

RALPH LAUREN CORP
Form 10-Q
February 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 27, 2014
- or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 001-13057

Ralph Lauren Corporation
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

650 Madison Avenue,
New York, New York

(Address of principal executive offices)

(212) 318-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At January 30, 2015, 61,433,004 shares of the registrant's Class A common stock, \$.01 par value, and 25,881,276 shares of the registrant's Class B common stock, \$.01 par value, were outstanding.

RALPH LAUREN CORPORATION
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RALPH LAUREN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 27, 2014 (millions) (unaudited)	March 29, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$763	\$797
Short-term investments	644	488
Accounts receivable, net of allowances of \$275 million and \$270 million	416	588
Inventories	1,211	1,020
Income tax receivable	60	62
Deferred tax assets	149	150
Prepaid expenses and other current assets	276	224
Total current assets	3,519	3,329
Property and equipment, net	1,454	1,322
Deferred tax assets	49	39
Goodwill	917	964
Intangible assets, net	273	299
Other non-current assets	132	137
Total assets	\$6,344	\$6,090
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$113	\$—
Accounts payable	229	203
Income tax payable	132	77
Accrued expenses and other current liabilities	784	690
Total current liabilities	1,258	970
Long-term debt	300	300
Non-current liability for unrecognized tax benefits	112	132
Other non-current liabilities	599	654
Commitments and contingencies (Note 14)		
Total liabilities	2,269	2,056
Equity:		
Class A common stock, par value \$.01 per share; 99.9 million and 98.0 million shares issued; 61.4 million and 61.8 million shares outstanding	1	1
Class B common stock, par value \$.01 per share; 25.9 million and 26.9 million shares issued and outstanding	—	—
Additional paid-in-capital	2,089	1,979
Retained earnings	5,706	5,257
Treasury stock, Class A, at cost; 38.5 million and 36.2 million shares	(3,699)	(3,317)
Accumulated other comprehensive income (loss)	(22)	114
Total equity	4,075	4,034
Total liabilities and equity	\$6,344	\$6,090
See accompanying notes.		

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions, except per share data)			
	(unaudited)			
Net sales	\$1,986	\$1,970	\$5,603	\$5,456
Licensing revenue	47	45	132	127
Net revenues	2,033	2,015	5,735	5,583
Cost of goods sold ^(a)	(874	) (843	) (2,401	) (2,323
Gross profit	1,159	1,172	3,334	3,260
Selling, general, and administrative expenses ^(a)	(837	) (815	) (2,463	) (2,327
Amortization of intangible assets	(6	) (9	) (19	) (28
Gain on acquisition of Chaps	—	—	—	16
Restructuring and other charges	(1	) (14	) (7	) (16
Total other operating expenses, net	(844	) (838	) (2,489	) (2,355
Operating income	315	334	845	905
Foreign currency losses	(8	) (4	) (14	) (9
Interest expense	(3	) (4	) (12	) (16
Interest and other income, net	—	—	4	4
Equity in losses of equity-method investees	(3	) (2	) (9	) (7
Income before provision for income taxes	301	324	814	877
Provision for income taxes	(86	) (87	) (236	) (254
Net income	\$215	\$237	\$578	\$623
Net income per common share:				
Basic	\$2.44	\$2.62	\$6.53	\$6.89
Diluted	\$2.41	\$2.57	\$6.46	\$6.74
Weighted average common shares outstanding:				
Basic	88.1	90.1	88.5	90.4
Diluted	89.0	91.8	89.5	92.4
Dividends declared per share	\$0.45	\$0.45	\$1.35	\$1.25
^(a) Includes total depreciation expense of:	\$(72	) \$(58	) \$(200	) \$(165

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Nine Months Ended		
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013	
	(millions) (unaudited)				
Net income	\$215	\$237	\$578	\$623	
Other comprehensive income (loss), net of tax:					
Foreign currency translation adjustments	(74	) (6	) (174	) 42
Net gains (losses) on derivative financial instruments	12	(4) 37	(27)
Net losses on available-for-sale investments	—	—	—	(5)
Net gains on defined benefit plans	—	—	1	—	
Other comprehensive income (loss), net of tax	(62	) (10	) (136	) 10
Total comprehensive income	\$153	\$227	\$442	\$633	

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	December 27, 2014	December 28, 2013
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$578	\$623
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	219	193
Deferred income tax benefit	(11	) (37
Equity in losses of equity-method investees	9	7
Non-cash stock-based compensation expense	60	74
Gain on acquisition of Chaps	—	(16
Excess tax benefits from stock-based compensation arrangements	(7	) (32
Other non-cash charges, net	(18) —
Changes in operating assets and liabilities:		
Accounts receivable	155	59
Inventories	(240	) (176
Prepaid expenses and other current assets	(77	) (69
Accounts payable and accrued liabilities	101	79
Income tax receivables and payables	101	18
Deferred income	(13	) (11
Other balance sheet changes, net	33	48
Net cash provided by operating activities	890	760
Cash flows from investing activities:		
Capital expenditures	(300	) (295
Purchases of investments	(1,156	) (843
Proceeds from sales and maturities of investments	940	739
Acquisitions and ventures	(8	) (39
Change in restricted cash deposits	(1	) (2
Net cash used in investing activities	(525	) (440
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	2,283	—
Repayments of short-term debt	(2,170) —
Proceeds from issuance of long-term debt	—	300
Repayments of long-term debt	—	(269
Payments of capital lease obligations	(17	) (6
Payments of dividends	(119	) (109
Repurchases of common stock, including shares surrendered for tax withholdings	(382	) (408
Proceeds from exercise of stock options	46	46
Excess tax benefits from stock-based compensation arrangements	7	32
Net cash used in financing activities	(352	) (414
Effect of exchange rate changes on cash and cash equivalents	(47	) 2
Net decrease in cash and cash equivalents	(34	) (92
Cash and cash equivalents at beginning of period	797	974
Cash and cash equivalents at end of period	\$763	\$882
See accompanying notes.		

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data and where otherwise indicated)
(Unaudited)

1. Description of Business

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

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

2. Basis of Presentation

Interim Financial Statements

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

Basis of Consolidation

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

Fiscal Periods

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

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

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

Significant estimates inherent in the preparation of the consolidated financial statements include reserves for bad debt, customer returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances; the realizability of inventory; reserves for litigation and other contingencies; useful lives and impairments of long-lived tangible and intangible assets; accounting for income taxes and related uncertain tax positions; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring; and accounting for business combinations, among others.

Reclassifications

Certain reclassifications have been made to the prior period's financial information in order to conform to the current period's presentation, including a change in the manner in which the Company allocates certain costs to its reportable segments, as described in Note 22 to the Company's Fiscal 2014 10-K.

Seasonality of Business

The Company's business is typically affected by seasonal trends, with higher levels of wholesale sales in its second and fourth fiscal quarters and higher retail sales in its second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods in the Retail segment. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and nine-month periods ended December 27, 2014 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2015.

3. Summary of Significant Accounting Policies

Revenue Recognition

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

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

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

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Shipping and Handling Costs

The costs associated with shipping goods to customers are reflected as a component of selling, general, and administrative ("SG&A") expenses in the consolidated statements of income. Shipping costs were approximately \$13 million and \$32 million during the three-month and nine-month periods ended December 27, 2014, respectively, and \$11 million and \$28 million during the three-month and nine-month periods ended December 28, 2013, respectively. The costs of preparing merchandise for sale, such as picking, packing, warehousing, and order charges ("handling costs") are also included in SG&A expenses. Handling costs were approximately \$49 million and \$136 million during the three-month and nine-month periods ended December 27, 2014, respectively, and \$48 million and \$139 million during the three-month and nine-month periods ended December 28, 2013, respectively. Shipping and handling costs billed to customers are included in revenue.

Net Income per Common Share

Basic net income per common share is computed by dividing net income attributable to common shares by the weighted-average number of common shares outstanding during the period. Weighted-average common shares include shares of the Company's Class A and Class B common stock. Diluted net income per common share adjusts basic net income per common share for the dilutive effects of outstanding stock options, restricted stock, restricted stock units ("RSUs"), and any other potentially dilutive instruments, only in the periods in which such effects are dilutive under the treasury stock method.

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

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Basic shares	88.1	90.1	88.5	90.4
Dilutive effect of stock options, restricted stock, and RSUs	0.9	1.7	1.0	2.0
Diluted shares	89.0	91.8	89.5	92.4

All earnings per share amounts have been calculated using unrounded numbers. Options to purchase shares of the Company's common stock at an exercise price greater than the average market price of the common stock during the reporting period are anti-dilutive and therefore not included in the computation of diluted net income per common share. In addition, the Company has outstanding RSUs that are issuable only upon the achievement of certain service and/or performance goals. Performance-based RSUs are included in the computation of diluted shares only to the extent that the underlying performance conditions (and any applicable market condition modifiers) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of December 27, 2014 and December 28, 2013, there were approximately 1.9 million and 1.2 million, respectively, additional shares issuable upon exercise of anti-dilutive options and contingent vesting of performance-based RSUs, which were excluded from the diluted share calculations.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable, net is recorded at carrying value, which approximates fair value, and is presented in the Company's consolidated balance sheets net of certain reserves and allowances. These reserves and allowances consist of (i) reserves for returns, discounts, end-of-season markdowns, operational chargebacks, and certain cooperative advertising allowances (see the Revenue Recognition section above for further discussion of related accounting policies) and (ii) allowances for doubtful accounts.

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

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Beginning reserve balance	\$284	\$270	\$254	\$230
Amount charged against revenue to increase reserve	189	187	558	555
Amount credited against customer accounts to decrease reserve	(206	) (191	) (538	) (523
Foreign currency translation	(5	) —	(12	) 4
Ending reserve balance	\$262	\$266	\$262	\$266

An allowance for doubtful accounts is determined through analysis of periodic aging of accounts receivable, assessments of collectability based on an evaluation of historical and anticipated trends, the financial condition of the Company's customers, and an evaluation of the impact of economic conditions, among other factors. The Company's allowance for doubtful accounts was \$13 million and \$16 million as of December 27, 2014 and March 29, 2014, respectively. The activity in the allowance for doubtful accounts was not material during the three-month and nine-month periods ended December 27, 2014 and December 28, 2013.

Concentration of Credit Risk

The Company sells its wholesale merchandise primarily to major department and specialty stores around the world, and extends credit based on an evaluation of each customer's financial capacity and condition, usually without requiring collateral. In the Company's wholesale business, concentration of credit risk is relatively limited due to the large number of customers and their dispersion across many geographic areas. However, the Company has three key wholesale customers that generate significant sales volume. During Fiscal 2014, the Company's sales to its largest wholesale customer, Macy's, Inc. ("Macy's"), accounted for approximately 12% of its total net revenues, and the Company's sales to its three largest wholesale customers (including Macy's) represented approximately 25% of total net revenues during Fiscal 2014. As of December 27, 2014, these three key wholesale customers represented approximately 35% of gross accounts receivable.

