15.6)	(9.1)	(3.4)
IMPAIRMENTS OF RETAIL ASSETS	—	(10.8)	(1.5)
RESTRUCTURING CHARGES	(4.6)	(9.0)	(2.3)
TOTAL OTHER COSTS AND EXPENSES	(1,683.6)	(1,505.8)	(1,384.8)
OPERATING INCOME	652.6	516.6	299.7
FOREIGN CURRENCY GAINS (LOSSES)	(1.5)	(5.7)	6.1
INTEREST EXPENSE	(21.6)	(12.5)	(11.0)
INTEREST INCOME	26.1	13.7	4.6
EQUITY IN INCOME OF EQUITY-METHOD INVESTEEES	3.0	4.3	6.4
MINORITY INTEREST EXPENSE	(15.3)	(13.5)	(8.0)
INCOME BEFORE PROVISION FOR INCOME TAXES	643.3	502.9	297.8
PROVISION FOR INCOME TAXES	(242.4)	(194.9)	(107.4)
NET INCOME	\$ 400.9	\$ 308.0	\$ 190.4
NET INCOME PER COMMON SHARE:			
BASIC	\$ 3.84	\$ 2.96	\$ 1.88
DILUTED	\$ 3.73	\$ 2.87	\$ 1.83
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
BASIC	104.4	104.2	101.5
DILUTED	107.6	107.2	104.1
DIVIDENDS DECLARED PER SHARE	\$ 0.20	\$ 0.20	\$ 0.20
^(a) INCLUDES TOTAL DEPRECIATION EXPENSE OF:	\$ (129.1)	\$ (117.9)	\$ (98.7)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

FISCAL YEARS ENDED:

(millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	\$ 400.9	\$ 308.0	\$ 190.4
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH			
PROVIDED BY OPERATING ACTIVITIES:			
Depreciation and amortization expense	144.7	127.0	102.1
Deferred income tax expense (benefit)	(112.4)	35.6	10.1
Minority interest expense	15.3	13.5	8.0
Equity in the income of equity-method investees, net of dividends received	(1.0)	(4.3)	(6.4)
Non-cash stock compensation expense	43.6	26.6	12.9
Non-cash impairments of retail assets	—	10.8	1.5
Non-cash Jones-related Litigation charge	—	—	100.0
Non-cash provision for bad debt expense	1.9	1.2	6.0
Loss on disposal of property and equipment	3.3	5.7	7.7
Non-cash foreign currency losses (gains)	6.2	5.3	(11.6)
Non-cash restructuring charges	1.1	4.5	—
Changes in operating assets and liabilities:			
Accounts receivable	26.4	(19.2)	(16.1)
Inventories	(32.2)	3.8	(23.5)
Accounts payable and accrued liabilities	41.7	39.1	(44.5)
Deferred income liabilities, primarily proceeds received from Luxottica in Fiscal 2007 (Note 22)	202.6	5.1	6.2
Settlement of Jones-related Litigation	—	(100.0)	—
Other balance sheet changes	54.0	(13.6)	39.2
NET CASH PROVIDED BY OPERATING ACTIVITIES	796.1	449.1	382.0
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired and purchase price settlements	(176.1)	(380.6)	(243.3)
Capital expenditures	(184.0)	(158.6)	(174.1)
Cash deposits restricted in connection with taxes (Note 3)	(74.5)	—	—
NET CASH USED IN INVESTING ACTIVITIES	(434.6)	(539.2)	(417.4)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of debt	380.0	—	—
Repayment of debt	(291.6)	—	—
Debt issuance costs	(2.6)	—	—
Payments of capital lease obligations	(5.0)	(2.2)	—
Payments of dividends	(20.9)	(20.8)	(21.7)
Distributions to minority interest holders	(4.5)	—	—
Repurchases of common stock	(231.3)	(3.8)	—
Proceeds from exercise of stock options	51.4	55.2	53.2
Termination of interest rate swap agreements	(4.4)	5.1	—
Excess tax benefits from stock-based compensation arrangements	33.7	—	—
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(95.2)	33.5	31.5
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	11.9	(8.2)	2.1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	278.2	(64.8)	(1.8)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	285.7	350.5	352.3
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 563.9	\$ 285.7	\$ 350.5

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(millions)	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK AT COST		ACCUMULATED OTHER COM- PREHENSIVE INCOME (LOSS)	UNEARNED COMPEN- SATION	TOTAL
	SHARES	AMOUNT			SHARES	AMOUNT			
BALANCE AT APRIL 3, 2004	104.8	\$ 1.1	\$ 563.5	\$ 921.6	4.2	\$ (79.0)	\$ 23.1	\$ (14.8)	\$ 1,415.5
COMPREHENSIVE INCOME:									
NET INCOME				190.4					
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS							11.3		
NET REALIZED AND UNREALIZED LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS							(4.5)		
TOTAL COMPREHENSIVE INCOME									197.2
CASH DIVIDENDS				(21.7)					(21.7)
REPURCHASES OF COMMON STOCK						(1.0)			(1.0)
SHARES ISSUED AND EQUITY GRANTS MADE PURSUANT TO STOCK COMPENSATION PLANS ^(a)	2.5		100.8					(15.1)	85.7
BALANCE AT APRIL 2, 2005	107.3	\$ 1.1	\$ 664.3	\$ 1,090.3	4.2	\$ (80.0)	\$ 29.9	\$ (29.9)	\$ 1,675.7
COMPREHENSIVE INCOME:									
NET INCOME				308.0					
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS							(24.1)		
NET REALIZED AND UNREALIZED LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS							9.7		
TOTAL COMPREHENSIVE INCOME									293.6
CASH DIVIDENDS				(19.6)					(19.6)
REPURCHASES OF COMMON STOCK					0.1	(3.8)			(3.8)
SHARES ISSUED AND EQUITY GRANTS MADE PURSUANT TO STOCK COMPENSATION PLANS ^(a)	2.4		119.3			(3.3)		(12.8)	103.2
OTHER				0.5					0.5
BALANCE AT APRIL 1, 2006	109.7	\$ 1.1	\$ 783.6	\$ 1,379.2	4.3	\$ (87.1)	\$ 15.5	\$ (42.7)	\$ 2,049.6
CUMULATIVE EFFECT OF ADOPTING SAB 108 ^(b) (NOTE 4)				(16.9)					(16.9)
CUMULATIVE EFFECT OF ADOPTING FAS 123R (NOTE 18)			(42.7)					42.7	-
COMPREHENSIVE INCOME:									
NET INCOME				400.9					
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS							54.3		
NET REALIZED AND UNREALIZED LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS							(29.3)		
TOTAL COMPREHENSIVE INCOME									425.9
CASH DIVIDENDS				(20.9)					(20.9)
REPURCHASES OF COMMON STOCK					3.5	(231.3)			(231.3)
SHARES ISSUED AND EQUITY GRANTS MADE PURSUANT TO STOCK COMPENSATION PLANS ^(a)	2.2		131.6		0.1	(3.1)			128.5
OTHER									
BALANCE AT MARCH 31, 2007	111.9	\$ 1.1	\$ 872.5	\$ 1,742.3	7.9	\$ (321.5)	\$ 40.5	\$ -	\$ 2,334.9

^(a) Includes income tax benefits relating to the exercise of employee stock options of approximately \$33 million in Fiscal 2007, \$22 million in Fiscal 2006 and \$19 million in Fiscal 2005.

^(b) Net of \$3.6 million tax effect.

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

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

The Company classifies its businesses into three segments: Wholesale, Retail and Licensing. The Company’s wholesale sales are made principally to major department and specialty stores located throughout the U.S. and Europe. The Company also sells directly to consumers through full-price and factory retail stores located throughout the U.S., Canada, Europe, South America and Asia, and through its retail internet site located at www.Polo.com. In addition, the Company often licenses the right to third parties to use its various trademarks in connection with the manufacture and sale of designated products, such as apparel, eyewear and fragrances, in specified geographical areas for specified periods.

2. BASIS OF PRESENTATION

Basis of Consolidation

The accompanying consolidated financial statements present the financial position, results of operations and cash flows of the Company and all entities in which the Company has a controlling voting interest. The accompanying consolidated financial statements also include the accounts of any variable interest entities in which the Company is considered to be the primary beneficiary and such entities are required to be consolidated in accordance with accounting principles generally accepted in the U.S. (“US GAAP”). In particular, pursuant to the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 46R (“FIN 46R”), the Company consolidates Polo Ralph Lauren Japan Corporation (“PRL Japan”), a 50%-owned venture with Onward Kashiyama Co. Ltd and its subsidiaries (“Onward Kashiyama”) and The Seibu Department Stores, Ltd (“Seibu”). Prior to the acquisition of the minority ownership interests in Ralph Lauren Media, LLC (“RL Media”) on March 28, 2007, the Company also consolidated RL Media, formerly a 50%-owned venture with NBC Universal, Inc. (“NBC”) and Value Vision International, Inc. and its related entities (“Value Vision”), pursuant to FIN 46R. RL Media conducts the Company’s e-commerce initiatives through an internet site known as Polo.com. See Note 5 for further discussion of the Company’s acquisition of the remaining 50% ownership interest of RL Media, as well as the Company’s acquisition of the remaining 50% ownership interest of PRL Japan in May 2007.

All significant intercompany balances and transactions have been eliminated in consolidation.

Fiscal Year

The Company utilizes a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, Fiscal year 2007 ended on March 31, 2007 and reflected a 52-week period (“Fiscal 2007”); Fiscal year 2006 ended on April 1, 2006 and reflected a 52-week period (“Fiscal 2006”); and Fiscal year 2005 ended on April 2, 2005 and reflected a 52-week period (“Fiscal 2005”).

The financial position and operating results of the Company’s consolidated 50% interest in PRL Japan are reported on a one-month lag. Similarly, prior to the fourth quarter of Fiscal 2006, the financial position and operating results of RL Media were reported on a three-month lag. During the fourth quarter of Fiscal 2006, RL Media changed its fiscal year, which was formerly on a calendar-year basis, to conform with the Company’s fiscal-year basis. In connection with this change, the three-month reporting lag for RL Media was eliminated. Accordingly, the Company’s operating results for Fiscal 2007 and Fiscal 2006 included in this Annual Report include the operating results of RL Media for the twelve-month periods ended March 31, 2007 and April 1, 2006, respectively, whereas Fiscal 2005 includes the operating results of RL Media for the twelve-month period ended December 31, 2004. The net effect from this change in RL Media’s fiscal year was not material to the accompanying consolidated financial statements for Fiscal 2006 and was reflected in retained earnings as a component of stockholders’ equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Use of Estimates

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

Significant estimates inherent in the preparation of the accompanying consolidated financial statements include reserves for customer returns, discounts, end-of-season markdown allowances and operational chargebacks; reserves for the realizability of inventory; reserves for litigation and other contingencies; impairments of long-lived tangible and intangible assets; depreciation and amortization expense; accounting for income taxes and related contingencies; the valuation of stock-based compensation and related forfeiture rates; and accounting for business combinations under the purchase method of accounting.

Reclassifications

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce revenue from sales of products ordered through the Company's retail internet site known as Polo.com is recognized upon delivery and receipt of the shipment by its customers. Such revenue also is reduced by an estimate of returns.

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

Sales Taxes

In June 2006, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)" ("EITF 06-03"). EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that are directly imposed on revenue-related transactions between sellers and customers on either a gross or net basis is an accounting policy decision that should be disclosed. The Company accounts for sales and other related taxes on a net basis, excluding such taxes from revenue and cost of revenue.

Cost of Goods Sold and Selling Expenses

Cost of goods sold includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, and import costs, as well as changes in reserves for shrinkage and inventory obsolescence. The costs of selling merchandise, including preparing the merchandise for sale, such as picking, packing, warehousing and order charges, are included in selling, general and administrative ("SG&A") expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shipping and Handling Costs

The costs associated with shipping goods to customers are reflected as a component of SG&A expenses in the accompanying consolidated statements of operations. Shipping and handling costs incurred approximated \$92 million in Fiscal 2007, \$77 million in Fiscal 2006 and \$56 million in Fiscal 2005. Shipping and handling charges billed to customers are included in revenues.

Advertising Costs

In accordance with American Institute of Certified Public Accountants (“AICPA”) Statement of Position (“SOP”) No. 93-7, “Reporting on Advertising Costs,” advertising costs, including the costs to produce advertising, are expensed when the advertisement is first exhibited. In accordance with EITF Issue No. 01-09, “Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor’s Products,” costs of out-of-store advertising paid to wholesale customers under cooperative advertising programs are expensed as an advertising cost if both the identified advertising benefit is sufficiently separable from the purchase of the Company’s products by customers and the fair value of such benefit is measurable. Otherwise, such costs are reflected as a reduction of revenue. Costs of in-store advertising paid to wholesale customers under cooperative advertising programs are not included in advertising costs, but are reflected as a reduction of revenues since the benefits are not sufficiently separable from the purchases of the Company’s products by customers.

Advertising expense amounted to approximately \$181 million for Fiscal 2007, \$166 million for Fiscal 2006 and \$127 million for Fiscal 2005. Deferred advertising costs, which principally relate to advertisements that have not yet been exhibited or services that have not yet been received, were approximately \$3 million and \$4 million at the end of Fiscal 2007 and Fiscal 2006, respectively.

Foreign Currency Translation and Transactions

The financial position and operating results of foreign operations are primarily consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenue and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying consolidated statement of stockholders’ equity as a component of accumulated other comprehensive income (loss). Gains and losses on translation of intercompany loans with foreign subsidiaries of a long-term investment nature also are included within this component of stockholders’ equity.

The Company also recognizes gains and losses on transactions that are denominated in a currency other than the respective entity’s functional currency. Foreign currency transaction gains and losses also include amounts realized on the settlement of intercompany loans with foreign subsidiaries that are either short-term, or were previously of a long-term, investment nature and deferred as a component of stockholders’ equity. Foreign currency transaction gains and losses are recognized in earnings and separately disclosed in the accompanying consolidated statements of operations.

Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statement of stockholders’ equity, consists of net income (loss) and other gains and losses affecting equity that, under US GAAP, are excluded from net income (loss). The components of other comprehensive income (loss) for the Company primarily consist of foreign currency translation gains and losses and deferred gains and losses on hedging instruments, such as foreign currency exchange contracts designated as cash flow hedges and changes in the fair value of the Company’s Euro-denominated debt designated as a hedge of changes in the fair value of the Company’s net investment in certain of its European subsidiaries.

Net Income Per Common Share

Net income per common share is determined in accordance with Statement of Financial Accounting Standards No. 128, “Earnings per Share” (“FAS 128”). Under the provisions of FAS 128, basic net income per common share is computed by dividing the net income applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Weighted-average common shares include shares of the Company’s Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the effects of outstanding stock options, restricted stock, restricted stock units and any other potentially dilutive financial instruments, only in the periods in which such effect is dilutive under the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
BASIC	104.4	104.2	101.5
DILUTIVE EFFECT OF STOCK OPTIONS, RESTRICTED STOCK AND RESTRICTED STOCK UNITS	3.2	3.0	2.6
DILUTED SHARES	107.6	107.2	104.1

Options to purchase shares of common stock at an exercise price greater than the average market price of the common stock are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding performance-based restricted stock units that are issuable only upon the satisfaction of certain performance goals. Such units only are included in the computation of diluted shares to the extent the underlying performance conditions (a) are satisfied prior to the end of the reporting period or (b) would be satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive. As of the end of Fiscal 2007 and Fiscal 2006, there was an aggregate of approximately 1.0 million and 0.8 million, respectively, of additional shares issuable upon the exercise of anti-dilutive options and/or the contingent vesting of performance-based restricted stock units that were excluded from the diluted share calculations.