Derivative Financial Instruments

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

Each derivative instrument that qualifies for hedge accounting is expected to be highly effective at reducing the risk associated with the exposure being hedged. For each derivative instrument that is designated as a hedge, the Company formally documents the related risk management objective and strategy, including identification of the hedging instrument, the hedged item, and the risk exposure, as well as how hedge effectiveness will be assessed prospectively

and retrospectively over the instrument's term. To assess the effectiveness of derivative instruments that are designated as hedges, the Company uses regression analysis, a

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statistical method, to compare the change in the fair value of the derivative instrument to the change in cash flows of the related hedged item. The extent to which a hedging instrument has been and is expected to remain highly effective in achieving offsetting changes in cash flows is assessed and documented by the Company on at least a quarterly basis.

To the extent that a derivative instrument designated as a cash flow hedge is not considered to be effective, any change in its fair value relating to such ineffectiveness is immediately recognized in earnings within foreign currency gains (losses). If it is determined that a derivative instrument has not been highly effective, and will continue not to be highly effective in hedging the designated exposure, hedge accounting is discontinued and further gains (losses) are recognized in earnings within foreign currency gains (losses). Upon discontinuance of hedge accounting, the cumulative change in fair value of the derivative instrument previously recorded in AOCI is recognized in earnings when the related hedged item affects earnings, consistent with the originally-documented hedging strategy, unless the forecasted transaction is no longer probable of occurring, in which case the accumulated amount is immediately recognized in earnings within foreign currency gains (losses).

As a result of the use of derivative instruments, the Company is exposed to the risk that the counterparties to such contracts will fail to meet their contractual obligations. To mitigate this counterparty credit risk, the Company has a policy of only entering into contracts with carefully selected financial institutions based upon an evaluation of their credit ratings and certain other factors, adhering to established limits for credit exposure. The Company's established policies and procedures for mitigating credit risk from derivative transactions include ongoing review and assessment of the creditworthiness of counterparties. The Company also enters into master netting arrangements with counterparties, when possible, to mitigate credit risk associated with its derivative instruments. In the event of default or termination (as such terms are defined within the respective master netting arrangement), these arrangements allow the Company to net-settle amounts payable and receivable related to multiple derivative transactions with the same counterparty. The master netting arrangements specify a number of events of default and termination, including, among others, the failure to make timely payments.

The fair values of the Company's derivative instruments are recorded on its consolidated balance sheets on a gross basis. For cash flow reporting purposes, the Company classifies proceeds received or amounts paid upon the settlement of a derivative instrument in the same manner as the related item being hedged, primarily within cash flows from operating activities.

Forward Foreign Currency Exchange Contracts

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

• **Forecasted Inventory Transactions** — recognized as part of the cost of the inventory being hedged within cost of goods sold when the related inventory is sold to a third party.

• **Intercompany Royalty Payments and Marketing Contributions** — recognized within foreign currency gains (losses) generally in the period in which the related payments or contributions being hedged are received or paid.

Undesignated Hedges

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

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

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

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Recently Issued Accounting Standards

Accounting for Share-Based Payments

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

Revenue from Contracts with Customers

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

Proposed Amendments to Current Accounting Standards

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

5. Acquisitions

Australia and New Zealand Licensed Operations Acquisition

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

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Chaps Menswear License Acquisition

On April 10, 2013, in connection with the transition of the North American Chaps-branded men's sportswear business ("Chaps Menswear Business") from a licensed to a wholly-owned operation, the Company entered into an agreement with The Warnaco Group, Inc. ("Warnaco"), a subsidiary of PVH Corp. ("PVH"), to acquire certain net assets in exchange for an aggregate payment of approximately \$18 million (the "Chaps Menswear License Acquisition"). Warnaco was the Company's licensee for the Chaps Menswear Business. The Company funded the Chaps Menswear License Acquisition during the first quarter of Fiscal 2014 with available cash on-hand.

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

Assets acquired:

Inventory	\$30	
Accounts receivable	19	
Licensed trademark intangible asset	9	
Total assets acquired	58	
Liabilities assumed:		
Accounts payable	(22)
Other net liabilities	(2)
Total net liabilities assumed	(24)
Fair value of net assets acquired	34	
Consideration paid	18	
Gain on acquisition ^(a)	\$16	

Represents the difference between the acquisition date fair value of net assets acquired and the

^(a) contractually-defined purchase price under the Company's license agreement with Warnaco, which granted the Company the right to early-terminate the license upon PVH's acquisition of Warnaco in February 2013.

The licensed trademark intangible asset was valued using the excess earnings method, discounting the estimated after-tax cash flows associated with the Chaps-branded men's sportswear licensed trademark as of the acquisition date, factoring in market participant-based operating and cash flow assumptions. The reacquired licensed trademark intangible asset was amortized over a nine-month period through December 31, 2013, representing the remaining term of the prior license agreement that was terminated in connection with this acquisition.

The operating results of the Chaps Menswear Business have been consolidated into the Company's operating results beginning on April 10, 2013. Transaction costs of \$3 million were expensed as incurred and classified within SG&A expenses in the consolidated statement of income during the first quarter of Fiscal 2014.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Inventories

Inventories consist of the following:

	December 27, 2014 (millions)	March 29, 2014	December 28, 2013
Raw materials	\$2	\$3	\$2
Work-in-process	1	2	1
Finished goods	1,208	1,015	1,114
Total inventories	\$1,211	\$1,020	\$1,117

7. Property and Equipment

Property and equipment, net consists of the following:

	December 27, 2014 (millions)	March 29, 2014	
Land and improvements	\$17	\$17	
Buildings and improvements	409	183	
Furniture and fixtures	706	661	
Machinery and equipment	324	245	
Capitalized software	381	366	
Leasehold improvements	1,195	1,064	
Construction in progress	81	312	
	3,113	2,848	
Less: accumulated depreciation	(1,659	) (1,526)
Property and equipment, net	\$1,454	\$1,322	

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	December 27, 2014	March 29, 2014
	(millions)	
Other taxes receivable	\$86	\$77
Derivative financial instruments	51	3
Prepaid rent expense	33	31
Prepaid samples	18	13
Tenant allowances receivable	14	22
Prepaid advertising and marketing	12	9
Restricted cash	5	5
Fixed asset advance	—	19
Other prepaid expenses and current assets	57	45
Total prepaid expenses and other current assets	\$276	\$224

Other non-current assets consist of the following:

	December 27, 2014	March 29, 2014
	(millions)	
Restricted cash	\$37	\$42
Security deposits	28	27
Derivative financial instruments	26	5
Assets held under deferred compensation arrangements	—	20
Other non-current assets	41	43
Total other non-current assets	\$132	\$137

Accrued expenses and other current liabilities consist of the following:

	December 27, 2014	March 29, 2014
	(millions)	
Accrued operating expenses	\$202	\$183
Accrued inventory	140	84
Accrued payroll and benefits	132	190
Other taxes payable	112	76
Accrued capital expenditures	82	45
Deferred income	43	41
Dividends payable	39	40
Capital lease obligations	20	16
Other accrued expenses and current liabilities	14	15
Total accrued expenses and other current liabilities	\$784	\$690

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current liabilities consist of the following:

	December 27, 2014 (millions)	March 29, 2014
Capital lease obligations	\$243	\$255
Deferred rent obligations	216	224
Deferred tax liabilities	71	81
Deferred income	25	39
Deferred compensation	9	29
Other non-current liabilities	35	26
Total other non-current liabilities	\$599	\$654

9. Restructuring and Other Charges

A description of the Company's restructuring and other activities and related costs is included below.

Fiscal 2015

During the nine months ended December 27, 2014, the Company recorded \$7 million of restructuring charges, primarily related to severance and benefit costs associated with its retail and wholesale operations. The related restructuring liability at December 27, 2014 was \$3 million, reflecting payments of \$4 million to date, and is expected to be settled by the end of the Company's fiscal year 2016.

Fiscal 2014

During Fiscal 2014, the Company recorded \$8 million of restructuring charges, \$6 million of which were recorded during the nine months ended December 28, 2013. These charges were primarily comprised of severance and benefit costs associated with the restructuring of its corporate operations. At March 29, 2014, the restructuring liability related to these charges was \$6 million, which was reduced by payments to \$1 million at December 27, 2014.

In addition, in connection with the formation of the Office of the Chairman, the Company entered into employment agreements with certain of its executive officers, which became effective during the three months ended December 28, 2013. As a result of the new employment agreement provisions, the Company recorded \$10 million of accelerated stock-based compensation expense during the three months ended December 28, 2013.

10. Income Taxes

Effective Tax Rate

The Company's effective tax rate, which is calculated by dividing each fiscal period's provision for income taxes by pretax income, was 28.6% and 26.9% for the three-month periods ended December 27, 2014 and December 28, 2013, respectively, and 29.0% for both of the nine-month periods ended December 27, 2014 and December 28, 2013. The effective tax rates for the periods presented were lower than the U.S. federal statutory income tax rate of 35% principally as a result of earnings generated in lower taxed jurisdictions and income tax benefits resulting from legal entity restructuring of certain of the Company's foreign operations during both Fiscal 2015 and Fiscal 2014. The lower effective tax rate for the three-month and nine-month periods ended December 28, 2013 was also favorably impacted by tax reserve reductions associated with the conclusion of a tax examination.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Uncertain Income Tax Benefits

The Company classifies interest and penalties related to unrecognized tax benefits as part of its provision for income taxes. The total amount of unrecognized tax benefits, including interest and penalties, was \$112 million and \$132 million as of December 27, 2014 and March 29, 2014, respectively, and is included within non-current liability for unrecognized tax benefits in the consolidated balance sheets. The reduction in unrecognized tax benefits, including interest and penalties, primarily related to tax audit settlements of approximately \$29 million, approximately \$23 million of which related to an audit settlement for the taxable years ended April 2, 2011 and March 31, 2012. No material adjustments were recorded within the Company's provision for income taxes in relation to these settlements. The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$83 million and \$86 million as of December 27, 2014 and March 29, 2014, respectively.

Future Changes in Unrecognized Tax Benefits

The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, settlements of ongoing tax audits and assessments and the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, the Company does not anticipate that the balance of gross unrecognized tax benefits, excluding interest and penalties, will change significantly during the next twelve months. However, changes in the occurrence, expected outcomes, and timing of such events could cause the Company's current estimate to change materially in the future.

The Company files a consolidated U.S. federal income tax return, as well as tax returns in various state, local, and foreign jurisdictions. The Company is generally no longer subject to examinations by the relevant tax authorities for years prior to fiscal year 2006.

11. Debt

Debt consists of the following:

	December 27, 2014 (millions)	March 29, 2014
2.125% Senior Notes due September 26, 2018	\$300	\$300
Commercial paper notes	113	—
Total debt	413	300
Less: short-term debt	113	—
Total long-term debt	\$300	\$300

Senior Notes

In September 2013, the Company completed a registered public debt offering and issued \$300 million aggregate principal amount of unsecured senior notes due September 26, 2018 (the "Senior Notes") at a price equal to 99.896% of their principal amount. The Senior Notes bear interest at a fixed rate of 2.125%, payable semi-annually. The proceeds from this offering were used for general corporate purposes, including the repayment of the Company's €209 million principal amount previously outstanding of 4.5% Euro-denominated notes, which matured on October 4, 2013. The Company has the option to redeem the Senior Notes, in whole or in part, at any time at a price equal to accrued interest on the redemption date, plus the greater of (i) 100% of the principal amount of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the indenture governing the Senior Notes (the "Indenture"). The Indenture contains certain covenants that restrict the Company's ability, subject to specified exceptions, to incur certain liens; enter

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

into sale and leaseback transactions; consolidate or merge with another party; or sell, lease, or convey all or substantially all of the Company's property or assets to another party. However, the Indenture does not contain any financial covenants.

Commercial Paper

In May 2014, the Company initiated a commercial paper borrowing program (the "Commercial Paper Program") that allows it to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. Borrowings under the Commercial Paper Program are supported by the Global Credit Facility, as defined below, and may be used to support the Company's general working capital and corporate needs. Maturities of commercial paper notes vary, but cannot exceed 397 days from the date of issuance. Commercial paper notes issued under the Commercial Paper Program rank equally with the Company's other unsecured indebtedness. As of December 27, 2014, the Company had \$113 million in borrowings outstanding under its Commercial Paper Program, with a weighted-average annual interest rate of 0.32% and a weighted-average remaining term of 27 days.

Revolving Credit Facilities

Global Credit Facility

The Company has a credit facility that provides for a \$500 million senior unsecured revolving line of credit through March 2016 (the "Global Credit Facility"), and is also used to support the issuance of letters of credit and the maintenance of the Commercial Paper Program. Borrowings under the Global Credit Facility may be denominated in U.S. Dollars and other currencies, including Euros, Hong Kong Dollars, and Japanese Yen. The Company has the ability to expand its borrowing availability under the Global Credit Facility to \$750 million, subject to the agreement of one or more new or existing lenders under the facility to increase their commitments. There are no mandatory reductions in borrowing ability throughout the term of the Global Credit Facility. As of December 27, 2014, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$7 million of outstanding letters of credit.

The Global Credit Facility contains a number of covenants that, among other things, restrict the Company's ability, subject to specified exceptions, to incur additional debt; incur liens; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve itself; engage in businesses that are not in a related line of business; make loans, advances, or guarantees; engage in transactions with affiliates; and make certain investments. The Global Credit Facility also requires the Company to maintain a maximum ratio of Adjusted Debt to Consolidated EBITDAR (the "leverage ratio") of no greater than 3.75 as of the date of measurement for the four most recent consecutive fiscal quarters. Adjusted Debt is defined generally as consolidated debt outstanding plus eight times consolidated rent expense for the last four consecutive fiscal quarters. Consolidated EBITDAR is defined generally as consolidated net income plus (i) income tax expense, (ii) net interest expense, (iii) depreciation and amortization expense, and (iv) consolidated rent expense. As of December 27, 2014, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global Credit Facility.

Domestic Credit Facility

In August 2014, the Company entered into an uncommitted credit facility (the "Domestic Credit Facility") with Santander Bank, N.A. ("Santander"), which provides for a revolving line of credit up to \$100 million through August 2015. Borrowings under the Domestic Credit Facility are granted at the sole discretion of Santander, subject to availability of its funds, and bear interest at a rate equal to the London Interbank Offered Rate plus a spread determined by Santander at the time of borrowing. The Domestic Credit Facility does not contain any financial covenants. As of December 27, 2014, there were no borrowings outstanding under the Domestic Credit Facility.

Pan-Asia Credit Facilities

Certain of the Company's subsidiaries in Asia have uncommitted credit facilities with regional branches of JPMorgan Chase (the "Banks") in China, Malaysia, South Korea, and Taiwan (the "Pan-Asia Credit Facilities"). These credit

facilities are subject to annual renewal and may be used to fund general working capital and corporate needs of the Company's operations in the respective countries. Borrowings under the Pan-Asia Credit Facilities are guaranteed by the parent company and are granted at the sole discretion of the Banks, subject to availability of the Banks' funds and satisfaction of certain regulatory requirements. The Pan-Asia Credit Facilities do not contain any financial covenants.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company's Pan-Asia Credit Facilities, by country, are as follows:

China Credit Facility — provides Ralph Lauren Trading (Shanghai) Co., Ltd. with a revolving line of credit of up to 100 million Chinese Renminbi (approximately \$16 million) through April 8, 2015, and may also be used to support bank guarantees. As of December 27, 2014, bank guarantees of 12 million Chinese Renminbi (approximately \$2 million) were supported by this facility.

Malaysia Credit Facility — provides Ralph Lauren (Malaysia) Sdn Bhd with a revolving line of credit of up to 16 million Malaysian Ringgit (approximately \$5 million) through September 30, 2015.

South Korea Credit Facility — provides Ralph Lauren (Korea) Ltd. with a revolving line of credit of up to 11 billion South Korean Won (approximately \$10 million) through October 31, 2015.

Taiwan Credit Facility — provides Ralph Lauren (Hong Kong) Retail Company Ltd., Taiwan Branch with a revolving line of credit of up to 59 million New Taiwan Dollars (approximately \$2 million) through October 15, 2015.

As of December 27, 2014, there were no borrowings outstanding under any of the Pan-Asia Credit Facilities.

Refer to Note 14 of the Fiscal 2014 10-K for additional disclosure of the terms and conditions of the Company's debt and credit facilities.

12. Fair Value Measurements

U.S. GAAP establishes a three-level valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy for a particular asset or liability depends on the inputs used in its valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally-derived (unobservable). A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 — inputs to the valuation methodology based on quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — inputs to the valuation methodology based on quoted prices for similar assets and liabilities in active markets for substantially the full term of the financial instrument; quoted prices for identical or similar instruments in markets that are not active for substantially the full term of the financial instrument; and model-derived valuations whose inputs or significant value drivers are observable.

Level 3 — inputs to the valuation methodology based on unobservable prices or valuation techniques that are significant to the fair value measurement.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's financial assets and liabilities that are measured and recorded at fair value on a recurring basis:

	December 27, 2014 (millions)	March 29, 2014
Financial assets recorded at fair value:		
Government bonds ^(a)	\$—	\$1
Other available-for-sale investments ^(b)	—	2
Derivative financial instruments ^(b)	77	8
Total	\$77	\$11
Financial liabilities recorded at fair value:		
Derivative financial instruments ^(b)	\$8	\$7
Total	\$8	\$7

(a) Based on Level 1 measurements.

(b) Based on Level 2 measurements.

To the extent the Company invests in bonds, such investments are classified as available-for-sale and recorded at fair value in its consolidated balance sheets based upon quoted prices in active markets.

The Company's derivative financial instruments are recorded at fair value in its consolidated balance sheets on a gross basis and are valued using a pricing model, which is primarily based on market observable external inputs, including forward and spot exchange rates for foreign currencies, and considers the impact of the Company's own credit risk, if any. Changes in counterparty credit risk are also considered in the valuation of derivative financial instruments.

The Company's cash and cash equivalents, restricted cash, and time deposits are recorded at carrying value, which approximates fair value based on Level 1 measurements.

The Company's debt instruments are recorded at their carrying values in its consolidated balance sheets, which may differ from their respective fair values. The carrying values of the Company's Senior Notes and commercial paper notes reflect their face amount, adjusted for any unamortized discount, which is not material. The fair value of the Senior Notes is estimated based on external pricing data, including available quoted market prices, and with reference to comparable debt instruments with similar interest rates, credit ratings, and trading frequency, among other factors. The fair values of notes issued under the Commercial Paper Program are estimated using external pricing data, based on interest rates and credit ratings for similar issuances with the same remaining term as the Company's outstanding borrowings. Due to their short-term nature, the fair value of commercial paper notes outstanding at December 27, 2014 approximates their carrying value.

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

	December 27, 2014		March 29, 2014	
	Carrying Value (millions)	Fair Value ^(a)	Carrying Value	Fair Value ^(a)
2.125% Senior Notes	\$300	\$300	\$300	\$300
Commercial paper notes	113	113	N/A	N/A

(a) Based on Level 2 measurements.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unrealized gains or losses on the Company's debt do not result in the realization or expenditure of cash, unless the debt is retired prior to its maturity.

Non-financial Assets and Liabilities

The Company's non-financial assets, which primarily consist of goodwill, other intangible assets, and property and equipment, are not required to be measured at fair value on a recurring basis and are reported at carrying value. However, on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be fully recoverable (and at least annually for goodwill and indefinite-lived intangible assets), non-financial instruments are assessed for impairment and, if applicable, written-down to and recorded at fair value, considering external market participant assumptions. There were no material impairment charges recorded during either of the nine-month periods ended December 27, 2014 or December 28, 2013.

No goodwill impairment charges were recorded during either of the nine-month periods ended December 27, 2014 or December 28, 2013. The Company performed its annual goodwill impairment assessment as of the beginning of the second quarter of Fiscal 2015 using a quantitative approach. Based on the results of the impairment assessment performed as of June 29, 2014, the Company concluded that the fair values of its reporting units significantly exceeded their respective carrying values, and there are no reporting units at risk of impairment.

13. Financial Instruments

Derivative Financial Instruments

The Company is exposed to changes in foreign currency exchange rates, primarily relating to certain anticipated cash flows of its international operations. Consequently, the Company uses derivative financial instruments to manage and mitigate such risks. The Company does not enter into derivative transactions for speculative or trading purposes. The following table summarizes the Company's outstanding derivative instruments on a gross basis as recorded in its consolidated balance sheets as of December 27, 2014 and March 29, 2014:

Derivative Instrument ^(a)	Notional Amounts		Derivative Assets				Derivative Liabilities			
	December 27, 2014	March 29, 2014	December 27, 2014		March 29, 2014		December 27, 2014		March 29, 2014	
			Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value	Balance Sheet Line ^(b)	Fair Value
	(millions)									
Designated Hedges:										
FC — Inventory purchases	\$398	\$476	(c)	\$33	(d)	\$2	AE	\$3	AE	\$5
FC — Other	130	223	PP	12	—	—	AE	1	AE	2
Total Designated Hedges	\$528	\$699		\$45		\$2		\$4		\$7
Undesignated Hedges:										
FC — Other	\$468	\$280	(g)	\$32	(h)	\$6	AE	\$4	—	\$—
Total Hedges	\$996	\$979		\$77		\$8		\$8		\$7

(a) FC = Forward foreign currency exchange contracts.