Stock-Based Compensation

Effective April 2, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" ("FAS 123R"). This statement requires all share-based payments to employees to be expensed based on the grant date fair value of the awards over the requisite service period. The Company applied the requirements of FAS 123R using the modified prospective method and, therefore, prior periods were not restated. Under the modified prospective method, the Company records compensation expense for (1) the unvested portion of previously issued awards that remained outstanding at the initial date of adoption and (2) for any awards issued, modified or settled after the effective date of the statement. The Company uses the Black-Scholes valuation method to determine the grant date fair value of its stock option awards.

Prior to the adoption of FAS 123R, the Company's stock-based compensation was recognized using the intrinsic value method, which measures stock-based compensation expense as the amount at which the market price of the stock at the date of grant exceeds the exercise price. Accordingly, no compensation expense was recognized for the Company's stock option awards. Prior to the adoption of FAS 123R, the Company's stock-based compensation expense consisted of restricted stock and service-based restricted stock unit and performance-based restricted stock unit awards, which were accounted for in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25").

See Note 18 for further discussion of the Company's stock-based compensation and the adoption of FAS 123R.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, including investments in debt securities. Investments in debt securities are diversified among high-credit quality securities in accordance with the Company's risk-management policies, and primarily include commercial paper and money market funds.

Restricted Cash

The Company has placed Euro 58.9 million (\$77.2 million) of cash in escrow with certain banks, primarily in Fiscal 2007, as collateral to secure guarantees of a corresponding amount made by the banks to certain international tax authorities on behalf of the Company. Of the Euro 58.9 million of cash in escrow, Euro 41.3 million (\$55.1 million) was placed as collateral to secure guarantees made to the French tax authorities for the payment of an asserted excess royalties tax matter and Euro 17.6 million (\$22.1 million) was placed as collateral to secure refunds of value-added tax payments in certain international tax jurisdictions. Such cash has been classified as restricted cash and reported as a component of other assets in the Company's consolidated balance sheet. See Note 15 for further discussion of the French tax matter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

In the normal course of business, the Company extends credit to customers that satisfy defined credit criteria. Accounts receivable, net, as shown in the Company's consolidated balance sheet, is net of certain reserves and allowances. These reserves and allowances consist of (a) reserves for returns, discounts, end-of-season markdown allowances and operational chargebacks and (b) allowances for doubtful accounts. These reserves and allowances are discussed in further detail below.

A reserve for trade discounts is determined based on open invoices where trade discounts have been extended to customers, and is treated as a reduction of revenue.

Estimated end-of-season markdown allowances are included as a reduction of revenue. These provisions are based on retail sales performance, seasonal negotiations with customers, historical deduction trends and an evaluation of current market conditions.

A reserve for operational chargebacks represents various deductions by customers relating to individual shipments. This reserve, net of expected recoveries, is included as a reduction of revenue. The reserve is based on chargebacks received as of the date of the financial statements and past experience. Costs associated with potential returns of products also are included as a reduction of revenues. These return reserves are based on current information regarding retail performance, historical experience and an evaluation of current market conditions. The Company's historical estimates of these operational chargeback and return costs have not differed materially from actual results.

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

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
BEGINNING RESERVE BALANCE	\$ 107.5	\$ 100.0	\$ 90.3
AMOUNTS CHARGED AGAINST REVENUE TO INCREASE RESERVE	388.4	302.6	265.3
AMOUNTS CREDITED AGAINST CUSTOMER ACCOUNTS TO DECREASE RESERVE	(369.2)	(294.1)	(256.7)
FOREIGN CURRENCY TRANSLATION	2.7	(1.0)	1.1
ENDING RESERVE BALANCE	\$ 129.4	\$ 107.5	\$ 100.0

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions. A rollforward of the activity in the Company's allowances for doubtful accounts is presented below:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
BEGINNING RESERVE BALANCE	\$ 7.5	\$ 11.0	\$ 7.0
AMOUNT CHARGED TO EXPENSE TO INCREASE RESERVE	1.9	1.2	6.0
AMOUNT WRITTEN OFF AGAINST CUSTOMER ACCOUNTS TO DECREASE RESERVE	(1.2)	(4.3)	(2.1)
FOREIGN CURRENCY TRANSLATION	0.5	(0.4)	0.1
ENDING RESERVE BALANCE	\$ 8.7	\$ 7.5	\$ 11.0

Concentration of Credit Risk

In the wholesale business, the Company has two key department-store customers that generate significant sales volume. For Fiscal 2007, these two customers contributed approximately 29% and 14% of all wholesale revenues and 43% in the aggregate.

Inventories

The Company holds inventory that is sold through wholesale distribution channels to major department stores and specialty retail stores, including its own retail stores. The Company also holds retail inventory that is sold in its own stores directly to consumers. Wholesale and retail inventories are stated at the lower of cost or estimated realizable value. Cost for wholesale inventories is determined using the first-in, first-out ("FIFO") method and cost for retail inventories is determined on a moving-average cost basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company continually evaluates the composition of its inventories, assessing slow-turning, ongoing (specially made for Retail) product, as well as all fashion product. Estimated realizable value of distressed inventory is determined based on historical sales trends of the Company's individual product lines for this category of inventory, the impact of market trends and economic conditions, and the value of current orders in-house relating to the future sales of this category of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. The Company's historical estimates of these costs and its provisions have not differed materially from actual results.

Investments

Investments in companies in which the Company has significant influence, but less than a controlling voting interest, are accounted for using the equity method. This is generally presumed to exist when the Company owns between 20% and 50% of the investee. However, as a matter of policy, if the Company had a greater than 50% ownership interest in an investee and the minority shareholders held certain rights that allowed them to participate in the day-to-day operations of the business, the Company would also use the equity method of accounting.

Under the equity method, only the Company's investment in and amounts due to and from the equity investee are included in the consolidated balance sheets; only the Company's share of the investee's earnings (losses) is included in the consolidated operating results; and only the dividends, cash distributions, loans or other cash received from the investee and additional cash investments, loan repayments or other cash paid to the investee are included in the consolidated cash flows.

Investments in companies in which the Company does not have a controlling interest, or is unable to exert significant influence, are accounted for at market value if the investments are publicly traded and there are no resale restrictions greater than one year ("available-for-sale investments"). If resale restrictions greater than one year exist, or if the investment is not publicly traded, the investment is accounted for at cost.

As of March 31, 2007, the Company's only significant investment is an approximate 20% equity interest in Impact 21 Co., Ltd. ("Impact 21"). Impact 21 is a public company that holds the sublicenses for the Company's men's, women's and jeans businesses in Japan. The Company accounts for its interest in Impact 21, which is included in other assets in the accompanying consolidated balance sheets, using the equity method of accounting. See Note 5 for further discussion of the Company's Japanese Business Acquisitions that occurred in May 2007.

In addition, see Note 5 for a discussion of the Company's formation of a joint venture in April 2007 to conduct its watch and jewelry business, which will be accounted for under the equity method of accounting.

Property and Equipment, Net

Property and equipment, net, is stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets, which range from three to seven years for furniture, fixtures, computer systems and equipment; from three to ten years for machinery and equipment; and from ten to forty years for buildings and building improvements. Leasehold improvements are depreciated over periods equal to the shorter of the estimated useful lives of the respective assets and the life of the lease.

Property and equipment, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"). In evaluating long-lived assets for recoverability, including finite-lived intangibles as described below, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets are accounted for in accordance with the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). At acquisition, the Company estimates and records the fair value of purchased intangible assets, which primarily consists of license agreements, customer relationships, non-compete agreements and order backlog. The fair value of these intangible assets is estimated based on management's assessment, as well as independent third party appraisals, when necessary. The excess of the purchase consideration over the fair value of net assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

acquired is recorded as goodwill. Under FAS 142, goodwill, including any goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have indefinite useful lives are not amortized. Rather, goodwill and such indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values. Finite-lived intangible assets are amortized over their respective estimated useful lives and, along with other long-lived assets as noted above, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with FAS 144. See discussion of the Company's accounting policy for impairment as described earlier under the caption "*Property and Equipment, Net.*"

Officers' Life Insurance

The Company maintains several whole-life and a few split-dollar life insurance policies for certain of its senior executives. Whole-life policies are recorded at their cash-surrender value, and split-dollar policies are recorded at the lesser of their cash-surrender value or aggregate premiums paid-to-date in the accompanying consolidated balance sheets. As of the end of Fiscal 2007 and Fiscal 2006, amounts of \$53 million and \$52 million, respectively, relating to officers' life insurance policies held by the Company were classified within other assets in the accompanying consolidated balance sheets.

Income Taxes

Income taxes are provided using the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("FAS 109"). Under this method, income taxes (i.e., deferred tax assets and liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current year and include the results of any difference between US GAAP and tax reporting. Deferred income taxes reflect the tax effect of certain net operating loss, capital loss and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statement and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

Significant judgment is required in determining the worldwide provision for income taxes. That is, in the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. It is the Company's policy to establish reserves for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes those reserves based upon management's assessment of the exposure associated with permanent tax differences and tax credits. In addition, valuation allowances are established when management determines that it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. Tax reserves and valuation allowances are analyzed periodically and adjusted as events occur, or circumstances change, that warrant adjustments to those balances.

In addition, see Note 4 for the Company's discussion of the accounting for uncertainty in income taxes.

Leases

The Company leases certain facilities and equipment, including its retail stores. Such leasing arrangements are accounted for under the provisions of FAS No. 13, "Accounting for Leases" and other related authoritative accounting literature ("FAS 13"). Certain of the Company's leases contain renewal options, rent escalation clauses and/or landlord incentives. Rent expense for noncancelable operating leases with scheduled rent increases and/or landlord incentives is recognized on a straight-line basis over the lease term, beginning with the effective lease commencement date. The excess of straight-line rent expense over scheduled payment amounts and landlord incentives is recorded as a deferred rent liability. As of the end of Fiscal 2007 and Fiscal 2006, unamortized deferred rent obligations of approximately \$96 million and \$85 million, respectively, were classified within other non-current liabilities in the accompanying consolidated balance sheets.

For leases in which the Company is involved with the construction of the building (generally on land owned by the landlord), the Company accounts for the lease during the construction period under the provisions of EITF No. 97-10, "The Effect of Lessee Involvement in Asset Construction" ("EITF 97-10"). If the Company concludes that it has substantively all of the risks of ownership during construction of a leased property and, therefore, is deemed the owner of the project for accounting purposes, it records an asset and related financing obligation for the amount of total project costs related to construction-in-progress and the pre-existing building. Once construction is complete, the Company considers the requirements under FAS No. 98, "Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of Lease Term, and Initial Direct Costs of Direct Financing Leases," for sale-leaseback treatment. If the arrangement does not qualify for sale-leaseback treatment, the Company continues to amortize the financing obligation and depreciate the building over the lease term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivatives and Financial Instruments

The Company accounts for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and subsequent amendments (collectively, "FAS 133"). FAS 133 requires that all derivative instruments be recognized on the balance sheet at fair value. In addition, FAS 133 provides that, for derivative instruments that qualify for hedge accounting, the effective portion of changes in the fair value are either (a) offset against the changes in fair value of the hedged assets, liabilities, or firm commitments through earnings or (b) recognized in stockholders' equity until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows, respectively. For each derivative instrument entered into where the Company seeks to obtain hedge accounting treatment, the relationship between the hedging instrument and the hedged item, as well as the related risk management objective and how the effectiveness in offsetting the hedged risk will be assessed, is formally documented. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

For cash flow reporting purposes, the Company classifies proceeds received or paid upon the settlement of a derivative financial instrument in the same manner as the item being hedged.

The carrying value of the Company's financial instruments approximates fair value, except for certain differences relating to fixed-rate debt, investments in other entities accounted for using the equity method of accounting and other financial instruments. However, other than differences in the fair value of fixed-rate debt as disclosed in Note 13, these differences were not significant as of March 31, 2007 and April 1, 2006. The fair value of financial instruments generally is determined by reference to market values resulting from the trading of the instruments on a national securities exchange or an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates derived through the use of present value or other valuation techniques.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

Financial Statement Misstatements

In September 2006, the U.S. Securities and Exchange Commission ("SEC") staff issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 was issued in order to eliminate the diversity in practice surrounding how public companies quantify and evaluate financial statement misstatements.

Traditionally, there have been two widely-recognized methods for quantifying and evaluating the effects of financial statement misstatements: (i) the balance sheet ("iron curtain") method and (ii) the income statement ("rollover") method. The iron curtain method quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the reporting period. The rollover method quantifies a misstatement based on the amount of the error originating in the current period income statement, including the reversing effect of prior year misstatements. The use of the rollover method can lead to the accumulation of misstatements in the balance sheet. Prior to the adoption of SAB 108, the Company historically used the rollover method for quantifying and evaluating identified financial statement misstatements.

By issuing SAB 108, the SEC staff established an approach that requires quantification and evaluation of financial statement misstatements based on the effects of the misstatements under both the iron curtain and rollover methods. This model is commonly referred to as a "dual approach."

SAB 108 requires companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been applied or (ii) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment recorded to the opening balance of retained earnings. The Company elected to record the effects of applying SAB 108 using the cumulative effect transition method and, as such, recorded a \$16.9 million reduction in retained earnings as of April 2, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the effects of applying SAB 108 for each period in which the identified misstatement originated through April 2, 2006:

	PERIOD IN WHICH MISSTATEMENT ORIGINATED ^(a)			ADJUSTMENT RECORDED AS OF APRIL 2, 2006
	CUMULATIVE PRIOR TO APRIL 4, 2004	FISCAL YEARS ENDED		
		APRIL 2, 2005	APRIL 1, 2006	
INVENTORY ^(b)	\$ (9.1)	\$ (0.2)	\$ —	\$ (9.3)
OTHER NON-CURRENT LIABILITIES—ACCRUED RENT ^(c)	—	(3.5)	0.3	(3.2)
OTHER NON-CURRENT ASSETS—EQUITY METHOD INVESTMENTS ^(d)	(1.0)	(1.1)	0.2	(1.9)
OTHER NON-CURRENT LIABILITIES—MINORITY INTEREST ^(d)	(1.0)	—	—	(1.0)
DEFERRED INCOME TAXES ^(e)	1.4	0.5	(3.4)	(1.5)
IMPACT ON NET INCOME AND RETAINED EARNINGS	\$ (9.7)	\$ (4.3)	\$ (2.9)	\$ (16.9)

^(a) The Company previously quantified these errors under the rollover method and concluded that they were immaterial, individually and in the aggregate, to the Company's consolidated financial statements.