(b) PP = Prepaid expenses and other current assets; AE = Accrued expenses and other current liabilities.

(c) \$30 million included within prepaid expenses and other current assets and \$3 million included within other non-current assets.

(d)

\$1 million included within prepaid expenses and other current assets and \$1 million included within other non-current assets.

- (e) Primarily includes designated hedges of foreign currency-denominated intercompany royalty payments, marketing contributions, and other operational exposures.
- (f) Primarily includes undesignated hedges of foreign currency-denominated intercompany loans.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(g) \$9 million included within prepaid expenses and other current assets and \$23 million included within other non-current assets.

(h) \$2 million included within prepaid expenses and other current assets and \$4 million included within other non-current assets.

The Company records and presents the fair values of all of its derivative assets and liabilities in its consolidated balance sheets on a gross basis, even though they are subject to master netting arrangements. However, if the Company were to offset and record the asset and liability balances of all of its forward foreign currency exchange contracts on a net basis in accordance with the terms of each of its master netting arrangements, spread across eight separate counterparties, the amounts presented in the consolidated balance sheets as of December 27, 2014 and March 29, 2014 would be adjusted from the current gross presentation as detailed in the following table:

Derivative Instrument	December 27, 2014			March 29, 2014		
	Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting Agreements	Net Amount	Gross Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet that are Subject to Master Netting Agreements	Net Amount
	(millions)					
FC — Derivative assets	\$77	\$(7)	\$70	\$8	\$(1)	\$7
FC — Derivative liabilities	\$8	\$(7)	\$1	\$7	\$(1)	\$6

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

The following tables summarize the pretax impact of the effective portion of gains and losses from the Company's derivative instruments on its unaudited interim consolidated financial statements for the three-month and nine-month periods ended December 27, 2014 and December 28, 2013:

Derivative Instrument	Gains (Losses) Recognized in OCI			
	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Designated Cash Flow Hedges:				
FC — Inventory purchases	\$11	\$(4)	\$33	\$(12)
FC — Other	12	3	21	2
Total Designated Hedges	\$23	\$(1)	\$54	\$(10)
Derivative Instrument	Gains (Losses) Reclassified from AOCI to Earnings			
	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Designated Cash Flow Hedges:				
FC — Inventory purchases	\$—	\$3	\$(2)	\$9
				Cost of goods sold

FC — Other	11	1	16	—	Foreign currency gains (losses)
	\$11	\$4	\$14	\$9	

During the nine months ended December 28, 2013, the Company also recorded a foreign currency gain of \$2 million associated with the discontinuance of certain cash flow hedges, as the related forecasted transactions were no longer probable of occurring.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 27, 2014, it is expected that approximately \$33 million of net gains deferred in AOCI related to derivative financial instruments will be recognized in earnings over the next twelve months. No material gains or losses relating to ineffective hedges were recognized during any of the fiscal periods presented.

The following table summarizes the impact of gains and losses from the Company's undesignated hedge contracts on its unaudited interim consolidated financial statements for the three-month and nine-month periods ended December 27, 2014 and December 28, 2013:

Derivative Instrument	Gains (Losses) Recognized in Earnings				Location of Gains (Losses) Recognized in Earnings
	Three Months Ended		Nine Months Ended		
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013	
Undesignated Hedges:					
FC — Other	\$18	\$3	\$24	\$21	Foreign currency gains (losses)
Total Undesignated Hedges	\$18	\$3	\$24	\$21	

Risk Management Strategies

The Company primarily enters into forward foreign currency exchange contracts as hedges to reduce its risk from exchange rate fluctuations on inventory transactions made in an entity's non-functional currency, intercompany royalty payments made by certain of its international operations, intercompany contributions to fund certain marketing efforts of its international operations, and other foreign currency-denominated operational and intercompany cash flows. As part of its overall strategy to manage the level of exposure to the risk of foreign currency exchange rate fluctuations, primarily to changes in the value of the Euro, the Japanese Yen, the South Korean Won, the Australian Dollar, the Canadian Dollar, the British Pound Sterling, and the Hong Kong Dollar, the Company hedges a portion of its foreign currency exposures anticipated over a two-year period. In doing so, the Company uses foreign currency exchange forward contracts that generally have maturities of two months to two years to provide continuing coverage throughout the hedging period.

See Note 3 for further discussion of the Company's accounting policies relating to its derivative financial instruments.

Investments
The following table summarizes the Company's short-term and non-current investments recorded in its consolidated balance sheets as of December 27, 2014 and March 29, 2014:

Type of Investment	December 27, 2014			March 29, 2014		
	Short-term	Non-current	Total	Short-term	Non-current	Total
Available-for-Sale:						
Government bonds	\$—	\$—	\$—	\$1	\$—	\$1
Other	—	—	—	—	2	2
Total available-for-sale investments	\$—	\$—	\$—	\$1	\$2	\$3
Other:						
Time deposits	\$644	\$—	\$644	\$487	\$—	\$487
Total Investments	\$644	\$—	\$644	\$488	\$2	\$490

No significant realized or unrealized gains or losses on available-for-sale investments or other-than-temporary impairment charges were recorded during the three-month and nine-month periods ended December 27, 2014 and December 28, 2013. Refer to Note 16 for further detail.

See Note 3 to the Fiscal 2014 10-K for further discussion of the Company's accounting policies relating to its investments.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies

Lease Obligations

During the first quarter of Fiscal 2015, the Company entered into a lease for a new domestic distribution facility in North Carolina to support its future business growth. The initial lease term is approximately 15 years, with optional renewal periods and a purchase option. The Company's total commitment relating to this lease is approximately \$56 million, with minimum lease payments of approximately \$2 million due in the Company's fiscal year 2016, \$3 million due each year from the Company's fiscal years 2017 through 2019, and aggregate minimum lease payments of \$45 million for the Company's fiscal years 2020 through 2031. The Company expects to take possession of this property during the second quarter of its fiscal year 2016.

Customs Audit

In September 2014, one of the Company's international subsidiaries received a pre-assessment notice from the relevant customs officials concerning the method used to determine the dutiable value of imported inventory. The notice communicated the customs officials' assertion that the Company should have applied an alternative duty method, which could result in up to approximately \$46 million in incremental duty and non-creditable value-added tax, including approximately \$11 million in interest and penalties. The Company believes that the alternative duty method claimed by the customs officials is not applicable to the Company's facts and circumstances and is vigorously contesting their asserted methodology.

In October 2014, the Company filed an appeal of the pre-assessment notice in accordance with the standard procedures established by the relevant customs authorities. Subsequent to the filing of the Company's appeal of the pre-assessment notice, the review committee instructed the customs officials to reconsider their assertion of the alternative duty method and conduct a re-audit to evaluate the facts and circumstances noted in the pre-assessment notice. If the Company is unsuccessful in its appeals, it may further appeal this decision within the Courts. At this time, while the Company believes that the customs officials' claims are not meritorious and that the Company will ultimately prevail, the outcome of the appeals process and potential court proceedings is subject to risk and uncertainty and the ultimate resolution of this examination in favor of the customs authority could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

Wathne Imports Litigation

On September 13, 2005, Wathne Imports, Ltd. ("Wathne"), the Company's former domestic licensee for luggage and handbags, filed suit against the Company and Mr. Ralph Lauren, its Chairman and Chief Executive Officer, in the Supreme Court of the State of New York, County of New York alleging, among other things, that the Company breached a 1999 License Agreement and Design Services Agreement with Wathne and had engaged in deceptive trade practices, fraud, and negligent misrepresentation. The complaint originally sought, among other things, injunctive relief, compensatory damages in excess of \$250 million, and punitive damages in excess of \$750 million. The Court partially granted the Company's motion to dismiss and dismissed five out of Wathne's six causes of action. The Court also denied Wathne's two motions for a preliminary injunction against the production and sale of certain handbags. On April 11, 2008, the Court partially granted the Company's motion for summary judgment and dismissed most of the remaining claims. Wathne appealed and on June 9, 2009, the Appellate Division largely affirmed. As a result, Wathne's principal remaining claims are that the Company violated the License Agreement by discontinuing the Polo Sport trademark on handbags without providing a replacement mark, that it usurped Wathne's right to manufacture and sell certain high-end handbags under the Ralph Lauren trademark, and that it deceived Wathne into giving up its right to manufacture and sell certain children's backpacks.

Wathne filed a note of issue on April 21, 2011, certifying that the case was ready for trial. Wathne has since sought to expand the factual issues in dispute and raise other complaints. The Company has thus far succeeded in court in

defeating those efforts. The Company also filed several pre-trial motions to exclude various parts of Wathne's damages evidence. Currently pending is an appeal of the trial Court's decision to prevent Wathne's CEO from testifying about her alleged lost profits related to the Ralph Lauren trademark.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On January 7, 2015, the Court granted the Company's motion to strike Wathne's jury demand. Pending any appeal by Wathne, this case will now be tried by a judge and the parties have a pre-trial conference scheduled. No trial date has been set and the Company will continue to vigorously contest the remaining claims and dispute any alleged damages. Management does not expect that the ultimate resolution of this matter will have a material adverse effect on the Company's consolidated financial statements.

Other Matters

The Company is otherwise involved, from time to time, in litigation, other legal claims, and proceedings involving matters associated with or incidental to its business, including, among other things, matters involving credit card fraud, trademark and other intellectual property, licensing, importation and exportation of its products, taxation, unclaimed property, and employee relations. The Company believes at present that the resolution of currently pending matters, other than those separately discussed above, will not individually or in the aggregate have a material adverse effect on its consolidated financial statements. However, the Company's assessment of the current litigation or other legal claims could potentially change in light of the discovery of facts not presently known or determinations by judges, juries, or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or claims.

In the normal course of business, the Company enters into agreements that provide general indemnifications. The Company has not made any significant indemnification payments under such agreements in the past, and does not currently anticipate incurring any material indemnification payments.

15. Equity

Summary of Changes in Equity

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

	Nine Months Ended	
	December 27, 2014	December 28, 2013
	(millions)	
Balance at beginning of period	\$4,034	\$3,785
Comprehensive income	442	633
Dividends declared	(118)	(113)
Repurchases of common stock, including shares surrendered for tax withholdings	(382)	(408)
Stock-based compensation	60	74
Shares issued and tax benefits recognized pursuant to stock-based compensation arrangements	53	78
Conversion of stock-based compensation awards	(14)	(15)
Balance at end of period	\$4,075	\$4,034

Class B Common Stock Conversion

During the nine months ended December 27, 2014, the Lauren Family, L.L.C., a limited liability company managed by the children of Mr. Ralph Lauren, converted 1.0 million shares of Class B common stock into an equal number of shares of Class A common stock pursuant to the terms of the security, which were subsequently sold on the open market as part of a pre-determined, systematic trading plan. These transactions resulted in a reclassification within equity and had no effect on the Company's consolidated balance sheets.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock Repurchase Program

A summary of the Company's repurchases of Class A common stock under its common stock repurchase program is presented below:

	Nine Months Ended		
	December 27, 2014 (millions)	December 28, 2013	
Cost of shares repurchased	\$350	\$398	(a)
Number of shares repurchased	2.1	2.2	(a)

Includes two separate \$50 million prepayments made in March 2013 and June 2013 pursuant to share repurchase programs with third-party financial institutions, in exchange for the right to receive shares of the Company's Class (a) A common stock at the conclusion of each of the 93-day repurchase terms, which resulted in a delivery of 0.6 million shares during the nine months ended December 28, 2013, based on the volume-weighted average market price of the Company's Class A common stock over the programs' respective 93-day repurchase terms, less a discount.

As of December 27, 2014, the remaining availability under the Company's Class A common stock repurchase program was approximately \$230 million. Repurchases of shares of Class A common stock are subject to overall business and market conditions.

In addition, during the nine-month periods ended December 27, 2014 and December 28, 2013, 0.2 million and 0.4 million shares of Class A common stock at a cost of \$32 million and \$60 million, respectively, were surrendered to, or withheld by, the Company in satisfaction of withholding taxes in connection with the vesting of awards under the Company's 1997 Long-Term Stock Incentive Plan, as amended (the "1997 Incentive Plan"), and its Amended and Restated 2010 Long-Term Stock Incentive Plan (the "2010 Incentive Plan").

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

Since 2003, the Company has maintained a regular quarterly cash dividend program on its common stock. On November 5, 2013, the Company's Board of Directors approved an increase to the Company's quarterly cash dividend on its common stock from \$0.40 per share to \$0.45 per share. The third quarter Fiscal 2015 dividend of \$0.45 per share was declared on December 11, 2014, was payable to stockholders of record at the close of business on December 26, 2014, and was paid on January 9, 2015. Dividends paid amounted to \$119 million and \$109 million during the nine-month periods ended December 27, 2014 and December 28, 2013, respectively.

On February 3, 2015, the Company's Board of Directors approved an additional increase to the Company's quarterly cash dividend on its common stock from \$0.45 per share to \$0.50 per share.

Conversion of Stock-based Compensation Awards

During the first quarter of Fiscal 2015, the Company converted certain fully-vested and expensed stock-based compensation awards to a cash contribution into a deferred compensation account. The Company recorded the excess of these awards' then current redemption value over their original grant-date fair value to retained earnings, with a corresponding increase to other non-current liabilities in the consolidated balance sheet.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Accumulated Other Comprehensive Income

The following table presents other comprehensive income (loss) ("OCI") activity, net of tax, which is accumulated in equity:

	Foreign Currency Translation Gains (Losses)	Net Unrealized (Losses) on Derivative Financial Instruments	Net Unrealized Gains (Losses) on Available-for-Sale Investments	Net Unrealized Gains (Losses) on Defined Benefit Plans	Total Accumulated Other Comprehensive Income (Loss)	
	(millions)					
Balance at March 30, 2013	\$73	\$23	\$ 5	\$(7	) \$ 94
Other comprehensive income (loss), net of tax:						
OCI before reclassifications ^(a)	42	(20	) (4	) —	18
Amounts reclassified from AOCI to earnings	—	(7) (1) —	(8)
Other comprehensive income (loss), net of tax	42	(27	) (5	) —	10
Balance at December 28, 2013	\$115	\$(4	) \$ —	\$(7	) \$ 104
Balance at March 29, 2014	\$125	\$(4	) \$ —	\$(7	) \$ 114
Other comprehensive income (loss), net of tax:						
OCI before reclassifications ^(a)	(174) 48	—	1	(125)
Amounts reclassified from AOCI to earnings	—	(11) —	—	(11)
Other comprehensive income (loss), net of tax	(174) 37	—	1	(136)
Balance at December 27, 2014	\$(49) \$33	\$ —	\$(6) \$ (22)

Amounts are presented net of taxes. Foreign currency translation gains (losses) are net of a \$2 million income tax benefit for the nine months ended December 27, 2014, and are net of a \$2 million provision for income taxes for ^(a) the nine months ended December 28, 2013. The net unrealized gain on derivative financial instruments for the nine months ended December 27, 2014 is net of a \$6 million provision for income taxes. The tax effects relating to all other components of OCI before reclassification are immaterial for the periods presented.

The following table presents reclassifications from AOCI to earnings for derivative financial instruments, by component:

	Three Months Ended December 27, 2014	December 28, 2013	Nine Months Ended December 27, 2014	December 28, 2013	Location of Gains (Losses) Reclassified from AOCI to Earnings
	(millions)				
Gains (losses) on derivative financial instruments ^(a) :					

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FC — Inventory purchases	\$—	\$ 3	\$(2) \$ 9	Cost of goods sold
FC — Other	11	1	16	—	Foreign currency gains (losses)
Tax effect	(3	) (1	) (3	) (2	) Provision for income taxes
Net of tax	\$8	\$ 3	\$11	\$ 7	

(a) FC = Forward foreign currency exchange contracts.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Stock-based Compensation

The Company's stock-based compensation awards are currently issued under the 2010 Incentive Plan, which was approved by its stockholders on August 5, 2010. However, any prior awards granted under the 1997 Incentive Plan remain subject to the terms of that plan. Any awards that expire, are forfeited, or are surrendered to the Company in satisfaction of taxes are available for issuance under the 2010 Incentive Plan.

Refer to Note 20 in the Fiscal 2014 10-K for a detailed description of the Company's stock-based compensation awards, including information related to vesting terms, service and performance conditions, and payout percentages. Impact on Results

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

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Compensation expense	\$18	\$31	^(a) \$60	\$74 ^(a)
Income tax benefit	\$(7	) \$(11	) \$(23	) \$(27

Includes approximately \$10 million of accelerated stock-based compensation expense recorded within restructuring ^(a) and other charges in the Company's unaudited interim consolidated statements of income during the three-month and nine-month periods ended December 28, 2013 (see Note 9). All other stock-based compensation expense is recorded within SG&A expenses.

The Company issues its annual grants of stock-based compensation awards in the first half of each fiscal year. Due to the timing of the annual grants and other factors, stock-based compensation expense recognized during the three-month and nine-month periods ended December 27, 2014 is not indicative of the level of compensation expense expected to be incurred for the full Fiscal 2015.

Stock Options

Stock options are granted to employees and non-employee directors with exercise prices equal to the fair market value of the Company's Class A common stock on the date of grant. Generally, options become exercisable ratably (graded-vesting schedule) over a three-year vesting period. Stock options generally expire seven 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.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options granted, which requires the input of both subjective and objective assumptions. The Company develops its assumptions by analyzing the historical exercise behavior of employees and nonemployee directors. The Company's weighted average assumptions used to estimate the fair value of stock options granted during the nine months ended December 27, 2014 and December 28, 2013 were as follows:

	Nine Months Ended			
	December 27, 2014		December 28, 2013	
Expected term (years)	4.2		4.2	
Expected volatility	30.2	%	33.1	%
Expected dividend yield	1.10	%	0.98	%
Risk-free interest rate	1.4	%	1.1	%
Weighted-average option grant date fair value	\$37.91		\$46.37	

A summary of stock option activity for the nine months ended December 27, 2014 is as follows:

	Number of Options (thousands)	
Options outstanding at March 29, 2014	3,026	
Granted	852	
Exercised	(490))
Cancelled/Forfeited	(102))
Options outstanding at December 27, 2014	3,286	

Service-based RSUs and Restricted Stock Awards

The fair values of restricted stock awards granted to non-employee directors are determined based on the fair value of the Company's Class A common stock on the date of grant. The weighted-average grant date fair values of restricted stock awards granted, which entitle holders to receive cash dividends in connection with the payments of dividends on the Company's Class A common stock, were \$162.36 and \$164.76 per share during the nine-month periods ended December 27, 2014 and December 28, 2013, respectively. The weighted-average grant date fair value of service-based RSUs granted, which are not entitled to dividends, was \$167.26 per share during the nine-month period ended December 27, 2014.

A summary of restricted stock and service-based RSU activity during the nine months ended December 27, 2014 is as follows:

	Number of Shares		
	Restricted Stock (thousands)	Service-based RSUs	
Nonvested at March 29, 2014	5	7	
Granted	3	24	
Vested	(3	(3)
Nonvested at December 27, 2014	5	28	

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Performance-based RSUs

The fair value of the Company's performance-based RSUs that are not subject to a market condition in the form of a total shareholder return ("TSR") modifier is based on the fair value of the Company's Class A common stock on the date of grant, adjusted to reflect the absence of dividends for those securities that are not entitled to dividend equivalents. The fair value of the Company's performance-based RSUs with a TSR modifier is determined on the date of grant using a Monte Carlo simulation valuation model. This pricing model uses multiple simulations to evaluate the probability of the Company achieving various stock price levels to determine its expected TSR performance ranking. The weighted average assumptions used to estimate the fair value of performance-based RSUs with a TSR modifier granted during the nine-month periods ended December 27, 2014 and December 28, 2013 were as follows:

	Nine Months Ended			
	December 27, 2014	December 28, 2013		
Expected term (years)	3.0	2.9		
Expected volatility	29.8	% 32.6	%	%
Expected dividend yield	1.09	% 0.98	%	%
Risk-free interest rate	0.9	% 0.4	%	%
Weighted-average grant date fair value per share	\$169.47	\$169.14		

The weighted-average grant date fair values of performance-based RSUs that do not contain a TSR modifier granted during the nine-month periods ended December 27, 2014 and December 28, 2013 were \$157.10 and \$172.55 per share, respectively.