^(b) The Company historically did not eliminate certain intercompany profits on the transfer of inventory, which resulted in a cumulative overstatement of its inventory by \$4.8 million in years prior to Fiscal 2005 and by \$0.2 million in Fiscal 2005. In addition, the Company included \$4.3 million of certain product development costs in its inventory in years prior to Fiscal 2005 that, in hindsight, were not considered to be capitalizable. To correct these misstatements, the Company reduced inventory by \$9.3 million as of April 2, 2006, with a corresponding pre-tax reduction in retained earnings.

^(c) In connection with a specialized retail store construction project in one of its international locations, the Company did not recognize rent expense upon taking possession of the leased property and commencing construction in Fiscal 2005. To correct these misstatements, the Company recorded a \$3.2 million net increase in its liability for accrued rent as of April 2, 2006, with a corresponding pre-tax reduction in retained earnings.

^(d) The Company historically did not properly account for differences between its investment bases in certain consolidated and unconsolidated investees and its share of the underlying equity of such investees. To correct these misstatements, the Company reduced the carrying value of its equity method investment by \$1.9 million and increased its minority interest liability by \$1.0 million as of April 2, 2006, with a corresponding pre-tax reduction of \$2.9 million in total to retained earnings.

^(e) As a result of the misstatements described above and \$5.1 million of deferred tax balances that were not supportable based on a subsequent analysis of underlying book-tax basis differences, the Company's provision for income taxes was cumulatively overstated by \$1.4 million in years prior to Fiscal 2005 and \$0.5 million in Fiscal 2005, and understated by \$3.4 million in Fiscal 2006. To correct these misstatements, the Company increased its net deferred income tax liability by a total of \$1.5 million as of April 2, 2006, with a corresponding decrease in retained earnings.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of Statement of Financial Accounting Standards No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The Company first will be required to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. A tax position that meets the "more-likely-than-not" recognition threshold will then be measured to determine the amount of benefit to recognize in the financial statements based upon the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. FIN 48 is effective for the Company as of the beginning of Fiscal 2008 (April 1, 2007). While the Company continues to analyze the effect from adopting the provisions of FIN 48, it is currently anticipated that a cumulative effect adjustment of up to \$85 million will be charged to retained earnings during the first quarter of Fiscal 2008. This estimate is subject to change as the Company completes its analysis.

Stock-Based Compensation

In December 2004, the FASB issued FAS 123R and, in March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107"). SAB 107 provides implementation guidance for companies to use in their adoption of FAS 123R. FAS 123R supersedes both APB 25, which permitted the use of the intrinsic-value method in accounting for stock-based compensation, and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("FAS 123"), which allowed companies applying APB 25 to just disclose in their financial statements the pro forma effect on net income from applying the fair-value method of accounting for stock-based compensation. The Company adopted FAS 123R as of April 2, 2006. See Note 18 for further discussion of the Company's stock-based compensation and the adoption of FAS 123R.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Recently Issued Accounting Standards

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of Statement of Financial Accounting Standards No. 115” (“FAS 159”). FAS 159 permits companies to choose to measure, on an instrument-by-instrument basis, financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option is elected will be recognized in earnings at each subsequent reporting date. FAS 159 is effective for the Company as of the beginning of Fiscal 2009 (March 30, 2008). The application of FAS 159 is not expected to have a material effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, “Employers Accounting for Defined Benefit Pension and other Postretirement Plans — an amendment of Statement of Financial Accounting Standards No. 87, 88, 106 and 132R” (“FAS 158”). FAS 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to recognize the funded status of a benefit plan — measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation — in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. FAS 158 is effective for fiscal years ending after December 15, 2006. Because the Company does not currently maintain any significant defined benefit plans, the application of FAS 158 did not have a material effect on the Company’s consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS 157”). FAS 157 defines fair value, establishes a framework for measuring fair value in accordance with US GAAP and expands disclosures about fair value measurements. FAS 157 is effective for the Company as of the beginning of Fiscal 2009. The application of FAS 157 is not expected to have a material effect on the Company’s consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, “Accounting Changes and Error Corrections” (“FAS 154”). FAS 154 generally requires that accounting changes and errors be applied retrospectively. Effective April 2, 2006, the Company adopted the provisions of FAS 154. The application of FAS 154 did not have an effect on the Company’s financial statements.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, “Inventory Costs” (“FAS 151”). FAS 151 clarifies standards for the treatment of abnormal amounts of idle facility expense, freight, handling costs and spoilage. Effective April 2, 2006, the Company adopted the provisions of FAS 151. The application of FAS 151 did not have a material effect on the Company’s financial statements.

5. ACQUISITIONS AND JOINT VENTURES

Fiscal 2008 Transactions

Japanese Business Acquisitions

On May 29, 2007, the Company completed its previously announced transactions to acquire control of certain of its Japanese businesses that were formerly conducted under licensed arrangements. In particular, the Company acquired approximately 77% of the outstanding shares of Impact 21 that it did not previously own in a cash tender offer (the “Impact 21 Acquisition”), thereby increasing its ownership in Impact 21 from approximately 20% to 97%. Impact 21 conducts the Company’s men’s, women’s and jeans apparel and accessories business in Japan under a sub-license arrangement. In addition, the Company acquired the remaining 50% interest in PRL Japan, which holds the master license to conduct Polo’s business in Japan, from Onward Kashiya and Seibu (the “PRL Japan Minority Interest Acquisition”). Collectively, the Impact 21 Acquisition and the PRL Japan Minority Interest Acquisition are hereafter referred to as the “Japanese Business Acquisitions.”

The purchase price initially paid in connection with the Impact 21 Acquisition was approximately \$327 million. However, the Company intends to acquire, over the next several months, the remaining approximately 3% of the outstanding shares not exchanged as of the close of the tender offer period at an estimated aggregate cost of approximately \$12 million. In addition, the purchase price paid in connection with the PRL Japan Minority Interest Acquisition was approximately \$22 million.

The Company funded the Japanese Business Acquisitions with available cash on-hand and approximately \$170 million of Yen-based borrowings under a one-year term loan agreement on terms substantially similar to the Company’s existing credit facility. The Company expects to repay the borrowing by its maturity date using a portion of the approximate \$200 million of Impact 21’s cash on-hand acquired as part of the acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The results of operations for Impact 21 will be consolidated effective as of the beginning of Fiscal 2008. The results of operations for PRL Japan already are consolidated by the Company as described further in Note 2 to the accompanying consolidated financial statements.

The Company is in the process of preparing its assessment of the fair value of assets acquired and liabilities assumed for the allocation of the purchase price. The Company also has entered into a transition services agreement with Onward Kashiya which, along with its affiliates, was a former approximate 41% shareholder of Impact 21, to provide a variety of operational, human resources and information systems-related services over a period of up to two years.

Acquisition of Small Leathergoods Business

On April 13, 2007, the Company acquired from Kellwood Company ("Kellwood") substantially all of the assets of New Campaign, Inc., the Company's licensee for men's and women's belts and other small leather goods under the Ralph Lauren, Lauren and Chaps brands in the U.S. The assets acquired from Kellwood will be operated under the name of "Polo Ralph Lauren Leathergoods" and will allow the Company to further expand its accessories business. The acquisition cost was approximately \$10 million and is subject to customary closing adjustments. Kellwood will provide various transition services for up to six months after the closing.

The results of operations for the Polo Ralph Lauren Leathergoods business will be consolidated in the Company's results of operations commencing in Fiscal 2008. The Company is in the process of preparing its assessment of the fair value of assets acquired.

Formation of Ralph Lauren Watch and Jewelry Joint Venture

On March 5, 2007, the Company announced that it had agreed to form a joint venture with Financiere Richemont SA ("Richemont"), the Swiss Luxury Goods Group. The 50-50 joint venture will be a Swiss corporation named the Ralph Lauren Watch and Jewelry Company, S.A.R.L. (the "RL Watch Company"), whose purpose is to design, develop, manufacture, sell and distribute luxury watches and fine jewelry through Ralph Lauren boutiques, as well as through fine independent jewelry and luxury watch retailers throughout the world. The Company expects to account for its 50% interest in the RL Watch Company under the equity method of accounting. Royalty payments due to the Company under the related license agreement for use of certain of the Company's trademarks will be reflected as licensing revenue within the consolidated statement of operations. The RL Watch Company is expected to commence operations during the first quarter of Fiscal 2008 and it is expected that the products will be launched in the fall of calendar 2008.

Fiscal 2007 Transactions

Acquisition of RL Media Minority Interest

On March 28, 2007, the Company acquired the remaining 50% equity interest in RL Media formerly held by NBC (37.5%) and Value Vision (12.5%). RL Media conducts the Company's e-commerce initiatives through the Polo.com internet site and is consolidated by the Company as the primary beneficiary pursuant to the provisions of FIN 46R. The acquisition cost was \$175 million. In addition, Value Vision entered into a transition services agreement with the Company to provide order fulfillment and related services over a period of up to seventeen months from the date of the acquisition of the RL Media minority interest.

The Company evaluated the terms of all significant pre-existing relationships between itself and RL Media to determine if a settlement of the pre-existing relationships existed. In addition, the Company obtained valuation analyses of RL Media prepared by an independent valuation firm. Based on these analyses, as well as the rights and obligations of the parties under the RL Media partnership agreement, the Company determined that all of the consideration exchanged should be allocated to the acquisition of the RL Media minority interest. Accordingly, no settlement gain or loss was recognized in connection with this transaction.

The excess of the acquisition cost over the pre-existing minority interest liability of \$33 million has been allocated on a preliminary basis as follows: inventory of \$8 million; finite-lived intangible assets of \$55 million (consisting of the re-acquired license of \$50 million and customer list of \$5 million); and goodwill of \$79 million. The Company is in the process of completing its assessment of the fair value of assets acquired. As a result, the estimated purchase price allocation is subject to change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal 2006 Transactions

Acquisition of Polo Jeans Business

On February 3, 2006, the Company acquired from Jones Apparel Group, Inc. and its subsidiaries (“Jones”) all of the issued and outstanding shares of capital stock of Sun Apparel, Inc., the Company’s licensee for men’s and women’s casual apparel and sportswear in the U.S. and Canada (the “Polo Jeans Business”). The acquisition cost was approximately \$260 million, including transaction costs. In addition, simultaneous with the transaction, the Company settled all claims under its litigation with Jones for a cost of \$100 million.

The Company determined that the terms of the pre-existing licensing relationship were reflective of market. However, because the Company simultaneously purchased a business and settled all pre-existing litigation, the aggregate consideration exchanged was required to be allocated for accounting purposes in proportion to the underlying fair values of the legal settlement and the Polo Jeans Business acquired. Based on the arm’s-length negotiation with Jones, the Company determined that the fair value of the legal settlement was \$100 million, which equaled the amount of a litigation reserve initially established by the Company during Fiscal 2005. The remaining \$255 million of consideration exchanged was allocated to the Polo Jeans Business based on valuation analyses prepared by an independent valuation firm.

The results of operations for the Polo Jeans Business have been consolidated in the Company’s results of operations commencing February 4, 2006. In addition, the accompanying consolidated financial statements include the following allocation of the acquisition cost to the net assets acquired based on their respective fair values: inventory of \$36 million; finite-lived intangible assets of \$159 million (consisting of the re-acquired license of \$97 million, customer relationships of \$57 million and order backlog of \$5 million); goodwill of \$126 million; and deferred tax and other liabilities, net, of \$61 million. Other than inventory, Jones retained the right to all working capital balances on the date of closing.

The Company also entered into a transition services agreement with Jones to provide a variety of operational, financial and information systems services over a period of six to twelve months from the date of the acquisition of the Polo Jeans Business.

Acquisition of Footwear Business

On July 15, 2005, the Company acquired from Reebok International, Ltd. (“Reebok”) all of the issued and outstanding shares of capital stock of Ralph Lauren Footwear Co., Inc., the Company’s global licensee for men’s, women’s and children’s footwear, as well as certain foreign assets owned by affiliates of Reebok (collectively, the “Footwear Business”). The acquisition cost was approximately \$112 million in cash, including \$2 million of transaction costs. In addition, Reebok and certain of its affiliates entered into a transition services agreement with the Company to provide a variety of operational, financial and information systems services over a period of twelve to eighteen months from the date of the acquisition of the Footwear Business.

The Company determined that the terms of the pre-existing licensing relationship were reflective of market. As such, based on valuation analyses prepared by an independent valuation firm, the Company allocated all of the consideration exchanged to the purchase of the Footwear Business and no settlement gain or loss was recognized in connection with the transaction.

The results of operations for the Footwear Business for the period have been consolidated in the Company’s results of operations commencing July 16, 2005. In addition, the accompanying consolidated financial statements include the following allocation of the acquisition cost to the net assets acquired based on their respective fair values: trade receivables of \$17 million; inventory of \$26 million; finite-lived intangible assets of \$62 million (consisting of the footwear license at \$38 million, customer relationships at \$23 million and order backlog at \$1 million); goodwill of \$20 million; other assets of \$1 million; and liabilities of \$14 million.

Fiscal 2005 Transactions

Acquisition of Childrenswear Business

On July 2, 2004, the Company acquired certain assets and assumed certain liabilities of RL Childrenswear Company, LLC, the Company’s licensee holding the exclusive licenses to design, manufacture, merchandise and sell newborn, infant, toddler, girls and boys clothing in the U.S., Canada and Mexico (the “Childrenswear Business”). The purchase price was approximately \$264 million, including transaction costs, deferred payments of \$15 million payable over the three years after the acquisition date and \$5 million of contingent payments. The contingent payments were conditional on certain sales targets being attained and, during Fiscal 2005, the Company recognized the obligation with a corresponding increase in goodwill because it became probable that the sales targets would be attained. As of the end of Fiscal 2007, \$17 million of the deferred and conditional payments were made and the remaining portion of approximately \$3 million of deferred and conditional payments were classified as a component of other current liabilities in the accompanying consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The results of operations for the Childrenswear Business for the period are included in the Company's consolidated results of operations commencing July 2, 2004. In addition, the accompanying consolidated financial statements include the following allocation of the acquisition cost to the net assets acquired based on their respective fair values: inventory of \$27 million; property and equipment of \$8 million; finite-lived intangible assets of \$32 million (consisting of non-compete agreements of \$2 million and customer relationships of \$30 million); other assets of \$1 million; goodwill of \$208 million; and liabilities of \$12 million.