A summary of performance-based RSU activity during the nine months ended December 27, 2014 is as follows:

	Number of Shares			
	Performance-based RSUs — without TSR Modifier (thousands)	Performance-based RSUs — with TSR Modifier		
Nonvested at March 29, 2014	798	145		
Granted	303	79		
Change due to performance/market conditions achievement	83	—		
Vested	(422) —))
Forfeited	(55	) (9))
Nonvested at December 27, 2014	707	215		

18. Segment Information

The Company has three reportable segments based on its business activities and organization: Wholesale, Retail, and Licensing. These segments offer a variety of products through different channels of distribution. The Wholesale segment consists of apparel, accessories, home furnishings, and related products which are sold to major department stores, specialty stores, golf and pro shops, and the Company's owned, licensed, and franchised retail stores in the U.S. and overseas. The Retail segment consists of the Company's integrated worldwide retail operations, which sell products through its retail stores, concession-based shop-within-shops, and e-commerce sites, which are 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.

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accounting policies of the Company's segments are consistent with those described in Notes 2 and 3 to the Company's consolidated financial statements included in the Fiscal 2014 10-K. Sales and transfers between segments are generally recorded at cost and treated as transfers of inventory. All intercompany revenues, including such sales between segments, 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 other one-time items, such as legal charges, if any. Certain corporate overhead expenses related to global functions, most notably the Company's executive office, information technology, finance and accounting, human resources, and legal departments, remain at corporate. Additionally, other costs that cannot be allocated to the segments based on specific usage are also maintained at corporate, including corporate advertising and marketing expenses, depreciation and amortization of corporate assets, and other general and administrative expenses resulting from corporate-level activities and projects.

During the fourth quarter of Fiscal 2014, the Company changed the manner in which it allocates certain costs to its reportable segments. All prior period segment information has been recast and is presented below on a comparable basis. See Note 22 to the Company's Fiscal 2014 10-K for further discussion.

Net revenues and operating income for each of the Company's reportable segments are as follows:

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Net revenues:				
Wholesale	\$837	\$840	\$2,488	\$2,503
Retail	1,149	1,130	3,115	2,953
Licensing	47	45	132	127
Total net revenues	\$2,033	\$2,015	\$5,735	\$5,583
	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Operating income:				
Wholesale	\$207	\$217	\$634	\$667
Retail	194	221	499	521
Licensing	42	40	120	115
	443	478	1,253	1,303
Unallocated corporate expenses	(127	) (130	) (401	) (398
Gain on acquisition of Chaps ^(a)	—	—	—	16
Unallocated restructuring and other charges ^(b)	(1	) (14	) (7	) (16
Total operating income	\$315	\$334	\$845	\$905

^(a) See Note 5 for further discussion of the gain on acquisition of Chaps.

^(b) The fiscal periods presented include certain unallocated restructuring and other charges (see Note 9), which are detailed below:

RALPH LAUREN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Three Months Ended		Nine Months Ended		
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013	
	(millions)				
Restructuring charges, net:					
Wholesale-related	\$—	\$—	\$(3) \$—	
Retail-related	(1	) —	(4) —	
Corporate operations-related	—	(4) —	(6)
Unallocated restructuring charges, net	\$(1) \$(4) \$(7) \$(6)
Other charges (see Note 9)	—	(10) —	(10)
Unallocated restructuring and other charges	\$(1) \$(14) \$(7) \$(16)

Depreciation and amortization expense for the Company's reportable segments is as follows:

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Depreciation and amortization:				
Wholesale	\$17	\$16	\$51	\$49
Retail	42	33	113	93
Unallocated corporate expenses	19	18	55	51
Total depreciation and amortization	\$78	\$67	\$219	\$193

Net revenues by geographic location of the reporting subsidiary are as follows:

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Net revenues ^(a) :				
The Americas ^(b)	\$1,390	\$1,386	\$3,838	\$3,836
Europe	409	395	1,221	1,120
Asia ^(c)	234	234	676	627
Total net revenues	\$2,033	\$2,015	\$5,735	\$5,583

^(a) Net revenues for certain of the Company's licensed operations are included within the geographic location of the reporting subsidiary which holds the respective license.

^(b) Includes the U.S., Canada, and Latin America. Net revenues earned in the U.S. were \$1.317 billion and \$3.647 billion during the three-month and nine-month periods ended December 27, 2014, respectively, and \$1.320 billion and \$3.656 billion during the three-month and nine-month periods ended December 28, 2013, respectively.

^(c) Also includes Australia and New Zealand.

RALPH LAUREN CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Additional Financial Information

Cash Interest and Taxes

Cash paid for interest and income taxes is as follows:

	Three Months Ended		Nine Months Ended	
	December 27, 2014	December 28, 2013	December 27, 2014	December 28, 2013
	(millions)			
Cash paid for interest	\$3	\$13	\$10	\$15
Cash paid for income taxes	\$28	\$60	\$204	\$228

Non-cash Transactions

Non-cash investing activities included the capitalization of fixed assets and recognition of related obligations in the net amount of \$82 million and \$51 million for the nine-month periods ended December 27, 2014 and December 28, 2013, respectively. In addition, non-cash investing activities for the nine months ended December 27, 2014 included the capitalization of a fixed asset, for which a \$19 million non-binding advance payment was made during Fiscal 2014 and recorded within prepaid expenses and other current assets as of March 29, 2014.

Non-cash activities during the nine months ended December 28, 2013 also included the \$16 million gain recorded in connection with the Chaps Menswear License Acquisition in April 2013 (see Note 5).

Non-cash financing activities included the conversion of 1.0 million shares of Class B common stock into an equal number of shares of Class A common stock during the nine months ended December 27, 2014, as further described in Note 15.

There were no other significant non-cash investing or financing activities for any of the periods presented.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Special Note Regarding Forward-Looking Statements

Various statements in this Form 10-Q, or incorporated by reference into this Form 10-Q, in future filings by us with the Securities and Exchange Commission (the "SEC"), in our press releases, and in oral statements made from time to time by us or on our behalf 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. These risks, uncertainties, and other factors include, among others:

- the loss of key personnel, including Mr. Ralph Lauren;
- our ability to successfully implement our anticipated growth strategies and to capitalize on our repositioning initiatives in certain regions and merchandise categories;
- our ability to secure our facilities and systems and those of our third-party service providers from, among other things, cybersecurity breaches, acts of vandalism, computer viruses, or similar Internet or email events;
- our ability to continue to maintain our brand image and reputation and protect our trademarks;
- the impact of global economic conditions on us, our customers, our suppliers, and our vendors and on our ability and their ability to access sources of liquidity;
- the impact of the volatile state of the global economy or consumer preferences on purchases of premium lifestyle products that we offer for sale and our ability to forecast consumer demand, which could result in a build-up of inventory;
- changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors, and consolidations, liquidations, restructurings, and other ownership changes in the retail industry;
- a variety of legal, regulatory, tax, political, and economic risks, including risks related to the importation and exportation of products, tariffs, and other trade barriers which our international operations are subject to and other risks associated with our international operations, such as compliance with the Foreign Corrupt Practices Act or violations of other anti-bribery and corruption laws prohibiting improper payments, and the burdens of complying with a variety of foreign laws and regulations, including tax laws, trade and labor restrictions, and related laws that may reduce the flexibility of our business;
- the impact to our business of events of unrest and instability that are currently taking place in certain parts of the world, as well as from any terrorist action, retaliation, and the threat of further action or retaliation;
- our ability to continue to expand or grow our business internationally and the impact of related changes in our customer, channel, and geographic sales mix as a result;
- our exposure to currency exchange rate fluctuations and risks associated with increases in the costs of raw materials, transportation, and labor;
- changes to our effective tax rates;
- changes in our relationships with department store customers and licensing partners;
- our efforts to improve the efficiency of our distribution system and to continue to enhance and upgrade our global information technology systems and our global e-commerce platform;
- our intention to introduce new products or enter into or renew alliances and exclusive relationships;
- our ability to access sources of liquidity to provide for our cash needs, including our debt obligations, payment of dividends, capital expenditures, and potential repurchase of our Class A common stock;

our ability to open new retail stores, concession shops, and e-commerce sites in an effort to expand our direct-to-consumer presence;

our ability to make certain strategic acquisitions and successfully integrate the acquired businesses into our existing operations;

our ability to maintain our credit profile and ratings within the financial community; and

the potential impact on our operations and on our customers resulting from natural or man-made disasters.

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. A detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations is included in our Annual Report on Form 10-K for the fiscal year ended March 29, 2014 (the "Fiscal 2014 10-K"). There are no material changes to such risk factors, nor are there any identifiable previously undisclosed risks as set forth in Part II, Item 1A — "Risk Factors" of this Form 10-Q. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

In this Form 10-Q, references to "Ralph Lauren," "ourselves," "we," "our," "us," and the "Company" refer to Ralph Lauren Corporation and its subsidiaries, unless the context indicates otherwise. We utilize a 52-53 week fiscal year ending on the Saturday closest to March 31. As such, fiscal year 2015 will end on March 28, 2015 and will be a 52-week period ("Fiscal 2015"). Fiscal year 2014 ended on March 29, 2014 and was also a 52-week period ("Fiscal 2014"). The third quarter of Fiscal 2015 ended on December 27, 2014 and was a 13-week period. The third quarter of Fiscal 2014 ended on December 28, 2013 and was also a 13-week period.

INTRODUCTION

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

Overview. This section provides a general description of our business, current trends and outlook, and a summary of our financial performance for the three-month and nine-month periods ended December 27, 2014. 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 the three-month and nine-month periods ended December 27, 2014 compared to the three-month and nine-month periods ended December 28, 2013.

Financial condition and liquidity. This section provides a discussion of our financial condition and liquidity as of December 27, 2014, which includes (i) an analysis of our financial condition compared to the prior fiscal year-end; (ii) an analysis of changes in our cash flows for the nine-month period ended December 27, 2014 compared to the nine-month period ended December 28, 2013; (iii) an analysis of our liquidity, including common stock repurchases, payments of dividends, our outstanding debt and covenant compliance, and the availability under our credit facilities and our commercial paper program; and (iv) any material changes in our contractual and other obligations since March 29, 2014.

Market risk management. This section discusses any significant changes in our risk exposures related to foreign currency exchange rates and our investments since March 29, 2014.

Critical accounting policies. This section discusses any significant changes in our critical accounting policies since March 29, 2014. Critical accounting policies typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 3 to our audited consolidated financial statements included in our Fiscal 2014 10-K.

Recently issued accounting standards. This section discusses the potential impact on our reported results of operations and financial condition of certain accounting standards that have been recently issued or proposed.

OVERVIEW

Our Business

Our Company is a global leader in the design, marketing, and distribution of premium lifestyle products, including apparel, accessories, home furnishings, and other licensed product categories. Our long-standing reputation and distinctive image have been consistently developed across an expanding number of products, brands, sales channels, and international markets. Our brand names include Ralph Lauren, Ralph Lauren Collection, Purple Label, Black Label, Polo, Polo Ralph Lauren, RRL, RLX Ralph Lauren, Lauren Ralph Lauren, Ralph Lauren Childrenswear, Denim & Supply Ralph Lauren, Chaps, Club Monaco, and American Living, among others.

We classify our businesses into three segments: Wholesale, Retail, and Licensing. Our Wholesale business, which represented approximately 47% of our Fiscal 2014 net revenues, consists of sales made principally to major department stores and specialty stores around the world. Our Retail business, which represented approximately 51% of our Fiscal 2014 net revenues, consists of sales made directly to consumers through our integrated retail channel, which includes our retail stores, concession-based shop-within-shops, and e-commerce operations around the world. Our Licensing business, which represented approximately 2% of our Fiscal 2014 net revenues, consists of royalty-based arrangements under which we license to unrelated third parties for specified periods the right to operate retail stores and to use our various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, and fragrances. Approximately 36% of our Fiscal 2014 net revenues were earned outside of the U.S.

Our business is typically affected by seasonal trends, with higher levels of wholesale sales in our second and fourth fiscal quarters and higher retail sales in our second and third fiscal quarters. These trends result primarily from the timing of seasonal wholesale shipments and key vacation travel, back-to-school, and holiday shopping periods impacting our Retail segment. In addition, fluctuations in net sales, operating income, and cash flows in any fiscal quarter may be affected by other events impacting retail sales, such as changes in weather patterns. Accordingly, our operating results and cash flows for the three-month and nine-month periods ended December 27, 2014 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2015.

Current Trends and Outlook

The global economy continues to be in a state of uncertainty, with certain regions of the world currently outperforming others. While the U.S. economy has shown signs of improvement driven by falling unemployment, lower oil prices, and continued low interest rates, economies in certain parts of Europe and Asia have slowed considerably, evidenced by softening business sentiment, lower rates of growth, foreign exchange volatility, and the threat of deflation. Additionally, certain worldwide events, including political unrest in various parts of the world, have added uncertainty and have had an impact on consumer travel and spending. The retail industry was particularly challenged in 2014, with trends likely to continue into 2015. While certain geographic regions are withstanding these pressures better than others, the level of spending on discretionary items remains constrained due to this continued economic uncertainty. Consumer retail traffic remains relatively weak and inconsistent, which has led to increased competition and a desire to offset traffic declines with increased levels of conversion. Certain of our operations have experienced and have been impacted by these dynamics, with variations across the geographic regions and businesses in which we operate.

If the economic uncertainty and challenging industry trends continue or worsen, the constrained level of worldwide consumer spending and modified consumption behavior may continue to have a negative effect on our sales, inventory levels, and operating margin for the remainder of Fiscal 2015 and potentially beyond. Furthermore, our results are expected to continue to be negatively impacted by the current unfavorable exchange rates and continued unfavorable foreign exchange fluctuations. Despite these challenges, we remain optimistic about our future growth prospects and continue to invest in our longer-term growth initiatives, while continually monitoring macroeconomic risks and remaining focused on disciplined expense management. Although we continue to expect that the dilutive effects of investments that we are making in our business will outpace our sales growth in the near-term, we expect that these initiatives will create longer-term shareholder value. We will continue to monitor these risks and evaluate and adjust our operating strategies and cost management opportunities to mitigate the related impact on our results of operations, while remaining focused on the long-term growth of our business and protecting the value of our brand.

For a detailed discussion of significant risk factors that have the potential to cause our actual results to differ materially from our expectations, see Part I, Item 1A — "Risk Factors" in our Fiscal 2014 10-K.

Summary of Financial Performance

Operating Results

During the three months ended December 27, 2014, we reported net revenues of \$2.033 billion, net income of \$215 million, and net income per diluted share of \$2.41, as compared to net revenues of \$2.015 billion, net income of \$237 million, and net income per diluted share of \$2.57 during the three months ended December 28, 2013. During the nine months ended December 27, 2014, we reported net revenues of \$5.735 billion, net income of \$578 million, and net income per diluted share of \$6.46, as compared to net revenues of \$5.583 billion, net income of \$623 million, and net income per diluted share of \$6.74 during the nine months ended December 28, 2013.

Our operating performance for the three-month and nine-month periods ended December 27, 2014 reflected revenue growth of 0.9% and 2.7%, respectively, on a reported basis, and 3.3% and 3.2%, respectively, on a constant currency basis, as defined within "Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition" below. The net revenues increase for the three-month and nine-month periods ended December 27, 2014 reflected higher revenues from our retail businesses across all major geographies and from our European wholesale business, partially offset by lower net revenues from our domestic wholesale business and net unfavorable foreign currency effects. The revenue growth for the nine months ended December 27, 2014 also reflected an incremental three months of revenues from the previously licensed Australia and New Zealand Business acquired in July 2013 (see "Recent Developments" below for further discussion). Our gross margin percentage declined by 120 basis points to 57.0% during the three months ended December 27, 2014 and declined by 30 basis points to 58.1% during the nine months ended December 27, 2014, primarily attributable to a more promotional retail environment, as well as a less favorable product mix within our domestic wholesale business. Selling, general, and administrative ("SG&A") expenses increased during the three-month and nine-month periods ended December 27, 2014 due to increased investments in our stores, facilities, and infrastructure consistent with our longer-term initiatives. In addition, the nine months ended December 27, 2014 included an incremental three months of operating expenses attributable to the Australia and New Zealand Business. During the nine months ended December 28, 2013, we recorded a \$16 million gain relating to our acquisition of the Chaps Menswear Business, as defined within "Recent Developments" below. Net income declined by \$22 million during the three months ended December 27, 2014, as compared to the three months ended December 28, 2013, primarily due to a \$19 million decrease in operating income. During the nine months ended December 27, 2014, net income declined by \$45 million as compared to the nine months ended December 28, 2013, primarily due to a \$60 million decrease in operating income, partially offset by an \$18 million decline in our provision for income taxes. The lower income tax provision for the nine months ended December 27, 2014 was primarily driven by lower pretax income.

Net income per diluted share declined during the three-month and nine-month periods ended December 27, 2014 due to lower net income, partially offset by lower weighted-average diluted shares outstanding. The declines in the weighted-average diluted shares outstanding were primarily driven by our share repurchases over the last twelve months.

Financial Condition and Liquidity

We ended the third quarter of Fiscal 2015 in a net cash and investments position (cash and cash equivalents plus short-term and non-current investments, less total debt) of \$994 million, compared to \$987 million as of the end of Fiscal 2014. The increase in our net cash and investments position was primarily due to our operating cash flows of \$890 million, partially offset by our use of cash to support Class A common stock repurchases of \$382 million, including withholdings in satisfaction of tax obligations for stock-based compensation awards, capital expenditures of \$300 million, dividend payments of \$119 million, and negative foreign currency impacts of \$47 million.

We generated \$890 million of cash from operations during the nine months ended December 27, 2014, compared to \$760 million during the nine months ended December 28, 2013. The increase in operating cash flows primarily relates to the net favorable change related to our operating assets and liabilities, including working capital, as well as an increase in net income before non-cash items during the nine months ended December 27, 2014, compared to the prior fiscal year period.

Our equity increased to \$4.075 billion as of December 27, 2014 from \$4.034 billion as of March 29, 2014, primarily due to our comprehensive income and the net impact of stock-based compensation arrangements, partially offset by our Class A common stock repurchases and dividends declared during the nine months ended December 27, 2014.

Recent Developments

Australia and New Zealand Licensed Operations Acquisition

In July 2013, in connection with the transition of the Ralph Lauren-branded apparel and accessories business in Australia and New Zealand (the "Australia and New Zealand Business") from a licensed to a wholly-owned operation, we acquired certain net assets from Oroton Group/PRL Australia ("Oroton") in exchange for an aggregate payment of approximately \$15 million (the "Australia and New Zealand Licensed Operations Acquisition"). Oroton was our licensee for the Australia and New Zealand Business. The operating results of the acquired business have been consolidated in our operating results beginning on July 1, 2013.

Chaps Menswear License Acquisition

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

Transactions and Trends Affecting Comparability of Results of Operations and Financial Condition

The comparability of our operating results for the three-month and nine-month periods ended December 27, 2014 and December 28, 2013 has been affected by certain events, including:

pretax restructuring and other charges of \$1 million and \$7 million recorded during the three-month and nine-month periods ended December 27, 2014, respectively. On a comparative basis, restructuring and other charges during the three-month and nine-month periods ended December 28, 2013 were \$14 million and \$16 million, respectively, which included \$10 million in accelerated stock-based compensation expense recorded during the three months ended December 28, 2013 (see Note 9 to the accompanying unaudited interim consolidated financial statements); our acquisitions of previously licensed businesses, including the Chaps Menswear License Acquisition in April 2013, which resulted in a \$16 million gain recorded during the first quarter of Fiscal 2014, and the Australia and New Zealand Licensed Operations Acquisition in July 2013 (see Note 5 to the accompanying unaudited interim consolidated financial statements); and a discrete income tax benefit of \$10 million recognized within our provision for income taxes during the three months ended December 28, 2013 in connection with the settlement of a tax examination.

Since we are a global company, the comparability of our operating results reported in U.S. dollars are also affected by foreign currency exchange rate fluctuations because the underlying currencies in which we transact change in value over time compared to the U.S. dollar. These rate fluctuations can have a significant effect on our reported results. As such, in addition to financial measures prepared in accordance with generally accepted accounting principles ("GAAP"), our discussions often contain references to constant currency measures, which are calculated by translating the current-year and prior-year reported amounts into comparable amounts using a single foreign exchange rate for each currency. We present constant currency financial information, which is a non-GAAP financial measure, as a supplement to our reported operating results. We use constant currency information to provide a framework to assess how our businesses performed excluding the effects of foreign currency exchange rate fluctuations. We believe this information is useful to investors to facilitate comparisons of operating results and better identify trends in our businesses. The constant currency performance measures should be viewed in addition to, and not in lieu of or superior to, our operating performance measures calculated in accordance with U.S. GAAP.

Our "Results of Operations" discussion that follows includes the significant changes in operating results arising from these items affecting comparability. However, unusual items or transactions may occur in any period. Accordingly, investors and other financial statement users should consider the types of events and transactions that have affected operating trends.