6. INVENTORIES

Inventories consist of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
RAW MATERIALS	\$ 8.4	\$ 5.2
WORK-IN-PROCESS	1.1	0.8
FINISHED GOODS	517.4	479.5
TOTAL INVENTORY	\$ 526.9	\$ 485.5

7. PROPERTY AND EQUIPMENT

Property and equipment, net, consist of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
LAND AND IMPROVEMENTS	\$ 9.9	\$ 9.9
BUILDINGS AND IMPROVEMENTS	63.4	41.4
FURNITURE AND FIXTURES	484.9	419.9
MACHINERY AND EQUIPMENT	295.8	261.8
LEASEHOLD IMPROVEMENTS	563.8	511.2
CONSTRUCTION IN PROGRESS	40.2	28.9
	1,458.0	1,273.1
LESS: ACCUMULATED DEPRECIATION	(828.2)	(724.3)
PROPERTY AND EQUIPMENT, NET	\$ 629.8	\$ 548.8

As discussed in Note 3, the Company periodically evaluates the recoverability of the carrying value of fixed assets whenever events or changes in circumstances indicate that the assets' values may be impaired. No impairment charges were recognized in Fiscal 2007. During Fiscal 2006, the Company recorded impairment charges of approximately \$10.8 million to reduce the carrying value of fixed assets, largely related to its Club Monaco retail business that includes its Caban Concept and Club Monaco factory stores. This impairment charge primarily related to lower-than-expected store performance and preceded the Company's implementation of a plan to restructure these operations in February 2006. In measuring the amount of the impairment, fair value was determined based on discounted expected cash flows. See Note 11 for further discussion of the Club Monaco restructuring plan and related charges.

The Company recorded a similar \$1.5 million retail store impairment charge during Fiscal 2005.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

As discussed in Note 3, the Company accounts for goodwill and other intangible assets in accordance with FAS 142. Under FAS 142, goodwill and certain other intangible assets deemed to have indefinite useful lives are not amortized. Rather, goodwill and such indefinite-lived intangible assets are subject to annual impairment testing. Finite-lived intangible assets continue to be amortized over their respective estimated useful lives. Based on the Company's annual impairment testing of goodwill and indefinite-lived intangible assets in Fiscal 2007, Fiscal 2006 and Fiscal 2005, no impairment charges were deemed necessary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Goodwill

The following analysis details the changes in goodwill for each reportable segment during Fiscal 2007 and Fiscal 2006:

(millions)	WHOLESALE	RETAIL	LICENSING	TOTAL
BALANCE AT APRIL 2, 2005	\$ 367.9	\$ 74.5	\$ 116.5	\$ 558.9
ACQUISITION-RELATED ACTIVITY ^(a)	149.0	1.2	—	150.2
OTHER ADJUSTMENTS ^(b)	(9.1)	(0.3)	—	(9.4)
BALANCE AT APRIL 1, 2006	\$ 507.8	\$ 75.4	\$ 116.5	\$ 699.7
ACQUISITION-RELATED ACTIVITY ^(a)	(3.0)	79.0	—	76.0
OTHER ADJUSTMENTS ^(b)	14.1	0.7	—	14.8
BALANCE AT MARCH 31, 2007	\$ 518.9	\$ 155.1	\$ 116.5	\$ 790.5

^(a) Acquisition-related activity primarily includes the acquisitions of the Footwear Business and Polo Jeans Business in Fiscal 2006, and the acquisition of the 50% minority interest in RL Media in Fiscal 2007.

^(b) Other adjustments principally include changes in foreign currency exchange rates.

Other Intangible Assets

Other intangible assets consist of the following:

(millions)	MARCH 31, 2007			APRIL 1, 2006		
	GROSS CARRYING AMOUNT	ACCUM. AMORT.	NET	GROSS CARRYING AMOUNT	ACCUM. AMORT.	NET
INTANGIBLE ASSETS SUBJECT TO AMORTIZATION:						
RE-ACQUIRED LICENSED TRADEMARKS	\$ 194.3	\$ (11.8)	\$ 182.5	\$ 144.5	\$ (5.0)	\$ 139.5
CUSTOMER RELATIONSHIPS/LIST	115.2	(8.4)	106.8	110.2	(3.4)	106.8
OTHER	7.4	(6.9)	0.5	7.4	(3.1)	4.3
TOTAL INTANGIBLE ASSETS SUBJECT TO AMORTIZATION	316.9	(27.1)	289.8	262.1	(11.5)	250.6
INTANGIBLE ASSETS NOT SUBJECT TO AMORTIZATION:						
TRADEMARKS AND BRANDS	7.9	—	7.9	7.9	—	7.9
TOTAL INTANGIBLE ASSETS	\$ 324.8	\$ (27.1)	\$ 297.7	\$ 270.0	\$ (11.5)	\$ 258.5

Amortization

Based on the amount of intangible assets subject to amortization as of March 31, 2007, the expected amortization for each of the next five fiscal years and thereafter is as follows:

(millions)	AMORTIZATION EXPENSE
FISCAL 2008	\$ 15.1
FISCAL 2009	14.9
FISCAL 2010	14.9
FISCAL 2011	14.6
FISCAL 2012	14.5
2013 AND THEREAFTER	215.8
TOTAL	\$ 289.8

The expected amortization expense above reflects estimated useful lives assigned to the Company's finite-lived intangible assets as follows: re-acquired licensed trademarks of 10 to 25 years and customer relationships of 5 to 25 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
EQUITY-METHOD INVESTMENTS	\$ 62.2	\$ 63.6
OFFICERS' LIFE INSURANCE	52.6	51.8
RESTRICTED CASH	77.2	—
OTHER NON-CURRENT ASSETS	105.2	87.8
TOTAL OTHER NON-CURRENT ASSETS	\$ 297.2	\$ 203.2

10. OTHER CURRENT AND NON-CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
ACCRUED OPERATING EXPENSES	\$ 277.3	\$ 214.8
ACCRUED PAYROLL AND BENEFITS	69.4	71.8
DEFERRED INCOME	40.0	18.5
OTHER	4.3	9.2
TOTAL ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES	\$ 391.0	\$ 314.3

Other non-current liabilities consist of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
CAPITAL LEASE OBLIGATIONS	\$ 47.1	\$ 24.2
DEFERRED RENT OBLIGATIONS	95.8	84.7
DEFERRED INCOME	181.6	0.5
MINORITY INTEREST	4.0	17.9
OTHER	55.5	47.5
TOTAL OTHER NON-CURRENT LIABILITIES	\$ 384.0	\$ 174.8

11. RESTRUCTURING

The Company has recorded restructuring liabilities over the past few years relating to various cost-savings initiatives, as well as certain of its acquisitions. In accordance with US GAAP, restructuring costs incurred in connection with an acquisition are capitalized as part of the purchase accounting for the transaction. Such acquisition-related restructuring costs were not material in any period. Liabilities for costs associated with non-acquisition-related restructuring initiatives are expensed and initially measured at fair value when incurred in accordance with US GAAP. A description of the nature of significant non-acquisition-related restructuring activities and related costs is presented below.

Fiscal 2007 Restructuring

In connection with the Club Monaco Restructuring Plan described below, during Fiscal 2007 the Company ultimately decided to close all of Club Monaco's Caban Concept Stores (the "Caban Stores") and recognized \$4.0 million of associated restructuring charges, primarily relating to lease termination costs.

Additionally, the Company recognized \$0.6 million of other restructuring charges primarily related to severance costs associated with the transition of certain sourcing and production functions from Colombia to the U.S. during Fiscal 2007.

Fiscal 2006 Restructuring

During the fourth quarter of Fiscal 2006, the Company committed to a plan to restructure its Club Monaco retail business. In particular, this plan consisted of the closure of all five Club Monaco factory stores and the intention to dispose of by sale or closure all eight of the Caban Stores (collectively, the "Club Monaco Restructuring Plan"). In connection with this plan, an aggregate

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

restructuring-related charge of \$12 million was recognized in Fiscal 2006. This charge consisted of (a) a \$3 million writedown of inventory to estimated net realizable value, which has been classified as a component of cost of goods sold in the accompanying consolidated statements of operations, (b) a \$5 million writedown of fixed and other net assets, which has been classified as a component of restructuring charges in the accompanying consolidated statements of operations and (c) the recognition of a \$4 million liability relating to lease termination costs, which has been classified as a component of restructuring charges in the accompanying consolidated statements of operations.

A summary of the activity in the Club Monaco Restructuring Plan liability during the applicable periods presented is as follows:

(millions)	LEASE AND CONTRACT TERMINATION COSTS
BALANCE AT APRIL 2, 2005	\$ —
ADDITIONS CHARGED TO EXPENSE	9.0
CASH PAYMENTS CHARGED AGAINST RESERVE	(7.8)
BALANCE AT APRIL 1, 2006	\$ 1.2
ADDITIONS CHARGED TO EXPENSE	4.0
CASH PAYMENTS CHARGED AGAINST RESERVE	(3.8)
BALANCE AT MARCH 31, 2007	\$ 1.4

Fiscal 2005 Restructuring

During Fiscal 2005, the Company incurred approximately \$2 million of restructuring costs, principally relating to severance obligations in connection with its European operations. Such obligations were substantially paid by the end of Fiscal 2006, and the charge was classified as a component of restructuring charges in the accompanying consolidated statements of operations.

12. INCOME TAXES

Domestic and foreign pre-tax income are as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
DOMESTIC	\$ 508.6	\$ 396.9	\$ 154.8
FOREIGN	134.7	106.0	143.0
TOTAL INCOME BEFORE PROVISION FOR INCOME TAXES	\$ 643.3	\$ 502.9	\$ 297.8

Current and deferred income taxes (tax benefits) provided are as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
CURRENT:			
FEDERAL ^(a)	\$ 250.7	\$ 118.0	\$ 102.0
STATE AND LOCAL ^(a)	50.2	14.9	17.3
FOREIGN	53.9	26.4	16.1
	354.8	159.3	135.4
DEFERRED:			
FEDERAL	(99.2)	24.3	(33.6)
STATE AND LOCAL	(12.8)	11.8	2.4
FOREIGN	(0.4)	(0.5)	3.2
	(112.4)	35.6	(28.0)
TOTAL PROVISION FOR INCOME TAXES	\$ 242.4	\$ 194.9	\$ 107.4

^(a) Excludes federal, state and local tax benefits of \$33 million in Fiscal 2007, \$22 million in Fiscal 2006 and \$19 million in Fiscal 2005 resulting from the exercise of employee stock options. In addition, excludes federal, state and local tax benefits of \$31 million for Fiscal 2007 primarily related to the repayment of the 1999 Euro Debt. Such amounts were credited to stockholders' equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The differences between income taxes expected at the U.S. federal statutory income tax rate of 35% and income taxes provided are as set forth below:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
PROVISION FOR INCOME TAXES AT THE U.S. FEDERAL STATUTORY RATE	\$ 225.1	\$ 176.0	\$ 104.2
INCREASE (DECREASE) DUE TO:			
STATE AND LOCAL INCOME TAXES, NET OF FEDERAL BENEFIT	25.7	17.4	12.8
FOREIGN INCOME TAXED AT DIFFERENT RATES, NET OF U.S. FOREIGN TAX CREDITS	(11.2)	(5.6)	(12.0)
OTHER	2.8	7.1	2.4
TOTAL PROVISION FOR INCOME TAXES	\$ 242.4	\$ 194.9	\$ 107.4

Significant components of the Company's net deferred tax assets are as follows:

(millions)	MARCH 31, 2007	APRIL 1, 2006
CURRENT DEFERRED TAX ASSETS (LIABILITIES):		
RECEIVABLE ALLOWANCES AND RESERVES	\$ 24.5	\$ 18.3
UNIFORM INVENTORY CAPITALIZATION	12.2	8.3
EMPLOYEE BENEFITS AND COMPENSATION	2.2	2.6
RESTRUCTURING RESERVES AND OTHER ACCRUED EXPENSES	4.8	7.4
OTHER	0.6	(3.3)
NOLs AND OTHER TAX ATTRIBUTED CARRYFORWARDS	0.1	—
VALUATION ALLOWANCE	—	(0.9)
NET CURRENT DEFERRED TAX ASSETS (LIABILITIES)	44.4	32.4
NON-CURRENT DEFERRED TAX ASSETS (LIABILITIES):		
PROPERTY, PLANT AND EQUIPMENT	36.3	19.9
GOODWILL AND OTHER INTANGIBLE ASSETS	(96.3)	(88.3)
NET OPERATING LOSSES CARRYFORWARDS	5.4	12.8
CUMULATIVE TRANSLATION ADJUSTMENT AND HEDGES	0.4	21.2
DEFERRED COMPENSATION	35.2	25.8
DEFERRED INCOME	72.5	1.5
OTHER	5.0	(5.1)
VALUATION ALLOWANCE	(1.6)	(8.6)
NET NON-CURRENT DEFERRED TAX ASSETS (LIABILITIES)	56.9	(20.8)
NET DEFERRED TAX ASSETS (LIABILITIES)	\$ 101.3	\$ 11.6

The Company has available federal, state and foreign net operating loss carryforwards of \$1.3 million, \$4.9 million and \$9.3 million, respectively, for tax purposes to offset future taxable income. The net operating loss carryforwards expire beginning in Fiscal 2008. 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.

Also, the Company has available state and foreign net operating loss carryforwards of \$6.9 million and \$4.1 million, respectively, for which no net deferred tax asset has been recognized. A full valuation allowance has been recorded since management does not believe that the Company will more likely than not be able to utilize these carryforwards to offset future taxable income. Subsequent recognition of these deferred tax assets would result in an income tax benefit in the year of such recognition.

The valuation allowance decreased to \$1.6 million in Fiscal 2007 from \$9.5 million in Fiscal 2006. This decrease is primarily due to the utilization of foreign net operating losses for which a valuation allowance was previously recorded.

Provision has not been made for U.S. or additional foreign taxes on \$274.5 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, a subsidiary or a 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. Management believes that the amount of the additional taxes that might be payable on the earnings of foreign subsidiaries, if remitted, would be partially offset by U.S. foreign tax credits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company is periodically examined by various federal, state and foreign tax jurisdictions. The tax years under examination vary by jurisdiction. The Company regularly considers the likelihood of assessments in each of the taxing jurisdictions and has established tax allowances which represent management's best estimate of the potential assessments. The resolution of tax matters could differ from the amount reserved. While that difference could be material to the result of operations and cash flows for any affected reporting period, it is not expected to have a material impact on consolidated financial position or consolidated liquidity.

The Company will adopt FIN 48 as of the beginning of Fiscal 2008 (April 1, 2007). While the Company continues to analyze the effect from adopting the provisions of FIN 48, it is currently anticipated that a cumulative effect adjustment of up to \$85 million will be charged to retained earnings during the first quarter of Fiscal 2008. This estimate is subject to change as the Company completes its analysis. See Note 4 for the Company's discussion of recently issued accounting standards, including accounting for uncertainty in income taxes.

13. DEBT

Debt consists of the following:

(millions)	MARCH 31, 2007	APRIL 1, 2006
REVOLVING CREDIT FACILITY	\$ —	\$ —
4.50% EURO-DENOMINATED NOTES DUE OCTOBER 2013	398.8	—
6.125% EURO-DENOMINATED NOTES DUE NOVEMBER 2006	—	280.4
TOTAL DEBT	398.8	280.4
LESS: CURRENT MATURITIES OF DEBT	—	(280.4)
TOTAL LONG-TERM DEBT	\$ 398.8	\$ —

Euro Debt

The Company had outstanding approximately Euro 227 million principal amount of 6.125% notes that were due on November 22, 2006, from an original issuance of Euro 275 million in 1999 (the "1999 Euro Debt"). On October 5, 2006, the Company completed a new issuance of Euro 300 million principal amount of 4.50% notes due October 4, 2013 (the "2006 Euro Debt"). The Company used a portion of the net proceeds from the financing of approximately \$380 million (based on the exchange rate in effect upon issuance) to repay the remaining 1999 Euro Debt at par on its maturity date. The balance of such net proceeds was used for general corporate and working capital purposes. The Company has the option to redeem all of the 2006 Euro Debt at any time at a redemption price equal to the principal amount plus a premium. The Company also has the option to redeem all of the 2006 Euro Debt at any time at par plus accrued interest, in the event of certain developments involving U.S. tax law. Partial redemption of the 2006 Euro Debt is not permitted in either instance. In the event of a change of control of the Company, each holder of the 2006 Euro Debt has the option to require the Company to redeem the 2006 Euro Debt at its principal amount plus accrued interest.

Revolving Credit Facility and Term Loan

The Company has a credit facility, which was amended on November 28, 2006, that provides for a \$450 million unsecured revolving line of credit (the "Credit Facility"). The Credit Facility also is used to support the issuance of letters of credit. As of March 31, 2007, there were no borrowings outstanding under the Credit Facility, but the Company was contingently liable for \$25.7 million of outstanding letters of credit (primarily relating to inventory purchase commitments).

The Company amended certain terms of its Credit Facility as a result of recent upgrades in its credit ratings from Standard & Poors and Moody's. Key changes under the amendment include:

- An increase in the ability of the Company to expand its additional borrowing availability from \$525 million to \$600 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments;
- An extension of the term of the Credit Facility to November 2011 from October 2009;
- A reduction in the margin over LIBOR paid by the Company on amounts drawn under the Credit Facility to 35 basis points from 50 basis points;
- A reduction in the commitment fee for the unutilized portion of the Credit Facility to 8 basis points from 12.5 basis points; and
- The elimination of the coverage ratio financial covenant.

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There are no mandatory reductions in borrowing ability throughout the term of the Credit Facility.

Borrowings under the Credit Facility bear interest, at the Company's option, either at (a) a base rate determined by reference to the higher of (i) the prime commercial lending rate of JP Morgan Chase Bank, N.A. in effect from time to time and (ii) the weighted-average overnight Federal funds rate (as published by the Federal Reserve Bank of New York) plus 50 basis points or (b) a LIBOR rate in effect from time to time, as adjusted for the Federal Reserve Board's Euro currency liabilities maximum reserve percentage plus a margin defined in the Credit Facility ("the applicable margin"). The applicable margin of 35 basis points is subject to adjustment based on the Company's credit ratings.

The Credit Facility was amended as of May 22, 2007 to provide for the addition of a loan in a Japanese yen amount equal to approximately \$170 million (the "Term Loan"). The Term Loan was made to Polo JP Acqui B.V., a wholly-owned subsidiary of the Company, and is guaranteed by the Company, as well as the other subsidiaries of the Company which currently guarantee the Credit Facility. The proceeds of the Term Loan have been used to finance the Tender Offer and the total related acquisition cost and the acquisition by the Company of the remaining 50% of the shares of PRL Japan the Company did not previously own. Borrowings under the Term Loan bear interest at a LIBOR rate for yen loans for an interest period of 12 months plus the applicable margin. The maturity date of the Term Loan is on the 12-month anniversary of the drawing date of the Term Loan. The Company expects to repay the borrowing by its maturity date using a portion of Impact 21's cash on-hand of approximately \$200 million acquired as part of the acquisition. See Note 5 for further discussion of the Japanese Business Acquisitions.

In addition to paying interest on any outstanding borrowings under the Credit Facility, the Company is required to pay a commitment fee to the lenders under the Credit Facility in respect of the unutilized commitments. The commitment fee rate of 8 basis points under the terms of the Credit Facility also is subject to adjustment based on the Company's credit ratings.

The Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens and contingent liabilities; sell or dispose of assets, including equity interests; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the Credit Facility requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio"), as such terms are defined in the Credit Facility. As of March 31, 2007, no Event of Default (as such term is defined pursuant to the Credit Facility) has occurred under the Company's Credit Facility.

Upon the occurrence of an Event of Default under the Credit Facility, the lenders may cease making loans, terminate the Credit Facility, and declare all amounts outstanding to be immediately due and payable. The Credit Facility specifies a number of events of default (many of which are subject to applicable grace periods), including, among others, the failure to make timely principal and interest payments or to satisfy the covenants, including the financial covenant described above. Additionally, the Credit Facility provides that an Event of Default will occur if Mr. Ralph Lauren, the Company's Chairman and Chief Executive Officer, and related entities fail to maintain a specified minimum percentage of the voting power of the Company's common stock.

Fair Value of Debt

Based on the prevailing level of market interest rates as of March 31, 2007, the carrying value of the Company's 2006 Euro Debt exceeded its fair value by approximately \$4 million. As of April 1, 2006, the fair value of the Company's 1999 Euro Debt approximated its carrying value. Unrealized gains or losses on debt do not result in the realization or expenditure of cash, unless the debt is retired prior to its maturity.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has exposure to changes in foreign currency exchange rates relating to certain anticipated cash flows generated by its international operations and possible declines in the fair value of reported net assets of certain of its foreign operations, as well as exposure to changes in the fair value of its fixed-rate debt relating to changes in interest rates. Consequently, the Company periodically uses derivative financial instruments to manage such risks. The Company does not enter into derivative transactions for speculative purposes. The following is a summary of the Company's risk management strategies and the effect of those strategies on the Company's financial statements.

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Foreign Currency Risk Management

Foreign Currency Exchange Contracts

The Company enters into forward foreign exchange contracts as hedges, primarily relating to identifiable currency positions to reduce its risk from exchange rate fluctuations on inventory purchases and intercompany royalty payments made by certain of its international operations. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily exposure to changes in the value of the Euro and the Japanese Yen, the Company hedges a portion of its foreign currency exposures anticipated over the ensuing twelve-month to two-year periods. In doing so, the Company uses foreign exchange contracts that generally have maturities of three months to two years to provide continuing coverage throughout the hedging period.

As of March 31, 2007, the Company had contracts for the sale of \$214 million of foreign currencies at fixed rates. Of these \$214 million of sales contracts, \$180 million were for the sale of Euros and \$34 million were for the sale of Japanese Yen. The total fair value of the forward contracts was an unrealized loss of \$1.9 million. As of April 1, 2006, the Company had contracts for the sale of \$90 million of foreign currencies at fixed rates. Of these \$90 million of sales contracts, \$22 million were for the sale of Euros and \$68 million were for the sale of Japanese Yen. The total fair value of the forward contracts was an unrealized loss of \$1.8 million.

The Company records foreign currency exchange contracts at fair value in its balance sheet and designates these derivative instruments as cash flow hedges in accordance with FAS 133. As such, the related gains or losses on these contracts are deferred in stockholders' equity as a component of accumulated other comprehensive income. These deferred gains and losses are then either recognized in income in the period in which the related royalties being hedged are received, or in the case of inventory purchases, recognized as part of the cost of the inventory being hedged when sold. However, to the extent that any of these foreign currency exchange contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties or inventory purchases being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in earnings. No significant gains or losses relating to ineffective hedges were recognized in the periods presented.

The Company had deferred net losses on foreign currency exchange contracts in the amount of approximately \$2 million at the end of Fiscal 2007, all of which is expected to be recognized in earnings in Fiscal 2008. Net losses on foreign currency exchange contracts in the amount of approximately \$1 million were deferred at the end of Fiscal 2006. The Company recognized net gains on foreign currency exchange contracts in earnings of approximately \$4 million for Fiscal 2007 and \$5 million for Fiscal 2006.

Subsequent to the end of Fiscal 2007, the Company entered into foreign currency option contracts with a notional value of \$159 million for the right, but not the obligation, to purchase foreign currencies at fixed rates. These contracts hedged the majority of the foreign currency exposure related to the financing of the Japanese Business Acquisitions, but do not qualify under FAS 133 for hedge accounting treatment. The Company will recognize a gain or loss, limited to the premium paid for the option contracts, upon the settlement of the contracts during the first quarter of Fiscal 2008.

Hedge of a Net Investment in Certain European Subsidiaries

Prior to the Company's repayment of the 1999 Euro Debt in November 2006, the entire principal amount was designated as a hedge of the Company's net investment in certain of its European subsidiaries in accordance with FAS 133. Contemporaneous with this repayment, the Company designated the entire principal amount of the 2006 Euro Debt, issued in October 2006 (see Note 13 for further discussion), as a hedge of its net investment in certain of its European subsidiaries. As required by FAS 133, the changes in fair value of a derivative instrument or a non-derivative financial instrument (such as debt) that is designated as, and is effective as, a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment under Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation," to the extent it is effective as a hedge. As such, changes in the fair value of the 1999 Euro Debt and the 2006 Euro Debt resulting from changes in the Euro exchange rate have been, and continue to be, reported in stockholders' equity as a component of accumulated other comprehensive income. The Company recorded aggregate gains (losses) net of tax in stockholders' equity on the translation of the 1999 Euro Debt and 2006 Euro Debt to U.S. dollars in the amount of approximately \$(19) million for Fiscal 2007, \$4 million for Fiscal 2006 and (\$18) million for Fiscal 2005.

Interest Rate Risk Management

Historically, the Company has used floating-rate interest rate swap agreements to hedge changes in the fair value of its fixed-rate 1999 Euro Debt. These interest rate swap agreements, which effectively converted fixed interest rate payments on the Company's 1999 Euro Debt to a floating-rate basis, were designated as a fair value hedge in accordance with FAS 133. All interest rate swap agreements were terminated in late Fiscal 2006 and there were no outstanding agreements at the end of Fiscal 2007 and Fiscal 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the first six months of Fiscal 2007, the Company entered into three forward-starting interest rate swap contracts aggregating Euro 200 million notional amount of indebtedness in anticipation of the Company's proposed refinancing of the 1999 Euro Debt, which was completed in October 2006. The Company designated these agreements as a cash flow hedge of a forecasted transaction to issue new debt in connection with the planned refinancing of its 1999 Euro Debt. The interest rate swaps hedged a total of Euro 200.0 million, a portion of the underlying interest rate exposure on the anticipated refinancing. Under the terms of the three interest swap contracts, the Company paid a weighted-average fixed rate of interest of 4.1% and received variable interest based upon six-month EURIBOR. The Company terminated the swaps on September 28, 2006, which was the date the interest rate for the 2006 Euro Debt was determined. As a result, the Company made a payment of approximately Euro 3.5 million (\$4.4 million based on the exchange rate in effect on that date) in settlement of the swaps. An amount of \$0.2 million was recognized as a loss for the three months ending September 30, 2006 due to the partial ineffectiveness of the cash flow hedge as a result of the forecasted transaction closing on October 5, 2006 instead of November 22, 2006 (the maturity date of the 1999 Euro Debt). The remaining loss of \$4.2 million has been deferred as a component of comprehensive income within stockholders' equity and is being recognized in income as an adjustment to interest expense over the seven-year term of the 2006 Euro Debt.

Credit Risk

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions. Credit risk related to derivative financial instruments is considered low because the agreements are entered into with strong creditworthy counterparties.

15. COMMITMENTS AND CONTINGENCIES

Leases

The Company operates its retail stores under various leasing arrangements. The Company also occupies various office and warehouse facilities and uses certain equipment under many lease agreements. Such leasing arrangements are accounted for under the provisions of FAS 13 as either operating leases or capital leases. In this context, capital leases include leases whereby the Company is considered to have the substantive risks of ownership during construction of a leased property pursuant to the provisions of EITF 97-10. Information on the Company's operating and capital leasing activities is set forth below.

Operating Leases

The Company is typically required to make minimum rental payments, and often contingent rental payments, under its operating leases. Substantially all factory and full-price retail store leases provide for contingent rentals based upon sales, and certain rental agreements require payment based solely on a percentage of sales. Terms of the Company's leases generally contain renewal options, rent escalation clauses and landlord incentives. Rent expense, net of sublease income which was not significant, was \$172 million in Fiscal 2007, \$137 million in Fiscal 2006 and \$128 million in Fiscal 2005. Such amounts include contingent rental charges of \$12 million in Fiscal 2007, \$12 million in Fiscal 2006 and \$10 million in Fiscal 2005. In addition to such amounts, the Company is normally required to pay taxes, insurance and occupancy costs relating to the leased real estate properties.

As of March 31, 2007, future minimum rental payments under noncancelable operating leases with lease terms in excess of one year were as follows:

(millions)	ANNUAL MINIMUM OPERATING LEASE PAYMENTS ^(a)
FISCAL 2008	\$ 156.7
FISCAL 2009	147.4
FISCAL 2010	131.8
FISCAL 2011	108.5
FISCAL 2012	99.7
2013 AND THEREAFTER	556.8
TOTAL	\$ 1,200.9

^(a) Net of sublease income, which is not significant in any period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Capital Leases

Assets under capital leases amounted to \$56 million at the end of Fiscal 2007 and \$32 million at the end of Fiscal 2006. Such assets are classified within property and equipment in the accompanying consolidated balance sheets. As of March 31, 2007, future minimum rental payments under noncancelable capital leases with lease terms in excess of one year were as follows:

(millions)	ANNUAL MINIMUM CAPITAL LEASE PAYMENTS ^(a)
FISCAL 2008	\$ 1.6
FISCAL 2009	1.8
FISCAL 2010	1.0
FISCAL 2011	1.2
FISCAL 2012	1.4
2013 AND THEREAFTER	23.2
TOTAL	\$ 30.2

^(a) Net of sublease income, which is not significant in any period.

Employment Agreements

The Company has employment agreements with certain executives in the normal course of business which provide for compensation and certain other benefits. These agreements also provide for severance payments under certain circumstances.

Other Commitments

Other off-balance sheet firm commitments, which include outstanding letters of credit and minimum funding commitments to investees, amounted to approximately \$36 million as of March 31, 2007.

In addition, see Note 5 for a discussion of the Company's purchase price commitments related to the New Campaign and Japanese Business Acquisitions.

*Litigation**Credit Card Matters*

The Company is indirectly subject to various claims relating to allegations of security breaches in certain of its retail store information systems. These claims have been made by various credit card associations, issuing banks and credit card processors with respect to cards issued by them pursuant to the rules imposed by certain credit card issuers, particularly Visa® and MasterCard®. The allegations include fraudulent credit card charges, the cost of replacing credit cards, related monitoring expenses and other related claims.

In Fiscal 2005, the Company was subject to various claims relating to an alleged security breach of its point-of-sale systems that occurred at certain Polo retail stores in the U.S. The Company has previously recorded a reserve in an aggregate amount of \$13 million to provide for its best estimate of losses related to these claims. \$6.2 million was recorded during Fiscal 2005 and the remaining \$6.8 million of this reserve was recorded during Fiscal 2006. The Company has paid \$11.4 million through March 31, 2007 in settlement of these various claims. The eligibility period for filing any new claims with respect to this matter expired at the end of January 2007.

In addition, in the third quarter of Fiscal 2007, the Company was notified of an alleged compromise of its retail store information systems that process its credit card data for certain Club Monaco stores in Canada. While the investigation of the alleged Club Monaco compromise is ongoing, the evidence to date indicates that only numerical credit card data may have been accessed and not customer names or contact information. The Company's Canadian credit card processor has thus far required the Company to create a reserve of \$2 million to cover potential claims relating to this alleged compromise and has deducted funds from Club Monaco credit card transactions to establish this reserve. Since the Company has been advised by its credit card processor that potential claims related to this matter are likely to exceed \$2 million in the aggregate, the Company has also recorded an additional \$3 million charge during Fiscal 2007 to increase the total reserve for this matter to \$5 million based on its best estimate of exposure. Although claims brought against the Company could exceed the amount of the \$5 million reserve, the ultimate resolution of these claims is not expected to have a material adverse effect on the Company's liquidity or financial position.

The Company is cooperating with law enforcement authorities in both the U.S. and Canada in their investigations of these matters.

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Wathne Imports Litigation

On August 19, 2005, Wathne Imports, Ltd., our domestic licensee for luggage and handbags (“Wathne”), filed a complaint in the U.S. District Court in the Southern District of New York against us and Ralph Lauren, our Chairman and Chief Executive Officer, asserting, among other things, federal trademark law violations, breach of contract, breach of obligations of good faith and fair dealing, fraud and negligent misrepresentation. The complaint sought, among other relief, injunctive relief, compensatory damages in excess of \$250 million and punitive damages of not less than \$750 million. On September 13, 2005, Wathne withdrew this complaint from the U.S. District Court and filed a complaint in the Supreme Court of the State of New York, New York County, making substantially the same allegations and claims (excluding the federal trademark claims), and seeking similar relief. On February 1, 2006, the court granted our motion to dismiss all of the causes of action, including the cause of action against Mr. Lauren, except for the breach of contract claims, and denied Wathne’s motion for a preliminary injunction. A trial date is not yet set for this lawsuit on the breach of contract claims but the Company does not currently anticipate that a trial will occur prior to calendar 2008. We believe this lawsuit to be without merit, we have recently moved for summary judgment and we intend to continue to contest this lawsuit vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company’s liquidity or financial position.

Polo Trademark Litigation

On October 1, 1999, we filed a lawsuit against the U.S. Polo Association Inc. (“USPA”), Jordache, Ltd. (“Jordache”) and certain other entities affiliated with them, alleging that the defendants were infringing on our trademarks. In connection with this lawsuit, on July 19, 2001, the USPA and Jordache filed a lawsuit against us in the U.S. District Court for the Southern District of New York. This suit, which was effectively a counterclaim by them in connection with the original trademark action, asserted claims related to our actions in connection with our pursuit of claims against the USPA and Jordache for trademark infringement and other unlawful conduct. Their claims stemmed from our contacts with the USPA’s and Jordache’s retailers in which we informed these retailers of our position in the original trademark action. All claims and counterclaims, except for our claims that the defendants violated the Company’s trademark rights, were settled in September 2003. We did not pay any damages in this settlement. On July 30, 2004, the Court denied all motions for summary judgment, and trial began on October 3, 2005 with respect to the four “double horseman” symbols that the defendants sought to use. On October 20, 2005, the jury rendered a verdict, finding that one of the defendant’s marks violated our world famous Polo Player Symbol trademark and enjoining its further use, but allowing the defendants to use the remaining three marks. On November 16, 2005, we filed a motion before the trial court to overturn the jury’s decision and hold a new trial with respect to the three marks that the jury found not to be infringing. The USPA and Jordache opposed our motion, but did not move to overturn the jury’s decision that the fourth double horseman logo did infringe on our trademarks. On July 7, 2006, the judge denied our motion to overturn the jury’s decision. On August 4, 2006, the Company filed an appeal of the judge’s decision to deny the Company’s motion for a new trial to the U.S. Court of Appeals for the Second Circuit. The Company is awaiting a decision from the Court with respect to this appeal.

California Labor Law Litigation

On September 18, 2002, an employee at one of our stores filed a lawsuit against the Company and our Polo Retail, LLC subsidiary in the U.S. District Court for the District of Northern California alleging violations of California antitrust and labor laws. The plaintiff purported to represent a class of employees who had allegedly been injured by a requirement that certain retail employees purchase and wear Company apparel as a condition of their employment. The complaint, as amended, sought an unspecified amount of actual and punitive damages, disgorgement of profits and injunctive and declaratory relief. The Company answered the amended complaint on November 4, 2002. A hearing on cross motions for summary judgment on the issue of whether the Company’s policies violated California law took place on August 14, 2003. The Court granted partial summary judgment with respect to certain of the plaintiff’s claims, but concluded that more discovery was necessary before it could decide the key issue as to whether the Company had maintained for a period of time a dress code policy that violated California law. On January 12, 2006, a proposed settlement of the purported class action was submitted to the court for approval. A hearing on the settlement was held before the Court on June 29, 2006. On October 26, 2006, the Court granted preliminary approval of the settlement and agreed to begin the process of sending out claim forms to members of the class. On March 28, 2007, the Court granted final approval of the settlement and awarded approximately \$1.1 million to members of the class and their attorneys. The Company had previously established a reserve of \$1.5 million for this matter in Fiscal 2005. The Court’s approval of the settlement also resulted in the dismissal of the similar purported class action filed in San Francisco Superior Court, as described below.

On April 14, 2003, a second putative class action was filed in the San Francisco Superior Court. This suit, brought by the same attorneys, alleged near identical claims to those in the federal class action. The class representatives consisted of former employees and the plaintiff in the federal class action. Defendants in this class action included us and our Polo Retail, LLC, Fashions Outlet of America, Inc., Polo Retail, Inc. and San Francisco Polo, Ltd. subsidiaries as well as a non-affiliated corporate defendant and two

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

current managers. As in the federal class action, the complaint sought an unspecified amount of actual and punitive restitution of monies spent, and declaratory relief. As noted above, on March 28, 2007, the Court granted final approval of the settlement in the federal class action, which resulted in the dismissal of this lawsuit.

On March 2, 2006, a former employee at our Club Monaco store in Los Angeles, California filed a lawsuit against us in the San Francisco Superior Court alleging violations of California wage and hour laws. The plaintiff purports to represent a class of Club Monaco store employees who allegedly have been injured by being improperly classified as exempt employees and thereby not receiving compensation for overtime and not receiving meal and rest breaks. The complaint seeks an unspecified amount of compensatory damages, disgorgement of profits, attorneys' fees and injunctive relief. We believe this suit is without merit and intend to contest it vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

On June 2, 2006, a second putative class action was filed by different attorneys by a former employee of our Club Monaco store in Cabazon, California against us in the Los Angeles Superior Court alleging virtually identical claims as the San Francisco action and consisting of the same class members. As in the San Francisco action, the complaint sought an unspecified amount of compensatory damages, disgorgement of profits, attorneys' fees and injunctive relief. On August 21, 2006, the plaintiff voluntarily withdrew his lawsuit.

On May 30, 2006, four former employees of our Ralph Lauren stores in Palo Alto and San Francisco, California filed a lawsuit in San Francisco Superior Court alleging violations of California wage and hour laws. The plaintiffs purport to represent a class of employees who allegedly have been injured by not properly being paid commission earnings, not being paid overtime, not receiving rest breaks, being forced to work off of the clock while waiting to enter or leave the store and being falsely imprisoned while waiting to leave the store. The complaint seeks an unspecified amount of compensatory damages, damages for emotional distress, disgorgement of profits, punitive damages, attorneys' fees and injunctive and declaratory relief. We believe this suit is without merit and intend to contest it vigorously. Accordingly, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial position.

French Income Tax Audit

The French tax authorities are in the process of auditing one of the Company's French subsidiaries for the taxable years 2000 through 2005. Among other matters still under review, the French tax authorities have asserted that certain intercompany royalty payments made by the Company's French subsidiary to a related U.S. subsidiary were excessive and that a portion should be disallowed as a deduction under French tax law.

The Company disagrees with the position of the French tax authorities that such royalties were excessive. It is expected that the matter ultimately will be resolved under the competent authority procedures of the US-France Income Tax Treaty in order to avoid the double taxation of such income.

Under French tax law, the Company was required to provide bank guarantees for the payment of the asserted tax assessment prior to resolution under the competent authority procedures. Accordingly, the Company has arranged for certain banks to guarantee payment to the French tax authorities on behalf of the Company in the amount of Euro 41.3 million (\$55.1 million). In order to secure these guarantees, primarily in Fiscal 2007, the Company placed a corresponding amount of cash in escrow with the banks as collateral for the guarantees. Such cash has been classified as "restricted cash" and reported as a component of "other assets" in the Company's accompanying consolidated balance sheet. Management does not expect that the ultimate resolution of the asserted excess royalties matter will have a material adverse effect on the Company's financial condition or results of operations.

The French tax authorities are required to complete their audit by December 31, 2007. While no significant adjustments other than the asserted excess royalty matter have been formally proposed by the French tax authorities as of the end of April 2007, certain tax positions taken by the Company in connection with the restructuring of its European operations in Fiscal 2004 could be challenged. The Company maintains a tax reserve against this potential exposure based on its best estimate of the probable outcome. However, if asserted, it is reasonably possible that an unfavorable settlement could exceed the Company's established reserves by an estimated amount of up to approximately \$30 million, including related employee profit-sharing obligations required under French law based on the reassessed higher level of taxable income. Nevertheless, management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's liquidity or financial condition.

Other Matters

We are otherwise involved from time to time in legal claims and proceedings involving credit card fraud, trademark and intellectual property, licensing, employee relations and other matters incidental to our business. We believe that the resolution of these other matters currently pending will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations.

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16. STOCKHOLDERS' EQUITY

Capital Stock

The Company's capital stock consists of two classes of common stock. There are 500 million shares of Class A common stock and 100 million shares of Class B common stock authorized to be issued. Shares of Class A and Class B common stock have substantially identical rights, except with respect to voting rights. Holders of Class A 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 both classes of stock vote together as a single class on all matters presented to the stockholders for their approval, except with respect to the election and removal of directors or as otherwise required by applicable law. All outstanding shares of Class B common stock are owned by Mr. Ralph Lauren, Chairman and Chief Executive Officer, and related entities.

Common Stock Repurchase Program

In November 2006, the Company's Board of Directors approved an expansion of the Company's existing common stock repurchase program that allows the Company to repurchase up to \$500 million of Class A common stock. Repurchases of shares of Class A common stock are subject to overall business and market conditions. In Fiscal 2007, share repurchases under the expanded and pre-existing programs amounted to 3.5 million shares of Class A common stock at a cost of \$231.3 million. The remaining availability under the common stock repurchase program was \$368.3 million as of March 31, 2007.

In Fiscal 2006, the Company repurchased 69.3 thousand shares of Class A common stock at a cost of approximately \$4 million. No shares of Class A common stock were repurchased in Fiscal 2005.

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

Dividends

Since 2003, the Company has maintained a regular quarterly cash dividend program of \$0.05 per share, or \$0.20 per share on an annual basis, on its common stock. Dividends paid amounted to \$21 million in Fiscal 2007, \$21 million in Fiscal 2006 and \$22 million in Fiscal 2005.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following summary sets forth the components of other comprehensive income (loss), net of tax, accumulated in stockholders' equity:

(millions)	FOREIGN CURRENCY TRANSLATION GAINS(LOSSES)	NET UNREALIZED DERIVATIVE FINANCIAL INSTRUMENT GAINS(LOSSES) ^(a)	TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME(LOSS)
BALANCE AT APRIL 3, 2004	\$ 73.8	\$ (50.7)	\$ 23.1
FISCAL 2005 PRETAX ACTIVITY ^(b)	22.1	(11.1)	11.0
FISCAL 2005 TAX BENEFIT (PROVISION) ^(b)	(10.8)	6.6	(4.2)
BALANCE AT APRIL 2, 2005	85.1	(55.2)	29.9
FISCAL 2006 PRETAX ACTIVITY ^(c)	(28.0)	15.2	(12.8)
FISCAL 2006 TAX BENEFIT (PROVISION) ^(c)	3.9	(5.5)	(1.6)
BALANCE AT APRIL 1, 2006	61.0	(45.5)	15.5
FISCAL 2007 PRETAX ACTIVITY ^(d)	53.1	(34.8)	18.3
FISCAL 2007 TAX BENEFIT (PROVISION) ^(d)	1.2	5.5	6.7
BALANCE AT MARCH 31, 2007	\$ 115.3	\$ (74.8)	\$ 40.5

^(a) Includes deferred gains and losses on hedging instruments, such as foreign currency exchange contracts designated as cash flow hedges and changes in the fair value of the Company's Euro-denominated debt designated as a hedge of changes in the fair value of the Company's net investment in certain of its European subsidiaries.

^(b) Includes a net reclassification adjustment of \$9.4 million (net of \$1.5 million tax effect) for realized derivative financial instrument losses in the current period that were included as an unrealized loss in comprehensive income in a prior period.

^(c) Includes a net reclassification adjustment of \$4.6 million (net of \$0.2 million tax effect) for realized derivative financial instrument gains in the current period that were included as an unrealized gain in comprehensive income in a prior period.

^(d) Includes a net reclassification adjustment of \$3.1 million (net of \$0.5 million tax effect) for realized derivative financial instrument gains in the current period that were included as an unrealized gain in comprehensive income in a prior period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. STOCK-BASED COMPENSATION

Effective April 2, 2006, the Company adopted FAS 123R using the modified prospective application transition method. Under this transition method, the compensation expense recognized in the accompanying consolidated statement of operations beginning April 2, 2006 includes compensation expense for (a) all stock-based payments granted prior to, but not yet vested as of, April 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of FAS 123 and (b) all stock-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123R.

Impact on Results

A summary of the total compensation expense and associated income tax benefits recognized related to stock-based compensation arrangements is as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006 ^(a)	APRIL 2, 2005 ^(a)
COMPENSATION EXPENSE	\$ (43.6)	\$ (26.6)	\$ (12.9)
INCOME TAX BENEFIT	\$ 17.5	\$ 10.4	\$ 4.7

A summary of the incremental impact of adopting FAS 123R is as follows:

FISCAL YEAR ENDED: (millions, except per share data)	MARCH 31, 2007
INCOME BEFORE PROVISION FOR INCOME TAXES	\$ (17.0)
INCOME TAX BENEFIT	7.1
NET INCOME	\$ (9.9)
BASIC NET INCOME PER COMMON SHARE	\$ (0.09)
DILUTED NET INCOME PER COMMON SHARE	\$ (0.09)
CASH FLOWS FROM OPERATING ACTIVITIES ^(b)	\$ (33.7)
CASH FLOWS FROM FINANCING ACTIVITIES	\$ 33.7
UNEARNED COMPENSATION ^(c)	\$ 42.7
ADDITIONAL PAID-IN CAPITAL	\$ (42.7)

^(a) Prior to the adoption of FAS 123R and in accordance with existing accounting principles, the Company recognized stock-based compensation expense in connection with both service-based and performance-based restricted stock units, as well as for shares of restricted stock.

^(b) Prior to the adoption of FAS 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. FAS 123R requires excess tax benefits to be reported as a financing cash inflow rather than as a reduction of taxes paid.

^(c) Unearned compensation was eliminated against additional paid-in capital as part of the adoption of FAS 123R as of April 2, 2006.

Transition Information

Prior to April 2, 2006, the Company accounted for stock-based compensation plans under the intrinsic value method in accordance with APB 25 and adopted the disclosure-only provisions of FAS 123. Under this standard, the Company did not recognize compensation expense for the issuance of stock options with an exercise price equal to or greater than the market price at the date of grant. However, as required, the Company disclosed, in the notes to the consolidated financial statements, the pro forma expense impact of the stock option grants as if the fair-value-based recognition provisions of FAS 123 were applied. Compensation expense was previously recognized for restricted stock and restricted stock units. The effect of forfeitures on restricted stock and restricted stock units was recognized when such forfeitures occurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the modified prospective application transition method, prior period financial statements have not been restated to reflect the effects of implementing FAS 123R. The following table presents the Company's pro forma net income and net income per share if compensation expense for fixed stock option grants had been determined based on the fair value at the grant dates of such awards as defined by FAS 123 for Fiscal 2006 and Fiscal 2005:

FISCAL YEARS ENDED: (millions, except per share data)	APRIL 1, 2006	APRIL 2, 2005
NET INCOME AS REPORTED	\$ 308.0	\$ 190.4
ADD: STOCK-BASED EMPLOYEE COMPENSATION EXPENSE INCLUDED IN REPORTED NET INCOME, NET OF TAX	16.2	8.2
DEDUCT: TOTAL STOCK-BASED EMPLOYEE COMPENSATION EXPENSE DETERMINED UNDER FAIR VALUE-BASED METHOD FOR ALL AWARDS, NET OF TAX	(29.3)	(21.8)
PRO FORMA NET INCOME	<u>\$ 294.9</u>	<u>\$ 176.8</u>
NET INCOME PER SHARE AS REPORTED:		
BASIC	\$ 2.96	\$ 1.88
DILUTED	\$ 2.87	\$ 1.83
PRO FORMA NET INCOME PER SHARE:		
BASIC	\$ 2.83	\$ 1.74
DILUTED	\$ 2.76	\$ 1.70

Long-term Stock Incentive Plan

The Company's 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Plan"), authorizes the grant of awards to participants with respect to a maximum of 26.0 million shares of the Company's Class A common stock; however, there are limits as to the number of shares available for certain awards and to any one participant. Equity awards that may be made under the 1997 Plan include (a) stock options, (b) restricted stock and (c) restricted stock units.

Stock Options

Stock options have been granted to employees and non-employee directors with exercise prices equal to fair market value at the date of grant. Generally, the options become exercisable ratably (a graded-vesting schedule), over a three-year vesting period for employees or over a two-year vesting period for non-employee directors. Stock options generally expire either seven or ten years from the date of grant. The Company recognizes compensation expense for share-based awards that have graded vesting and no performance conditions on an accelerated basis.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted, which requires the input of subjective assumptions. The Company developed its assumptions by analyzing the historical exercise behavior of employees and non-employee directors. The Company's assumptions used for the fiscal years presented were as follows:

Expected Term — The estimate of expected term is based on the historical exercise behavior of employees and non-employee directors, as well as the contractual life of the option grants.

Expected Volatility — The expected volatility factor is based on the historical volatility of the Company's common stock for a period equal to the stock option's expected term.

Expected Dividend Yield — The expected dividend yield is based on the regular quarterly cash dividend of \$0.05 per share.

Risk-free Interest Rate — The risk-free interest rate is determined using the implied yield for a traded zero-coupon U.S. Treasury bond with a term equal to the option's expected term.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

FISCAL YEARS ENDED:	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
EXPECTED TERM (YEARS)	4.5	5.2	5.2
EXPECTED VOLATILITY	33.2%	29.1%	35.0%
EXPECTED DIVIDEND YIELD	0.39%	0.45%	0.57%
RISK-FREE INTEREST RATE	4.9%	3.7%	3.3%
WEIGHTED-AVERAGE OPTION GRANT DATE FAIR VALUE	\$ 19.40	\$ 14.50	\$ 11.90

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the stock option activity under all plans during Fiscal 2007 is as follows:

	NUMBER OF SHARES (thousands)	WEIGHTED- AVERAGE EXERCISE PRICE	WEIGHTED- AVERAGE REMAINING CONTRACTUAL TERM (in years)	AGGREGATE INTRINSIC VALUE ^(a) (millions)
OPTIONS OUTSTANDING AT APRIL 2, 2006	8,268	\$ 28.69		
GRANTED	879	56.64		
EXERCISED	(2,097)	26.05		
CANCELLED/FORFEITED	(165)	39.99		
OPTIONS OUTSTANDING AT MARCH 31, 2007	<u>6,885</u>	\$ 32.79	5.8	\$ 379.2
OPTIONS VESTED AND EXPECTED TO VEST ^(b) AT MARCH 31, 2007	6,644	\$ 32.31	5.8	\$ 369.2
OPTIONS EXERCISABLE AT MARCH 31, 2007	4,647	\$ 26.37	5.0	\$ 285.8

^(a) The intrinsic value is the amount by which the market price at the end of the period of the underlying share of stock exceeds the exercise price of the stock option.

^(b) The number of options expected to vest takes into consideration estimated expected forfeitures.

Additional information pertaining to the Company's stock option plans is as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
AGGREGATE INTRINSIC VALUE OF STOCK OPTIONS EXERCISED ^(a)	\$ 88.7	\$ 58.5	\$ 36.0
CASH RECEIVED FROM THE EXERCISE OF STOCK OPTIONS	51.4	55.2	53.2
TAX BENEFITS REALIZED ON EXERCISE	33.2	22.0	18.6

^(a) The intrinsic value is the amount by which the average market price during the period exceeded the exercise price of the stock option exercised.

As of March 31, 2007, there was \$9.7 million of total unrecognized compensation expense related to nonvested stock options granted and the unrecognized compensation expense is expected to be recognized over a weighted-average period of 1.1 years.

Restricted Stock and Restricted Stock Units ("RSUs")

The Company grants restricted shares of Class A common stock and service-based restricted stock units to certain of its senior executives. In addition, the Company grants performance-based restricted stock units to such senior executives and other key executives, and certain other employees of the Company.

Restricted shares of Class A common stock, which entitle the holder to receive a specified number of shares of Class A common stock at the end of a vesting period, are accounted for at fair value at the date of grant. In addition, holders of restricted shares are entitled to receive cash dividends in connection with the payments of dividends on the Company's Class A common stock. Generally, restricted stock grants vest over a five-year period of time, subject to the executive's continuing employment.

Restricted stock units entitle the grantee to receive shares of Class A common stock at the end of a vesting period. Service-based restricted stock units are payable in shares of Class A common stock and generally vest over a five-year period of time, subject to the executive's continuing employment. Performance-based restricted stock units also are payable in shares of Class A common stock and generally vest over (1) a three-year period of time (cliff vesting), subject to the employee's continuing employment and the Company's satisfaction of certain performance goals over the three-year period; or (2) ratably over a three-year period of time (graded vesting), subject to the employee's continuing employment during the applicable vesting period and the achievement by the Company of separate annual performance goals. In addition, holders of certain restricted stock units are entitled to receive dividend equivalents in the form of additional restricted stock units in connection with the payment of dividends on the Company's Class A common stock. Restricted stock units, including shares resulting from dividend equivalents paid on such units, are accounted for at fair value at the date of grant. The fair value of a restricted security is based on the fair value of unrestricted Class A common stock, as adjusted to reflect the absence of dividends for those restricted securities that are not entitled to dividend equivalents. Compensation expense for performance-based restricted stock units is recognized over the service period when attainment of the performance goals is probable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the restricted stock and restricted stock unit activity during Fiscal 2007 is as follows:

	RESTRICTED STOCK		SERVICE-BASED RSUs		PERFORMANCE-BASED RSUs	
	NUMBER OF SHARES (thousands)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE	NUMBER OF SHARES (thousands)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE	NUMBER OF SHARES (thousands)	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
NONVESTED AT APRIL 2, 2006	180	\$ 24.47	550	\$ 34.46	806	\$ 39.38
GRANTED	—	—	100	55.43	571	55.17
VESTED	(75)	21.97	—	—	(63)	34.23
CANCELLED	—	—	—	—	(17)	51.66
NONVESTED AT MARCH 31, 2007	105	\$ 26.25	650	\$ 37.69	1,297	\$ 46.43

	RESTRICTED STOCK	SERVICE-BASED RSUs	PERFORMANCE-BASED RSUs
TOTAL UNRECOGNIZED COMPENSATION AT MARCH 31, 2007 (millions)	\$ 1.8	\$ 10.6	\$ 26.6
WEIGHTED-AVERAGE YEARS EXPECTED TO BE RECOGNIZED OVER (in years)	2.1	1.9	1.2

Additional information pertaining to the restricted stock and restricted stock unit activity is as follows:

FISCAL YEARS ENDED:	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
RESTRICTED STOCK			
WEIGHTED-AVERAGE GRANT DATE FAIR VALUE OF AWARDS GRANTED	\$ —	\$ —	\$ 36.96
TOTAL FAIR VALUE OF AWARDS VESTED (millions)	4.2	4.9	3.0
SERVICE-BASED RSUs			
WEIGHTED-AVERAGE GRANT DATE FAIR VALUE OF AWARDS GRANTED	\$ 55.43	\$ 43.20	\$ 34.57
TOTAL FAIR VALUE OF AWARDS VESTED (millions)	—	—	—
PERFORMANCE-BASED RSUs			
WEIGHTED-AVERAGE GRANT DATE FAIR VALUE OF AWARDS GRANTED	\$ 55.17	\$ 43.14	\$ 34.33
TOTAL FAIR VALUE OF AWARDS VESTED (millions)	3.4	2.7	—

19. EMPLOYEE BENEFIT PLANS

Profit Sharing Retirement Savings Plans

The Company sponsors 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. The Company makes discretionary contributions to the plans and contributes an amount equal to 50% of the first 6% of salary contributed by an employee.

Under the terms of the plans, a participant is 100% vested in Company matching and discretionary contributions after five years of credited service. Contributions under these plans approximated \$4 million, \$5 million and \$4 million in Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

Supplemental Retirement Plan

The Company has a non-qualified supplemental retirement plan for certain highly compensated employees whose benefits under the 401(k) profit sharing retirement savings plans are expected to be constrained by the operation of certain Internal Revenue Code limitations. These supplemental benefits vest over time and the compensation expense related to these benefits is recognized over the vesting period. The amounts accrued under these plans were \$26 million and \$25 million as of March 31, 2007 and April 1, 2006, respectively, and are reflected in other non-current liabilities in the accompanying consolidated balance sheets. Total compensation expense related to these benefits was \$3 million, \$5 million and \$4 million in Fiscal 2007, Fiscal 2006 and Fiscal 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred Compensation Plans

The Company has 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 \$2 million and \$1 million as of March 31, 2007 and April 1, 2006, respectively, and are reflected in other non-current liabilities in the accompanying consolidated balance sheets. Total compensation expense related to these compensation arrangements was \$0.3 million for Fiscal 2007, \$0.3 million for Fiscal 2006 and \$0.4 million for Fiscal 2005. The Company funds 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.

Union Pension Plan

The Company participates in a multi-employer pension plan and is required to make contributions to the Union of Needletrades Industrial and Textile Employees ("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. The Company does not participate in the management of the plan and has not been furnished with information with respect to the type of benefits provided, vested and non-vested 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 non-affiliated licensee. The Company has no current intention of withdrawing from the plan.

International Defined Benefit Plans

The Company sponsors certain defined benefit plans at international locations, which are not considered to be material individually and in the aggregate as of March 31, 2007. Pension benefits under these plans are based on formulas that reflect the employees' years of service and compensation levels during their employment period.

20. SEGMENT INFORMATION

The Company has three reportable segments: Wholesale, Retail and Licensing. Such segments offer a variety of products through different channels of distribution. The Wholesale segment consists of women's, men's and children's apparel, accessories and related products which are sold to major department stores, specialty stores, golf and pro shops and the Company's owned and licensed retail stores in the U.S. and overseas. The Retail segment consists of the Company's worldwide retail operations, which sell products through its full-price and factory stores, as well as Polo.com, its e-commerce website. The stores and website sell products purchased from the Company's licensees, suppliers and Wholesale segment. The Licensing segment generates revenues from royalties earned on the sale of the Company's apparel, home and other products internationally and domestically through licensing alliances. The licensing agreements grant the licensees rights to use the Company's various trademarks in connection with the manufacture and sale of designated products in specified geographical areas for specified periods.

The accounting policies of the Company's segments are consistent with those described in Note 3. Sales and transfers between segments are recorded at cost and treated as transfers of inventory. All intercompany revenues are eliminated in consolidation and are not reviewed when evaluating segment performance. Each segment's performance is evaluated based upon operating income before restructuring charges and certain one-time items, such as legal charges. Corporate overhead expenses (exclusive of expenses for senior management, overall branding-related expenses and certain other corporate-related expenses) are allocated to the segments based upon specific usage or other allocation methods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net revenues and operating income for each segment are as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
NET REVENUES:			
WHOLESALE	\$ 2,315.9	\$ 1,942.5	\$ 1,712.1
RETAIL	1,743.2	1,558.6	1,348.6
LICENSING	236.3	245.2	244.7
TOTAL NET REVENUES	\$ 4,295.4	\$ 3,746.3	\$ 3,305.4

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
OPERATING INCOME:			
WHOLESALE	\$ 477.8	\$ 398.3	\$ 299.7
RETAIL	224.2	140.0	82.8
LICENSING	141.6	153.5	159.5
	843.6	691.8	542.0
LESS:			
UNALLOCATED CORPORATE EXPENSES	(183.4)	(159.1)	(133.8)
UNALLOCATED LEGAL AND RESTRUCTURING CHARGES ^(a)	(7.6)	(16.1)	(108.5)
TOTAL OPERATING INCOME	\$ 652.6	\$ 516.6	\$ 299.7

^(a) Restructuring charges of \$4.6 million for Fiscal 2007 and \$9.0 million for Fiscal 2006 are primarily related to the Retail segment. Restructuring charges of \$2.3 million for Fiscal 2005 are primarily related to the Wholesale segment. See Note 11 for further discussion.

Depreciation and amortization expense and capital expenditures for each segment are as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
DEPRECIATION AND AMORTIZATION:			
WHOLESALE	\$ 47.0	\$ 39.4	\$ 23.6
RETAIL	59.0	53.0	47.3
LICENSING	4.4	5.2	6.4
UNALLOCATED CORPORATE EXPENSES	34.3	29.4	24.8
TOTAL DEPRECIATION AND AMORTIZATION	\$ 144.7	\$ 127.0	\$ 102.1

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
CAPITAL EXPENDITURES:			
WHOLESALE	\$ 44.6	\$ 28.7	\$ 50.6
RETAIL	83.1	87.8	77.5
LICENSING	3.0	3.3	3.1
CORPORATE	53.3	38.8	42.9
TOTAL CAPITAL EXPENDITURES	\$ 184.0	\$ 158.6	\$ 174.1

Total assets for each segment is as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006
TOTAL ASSETS:		
WHOLESALE	\$ 1,756.0	\$ 1,657.1
RETAIL	909.7	786.5
LICENSING	190.2	189.4
CORPORATE	902.1	455.7
TOTAL ASSETS	\$ 3,758.0	\$ 3,088.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net revenues and long-lived assets by geographic location of the reporting subsidiary are as follows:

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 1, 2005
NET REVENUES:			
UNITED STATES AND CANADA	\$ 3,452.2	\$ 3,032.3	\$ 2,581.2
EUROPE	767.9	627.7	579.2
JAPAN	64.6	44.3	45.9
OTHER REGIONS	10.7	42.0	99.1
TOTAL NET REVENUES	\$ 4,295.4	\$ 3,746.3	\$ 3,305.4

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006
LONG-LIVED ASSETS:		
UNITED STATES AND CANADA	\$ 474.5	\$ 429.6
EUROPE	107.5	66.5
JAPAN	43.9	50.8
OTHER REGIONS	3.9	1.9
TOTAL LONG-LIVED ASSETS	\$ 629.8	\$ 548.8

21. RELATED PARTY TRANSACTIONS

In the ordinary course of conducting its business, the Company periodically enters into transactions with other entities or people that are considered related parties.

The Company receives royalty payments, pursuant to a licensing agreement with Impact 21 that allows Impact 21 to sell high quality apparel and related merchandise in Japan using certain of the Company's trademarks. The Company has an approximately 20% interest in Impact 21, which is accounted for under the equity method of accounting. Royalty payments received under this arrangement were approximately \$34 million in Fiscal 2007, \$34 million in Fiscal 2006 and \$34 million in Fiscal 2005. See Note 5 for further discussion of the Company's Japanese Business Acquisitions that occurred in May 2007.

In addition, Mr. Ralph Lauren, the Company's Chairman and Chief Executive Officer, sometimes uses the services of certain employees of the Company for non-Company related purposes. Mr. Lauren reimburses the Company for the direct expenses incurred in connection with those services, including an allocation of such employees' salaries and benefits. Such costs and related reimbursements were less than \$1 million in the aggregate in each of the three fiscal years presented.

22. ADDITIONAL FINANCIAL INFORMATION

Cash Interest and Taxes

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005
CASH PAID FOR INTEREST	\$ 20.9	\$ 10.1	\$ 10.1
CASH PAID FOR INCOME TAXES	\$ 244.6	\$ 165.1	\$ 107.7

Non-cash Transactions

Significant non-cash investing activities included the capitalization of fixed assets and recognition of related obligations, including those under certain leasing arrangements in the amount of \$45 million for Fiscal 2007 and \$46 million for Fiscal 2006. In addition, significant non-cash investing activities included the non-cash allocation of the fair value of the assets acquired and liabilities assumed in the acquisition of the 50% minority interest in RL Media in Fiscal 2007, the acquisition of the Polo Jeans and Footwear Businesses in Fiscal 2006, and the acquisition of the Childrenswear Business in Fiscal 2005. See Note 5 for further discussion of acquisitions.

There were no other significant non-cash financing and investing activities for Fiscal 2007, Fiscal 2006 and Fiscal 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Licensing-related Transactions

Eyewear Licensing Agreement

In February 2006, the Company announced that it had entered into a ten-year exclusive licensing agreement with Luxottica Group, S.p.A. and affiliates (“Luxottica”) for the design, production, sale and distribution of prescription frames and sunglasses under the Polo Ralph Lauren brand (the “Eyewear Licensing Agreement”).

The Eyewear Licensing Agreement took effect on January 1, 2007 after the Company’s pre-existing licensing agreement with another licensee expired. In early January, the Company received a prepayment of approximately \$180 million, net of certain tax withholdings, in consideration of the annual minimum royalty and design-services fees to be earned over the life of the contract. The prepayment is non-refundable, except with respect to certain breaches of the agreement by the Company, in which case only the unearned portion of the prepayment as determined based on the specific terms of the agreement would be required to be repaid. The prepayment was recorded by the Company as deferred income and will be recognized in earnings when earned in accordance with the terms of the agreement based upon the higher of (a) contractually guaranteed minimum royalty levels and (b) estimates of sales and royalty data received from the licensee.

Underwear Licensing Agreement

The Company licensed the right to manufacture and sell Chaps-branded underwear under a long-term license agreement, which was scheduled to expire in December 2009. During Fiscal 2007, the Company and the licensee agreed to terminate the licensing and related design-services agreements. In connection with this agreement, the Company received a portion of the minimum royalty and design-service fees due to it under the underlying agreements on an accelerated basis. The approximate \$8 million of proceeds received by the Company has been recognized as licensing revenue in the accompanying consolidated financial statements for Fiscal 2007.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected historical financial information as of the dates and for the periods indicated.

The consolidated statement of operations data for each of the three fiscal years in the period ended March 31, 2007 and the consolidated balance sheet data at March 31, 2007 and April 1, 2006 has been derived from, and should be read in conjunction with, the audited financial statements and other financial information presented elsewhere herein. The consolidated statement of operations data for each of the two fiscal years in the period ended April 3, 2004 and the consolidated balance sheet data at April 2, 2005, April 3, 2004 and March 29, 2003 has been derived from audited financial statements not included herein. Capitalized terms are as defined and described in the consolidated financial statements or elsewhere herein. The historical results are not necessarily indicative of the results to be expected in any future period.

The selected financial information for the fiscal year ended March 31, 2007 reflects the acquisition of the remaining 50% equity interest of RL Media and the adoption of FAS 123R. The selected financial information for the fiscal year ended April 1, 2006 reflects the acquisition of the Polo Jeans Business effective in February 2006 and the acquisition of the Footwear Business effective in July 2005. The selected financial information for the fiscal year ended April 2, 2005 reflects the acquisition of the Childrenswear Business effective in July 2004. The selected financial information reflects the consolidation of RL Media effective as of the end of Fiscal 2004.

FISCAL YEARS ENDED: (millions, except per share data)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005	APRIL 3, 2004 ^(a)	MARCH 29, 2003
STATEMENT OF OPERATIONS DATA:					
NET REVENUES:					
NET SALES	\$ 4,059.1	\$ 3,501.1	\$ 3,060.7	\$ 2,380.9	\$ 2,189.3
LICENSING REVENUES	236.3	245.2	244.7	268.8	250.0
NET REVENUES	4,295.4	3,746.3	3,305.4	2,649.7	2,439.3
GROSS PROFIT	2,336.2	2,022.4	1,684.5	1,323.3	1,207.6
DEPRECIATION AND AMORTIZATION EXPENSE	(144.7)	(127.0)	(102.1)	(85.6)	80.6
RESTRUCTURING CHARGES	(4.6)	(9.0)	(2.3)	(19.6)	(14.4)
OPERATING INCOME ^(b)	652.6	516.6	299.7	270.9	290.9
INTEREST INCOME/(EXPENSE), NET	4.5	1.2	(6.4)	(10.0)	(13.5)
NET INCOME	\$ 400.9	\$ 308.0	\$ 190.4	\$ 169.2	\$ 175.7
NET INCOME PER COMMON SHARE:					
BASIC	\$ 3.84	\$ 2.96	\$ 1.88	\$ 1.71	\$ 1.79
DILUTED	\$ 3.73	\$ 2.87	\$ 1.83	\$ 1.68	\$ 1.77
AVERAGE COMMON SHARES:					
BASIC	104.4	104.2	101.5	99.0	98.3
DILUTED	107.6	107.2	104.1	101.0	99.3
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ —

^(a) Fiscal year consists of 53 weeks.

^(b) Operating income has been reduced by litigation-related charges of approximately \$3 million in the fiscal year ended March 31, 2007, \$7 million in the fiscal year ended April 1, 2006, and \$106 million in the fiscal year ended April 2, 2005. Impairment charges related to retail assets reduced operating income by approximately \$11 million in the fiscal year ended April 1, 2006.

FISCAL YEARS ENDED: (millions)	MARCH 31, 2007	APRIL 1, 2006	APRIL 2, 2005	APRIL 3, 2004	MARCH 29, 2003
BALANCE SHEET DATA:					
CASH AND CASH EQUIVALENTS	\$ 563.9	\$ 285.7	\$ 350.5	\$ 352.3	\$ 343.6
WORKING CAPITAL	1,045.6	535.0	791.4	782.0	662.4
TOTAL ASSETS	3,758.0	3,088.7	2,726.7	2,297.6	2,052.4
TOTAL DEBT (INCLUDING CURRENT MATURITIES OF DEBT)	398.8	280.4	291.0	277.3	349.4
STOCKHOLDERS' EQUITY	2,334.9	2,049.6	1,675.7	1,415.4	1,205.6

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth the quarterly financial information of the Company:

FISCAL 2007 (millions, except per share data)	QUARTERLY PERIODS ENDED			
	JULY 1, 2006	SEPTEMBER 30, 2006	DECEMBER 30, 2006	MARCH 31, 2007
NET REVENUES	\$ 953.6	\$ 1,166.8	\$ 1,143.7	\$ 1,031.3
GROSS PROFIT	531.5	632.6	614.0	558.1
NET INCOME	80.2	137.0	110.5	73.2
NET INCOME PER COMMON SHARE:				
BASIC	\$ 0.76	\$ 1.31	\$ 1.06	\$ 0.70
DILUTED	\$ 0.74	\$ 1.28	\$ 1.03	\$ 0.68
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05

FISCAL 2006 (millions, except per share data)	QUARTERLY PERIODS ENDED			
	JULY 2, 2005	OCTOBER 1, 2005	DECEMBER 31, 2005	APRIL 1, 2006
NET REVENUES	\$ 751.9	\$ 1,027.3	\$ 995.5	\$ 971.6
GROSS PROFIT	414.4	551.5	531.5	525.0
NET INCOME	50.7	104.2	90.6	62.5
NET INCOME PER COMMON SHARE:				
BASIC	\$ 0.49	\$ 1.00	\$ 0.87	\$ 0.60
DILUTED	\$ 0.48	\$ 0.97	\$ 0.84	\$ 0.58
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05

BOARD OF DIRECTORS AND MANAGEMENT

BOARD OF DIRECTORS

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Chairman and Chief Executive Officer
Polo Ralph Lauren Corporation

JOHN R. ALCHIN

Executive Vice President and Co-Chief Financial Officer
Comcast Corporation

ARNOLD H. ARONSON

Managing Director, Retail Strategies
Kurt Salmon Associates

FRANK A. BENNACK, JR.

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Vice Chairman of the Board of Directors
The Hearst Corporation

DR. JOYCE F. BROWN

President
Fashion Institute of Technology

ROGER N. FARAH

President and Chief Operating Officer
Polo Ralph Lauren Corporation

JOEL L. FLEISHMAN

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Duke University

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Rodale, Inc

JACKWYN L. NEMEROV

Executive Vice President
Polo Ralph Lauren Corporation

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Yahoo! Inc.

ROBERT C. WRIGHT

Vice Chairman and Executive Officer
General Electric Company

CORPORATE OFFICERS

RALPH LAUREN

Chairman and Chief Executive Officer

ROGER N. FARAH

President and Chief Operating Officer

JACKWYN L. NEMEROV

Executive Vice President

MITCHELL A. KOSH

Senior Vice President
Human Resources and Legal

TRACEY T. TRAVIS

Senior Vice President
Chief Financial Officer

SENIOR MANAGEMENT

DONALD BAUM

Senior Vice President
Sourcing and Manufacturing

BUFFY BIRRITELLA

Executive Vice President
Women's Design and Advertising

SCOTT J. BOWMAN

President
International Business Development

MARY ELLEN COYNE

President
Women's Blue Label

BARBARA DEICHMAN

President
Ralph Lauren Home

JONATHAN DRUCKER

Senior Vice President
General Counsel and Corporate Secretary

BRIAN DUFFY

President and Chief Operating Officer
Polo Ralph Lauren Europe

JEROME ESPINOS

President
Collection/Purple Label Footwear

CHARLES E. FAGAN

Executive Vice President
Global Retail Brand Development

JUDITH S. FORMICHELLA

Senior Vice President
Chief Information Officer

SARAH GALLAGHER

President
RalphLauren.com

JOY HERFEL

President
Polo Ralph Lauren Menswear

GEORGE HRDINA

President
RL Childrenswear

BARBARA I. KENNEDY

President
Dresses

DAVID LAUREN

Senior Vice President
Advertising, Marketing and Corporate Communications

JEROME LAUREN

Executive Vice President
Men's Design

RUSS G. LoCURTO

Senior Vice President
Supply Chain, Logistics and Distribution

SUSAN H. McCABE

President
Polo Ralph Lauren Factory Stores

JOHN MEHAS

President and Chief Executive Officer
Club Monaco

WAYNE T. MEICHNER

President
Polo Ralph Lauren Retail Stores

JEFFREY D. MORGAN

President
Product Licensing

NANCY E.S. MURRAY

Senior Vice President
Investor Relations

JOEL OBLONSKY

President
Lauren Footwear

ALFREDO V. PAREDES

Executive Vice President
Global Creative Services, Polo Store Development
and Home Collection Design

KIM ROY

President
Lauren Womenswear

JEFFREY SHERMAN

President and Chief Operating Officer
Polo Retail Group

WENDY SMITH

Senior Vice President
Communications

CHERYL L. STERLING-UDELL

President
Ralph Lauren Womenswear Collection

STEPHEN J. YALOF

Senior Vice President
Real Estate

CORPORATE OFFICES

650 MADISON AVENUE
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(212) 318.7000

INVESTOR RELATIONS

625 MADISON AVENUE
NEW YORK, NY 10022
(212) 813.7868

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

TICKER SYMBOL: RL

ANNUAL MEETING

AUGUST 9, 2007, 9:30 A.M.
ST. REGIS HOTEL
2 EAST 55TH STREET
NEW YORK, NY 10022

REGISTRAR AND TRANSFER AGENT

THE BANK OF NEW YORK
101 BARCLAY STREET
NEW YORK, NY 10286
(800) 524.4458

INDEPENDENT AUDITORS

DELOITTE & TOUCHE LLP
TWO WORLD FINANCIAL CENTER
NEW YORK, NY 10281

POLO RALPH LAUREN INVESTOR WEBSITE

Company information and news is available on our investor website at <http://investor.ralphlauren.com>.

FORWARD-LOOKING INFORMATION

Please refer to the Company's Fiscal 2007 Form 10-K for a description of the substantial risks and uncertainties related to the forward-looking statements included in this Annual Report.

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other Securities and Exchange Commission (SEC) filings are available on our investor website. The most recent certifications by our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act were included as exhibits to our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. Our Chief Executive Officer's 2006 annual certification to the NYSE regarding the Company's compliance with the NYSE's corporate governance listing standards was timely filed and did not contain any qualifications.

Our Corporate Governance Policies, the Charters for our Audit, Compensation, and Nominating & Governance Committees, our Code of Business Conduct and Ethics, our Code of Ethics for Principal Executive Officers and Senior Financial Officers, our Amended and Restated Bylaws, and our Amended and Restated Certificate of Incorporation are available on our investor website.

Copies of all the above documents are available to shareholders without charge upon written request to Investor Relations at the Company's Corporate Offices.

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