RESULTS OF OPERATIONS

Three Months Ended December 27, 2014 Compared to Three Months Ended December 28, 2013

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Three Months Ended		\$	% / bps	
	December 27, 2014	December 28, 2013				Change	Change
	(millions, except per share data)				
Net revenues	\$2,033	\$2,015	\$18	0.9	%
Cost of goods sold ^(a)	(874)	(843)	(31)	3.9	%
Gross profit	1,159	1,172	(13)	(1.2)	%
Gross profit as % of net revenues	57.0	% 58.2	%	(120 bps)	
Selling, general, and administrative expenses ^(a)	(837)	(815)	(22)	2.7	%
SG&A expenses as % of net revenues	41.2	% 40.5	%	70 bps	
Amortization of intangible assets	(6)	(9)	3	(34.8))%
Restructuring and other charges	(1)	(14)	13	NM	
Operating income	315	334	(19)	(5.8))%
Operating income as % of net revenues	15.5	% 16.6	%	(110 bps)	
Foreign currency losses	(8)	(4)	(4)	73.7	%
Interest expense	(3)	(4)	1	(9.8))%
Interest and other income, net	—	—	—	NM	
Equity in losses of equity-method investees	(3)	(2)	(1)	NM	
Income before provision for income taxes	301	324	(23)	(7.0))%
Provision for income taxes	(86)	(87)	1	(1.2))%
Effective tax rate ^(b)	28.6	% 26.9	%	170 bps	
Net income	\$215	\$237	\$(22)	(9.1))%
Net income per common share:					
Basic	\$2.44	\$2.62	\$(0.18)	(6.9))%
Diluted	\$2.41	\$2.57	\$(0.16)	(6.2))%

(a) Includes total depreciation expense of \$72 million and \$58 million for the three-month periods ended December 27, 2014 and December 28, 2013, respectively.

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

NM Not meaningful.

Net Revenues. Net revenues increased by \$18 million, or 0.9%, to \$2.033 billion for the three months ended December 27, 2014, from \$2.015 billion for the three months ended December 28, 2013. On a constant currency basis, net revenues increased by \$66 million, or 3.3%.

Net revenues for our three business segments, as well as a discussion of the changes in each segment's net revenues from the comparable prior year period, are provided below:

	Three Months Ended			% Change		Constant Currency
	December 27, 2014 (millions)	December 28, 2013	\$ Change	As Reported		
Net Revenues:						
Wholesale	\$837	\$840	\$(3)	(0.4)	%	1.5 %
Retail	1,149	1,130	19	1.7	%	4.5 %
Licensing	47	45	2	6.1	%	6.1 %
Total net revenues	\$2,033	\$2,015	\$18	0.9	%	3.3 %

Wholesale net revenues — Net revenues declined \$3 million, or 0.4%, for the three months ended December 27, 2014 as compared to the three months ended December 28, 2013, including a \$16 million decline in net revenues due to net unfavorable foreign currency effects, primarily related to the weakening of Euro against the U.S. Dollar. On a constant currency basis, net revenues increased by \$13 million, or 1.5%.

The \$3 million net decline in Wholesale net revenues was primarily driven by a \$14 million net decrease related to our business in the Americas, reflecting lower domestic revenues from our menswear business, primarily attributable to a shift in timing of certain shipments, partially offset by increased revenues from our womenswear and accessories businesses. The lower net revenues in the Americas were partially offset by a \$12 million net increase related to our European business, primarily reflecting increased sales from our menswear and womenswear apparel businesses.

Retail net revenues — Net revenues increased \$19 million, or 1.7%, for the three months ended December 27, 2014 as compared to the three months ended December 28, 2013, including a \$32 million decline in net revenues due to net unfavorable foreign currency effects, primarily related to the weakening of the Euro and the Japanese Yen against the U.S. Dollar. On a constant currency basis, net revenues increased by \$51 million, or 4.5%.

The \$19 million net increase in Retail net revenues was driven by:

a \$36 million, or a 16%, net increase in non-comparable store sales, including net unfavorable foreign currency effects of \$12 million. On a constant currency basis, non-comparable store sales increased by \$48 million, or 21%, primarily driven by new global store openings and the expansion of our e-commerce operations within the past twelve months, which more than offset the impact of store closings.

The above increase was partially offset by:

a \$17 million, or a 2%, net decline in consolidated comparable store sales during the three months ended December 27, 2014, including net unfavorable foreign currency effects of \$20 million. On a constant currency basis, comparable store sales increased by \$3 million, remaining nearly flat on a percentage basis, primarily due to higher revenues from our Ralph Lauren e-commerce operations, largely offset by lower revenues from certain retail stores and concession shops. Comparable store sales related to our e-commerce operations increased by approximately 17% on a reported basis and 18% on a constant currency basis and had a favorable impact on our total comparable store sales of approximately 4% to 5% on a reported basis and approximately 3% to 4% on a constant currency basis. Our consolidated comparable store sales excluding e-commerce declined between 6% and 7% on a reported basis and declined between 3% and 4% on a constant currency basis.

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 closed 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 generally closed for 30 or more consecutive days for renovation are also excluded from the calculation of comparable store sales until such stores have been in their new location or in their newly renovated state for at least one full fiscal year. Sales from our e-commerce sites are included within comparable store sales for those geographies that have been serviced by the related site for at least one full fiscal year. Consolidated comparable store sales information includes our Ralph Lauren stores (including concession-based shop-within-shops), factory stores, Club Monaco stores and e-commerce sites, and certain Ralph Lauren e-commerce sites. We use an integrated omni-channel strategy to operate our retail business, in which our e-commerce operations are interdependent with our physical stores.

Our global average store count increased by 12 stores and concession shops during the three months ended December 27, 2014 compared with the three months ended December 28, 2013, primarily due to new global store openings, partially offset by store closures. The following table details our retail store and e-commerce presence as of the periods presented:

	December 27, 2014	December 28, 2013
Stores:		
Freestanding stores	470	435
Concession shops	504	518
Total stores	974	953
E-commerce Sites:		
North American sites ^(a)	3	3
European sites ^(b)	3	3
Asian sites ^(c)	3	2
Total e-commerce sites	9	8

^(a) Includes www.RalphLauren.com and www.ClubMonaco.com (servicing the U.S.) and www.ClubMonaco.ca (servicing Canada).

^(b) Includes www.RalphLauren.co.uk (servicing the United Kingdom), www.RalphLauren.fr (servicing Belgium, France, Italy, Luxembourg, the Netherlands, Portugal, and Spain), and www.RalphLauren.de (recently expanded to service Denmark, Estonia, Latvia, Slovakia, and Sweden, in addition to servicing Austria and Germany).

^(c) Includes www.RalphLauren.co.jp (servicing Japan), www.RalphLauren.co.kr (servicing South Korea), and www.RalphLauren.asia launched in June 2014 (servicing Australia, Hong Kong, Macau, Malaysia, New Zealand, and Singapore).

Licensing revenues — The \$2 million increase in net revenues is primarily attributable to higher apparel-related royalties.

Gross Profit. Gross profit decreased by \$13 million, or 1.2%, to \$1.159 billion for the three months ended December 27, 2014, from \$1.172 billion for the three months ended December 28, 2013. Gross profit as a percentage of net revenues decreased by 120 basis points to 57.0% for the three months ended December 27, 2014, from 58.2% for the three months ended December 28, 2013. This decline is primarily attributable to a more promotional retail environment, as well as a less favorable product mix within our domestic wholesale business.

Gross profit as a percentage of net revenues is dependent upon a variety of factors, including changes in the relative sales mix among distribution channels, changes in the mix of products sold, the timing and level of promotional activities, foreign currency exchange rates, and fluctuations in material costs. These factors, among others, may cause gross profit as a percentage of net revenues to fluctuate from period to period.

Selling, General, and Administrative Expenses. SG&A expenses primarily include compensation and benefits, advertising and marketing, distribution, bad debt, information technology, facilities, legal, and other costs associated with finance and administration. SG&A expenses increased by \$22 million, or 2.7%, to \$837 million for the three months ended December 27, 2014, from \$815 million for the three months ended December 28, 2013. This increase included a net favorable foreign currency effect of approximately \$24 million, primarily related to the weakening of the Euro and the Japanese Yen against the U.S. Dollar. SG&A expenses as a percentage of net revenues increased to 41.2% in the three months ended December 27, 2014, from 40.5% in the three months ended December 28, 2013. The 70 basis point increase was primarily due to the increase in operating expenses associated with the growth of our retail businesses (which typically carry higher operating expense margins), increased investments in our stores, facilities, and infrastructure, and new business initiatives. These increases were partially offset by our operating leverage on higher net revenues and operational discipline.

The \$22 million increase in SG&A expenses was driven by the following:

	Three Months Ended December 27, 2014 Compared to Three Months Ended December 28, 2013 (millions)
SG&A expense category:	
Depreciation expense	\$ 14
Compensation-related expenses ^(a)	5
Rent and occupancy expenses	3
Total change in SG&A expenses	\$ 22

^(a) Primarily due to increased salaries and related expenses to support our retail business growth.

During the remainder of Fiscal 2015, we continue to expect a certain amount of operating expense deleverage due to continued investment in our long-term strategic growth initiatives, including global retail store expansion, the introduction of the Polo store concept around the world, department store renovations, and continued investment in our infrastructure.

Amortization of Intangible Assets. Amortization of intangible assets decreased by \$3 million, or 34.8%, to \$6 million for the three months ended December 27, 2014, from \$9 million for the three months ended December 28, 2013. This decrease was primarily due to the prior-year amortization of the licensed trademark intangible asset acquired in April 2013 in connection with the Chaps Menswear License Acquisition, which was fully amortized in Fiscal 2014.

Restructuring and Other Charges. During the three months ended December 27, 2014, we recorded restructuring charges of \$1 million, primarily related to severance and benefit costs associated with our retail operations. The \$14 million in restructuring and other charges for the three months ended December 28, 2013 included restructuring charges of \$4 million primarily related to severance and benefit costs associated with our corporate operations and \$10 million of accelerated stock-based compensation expense associated with new executive employment agreement provisions (see Note 9 to the accompanying unaudited interim consolidated financial statements).

Operating Income. Operating income decreased by \$19 million, or 5.8%, to \$315 million for the three months ended December 27, 2014, from \$334 million for the three months ended December 28, 2013. Operating income as a percentage of net revenues decreased 110 basis points to 15.5% for the three months ended December 27, 2014, from 16.6% for the three months ended December 28, 2013. The overall decline in operating income as a percentage of net revenues was primarily driven by the decline in our gross profit margin, as previously discussed. During the fourth quarter of Fiscal 2014, we changed the manner in which we allocate certain costs to our reportable segments. All prior period segment information has been recast and is presented below on a comparable basis. See Note 22 to our Fiscal 2014 10-K for further discussion.

Operating income and margin for each of our three reportable segments are provided below:

Segment:	Three Months Ended		December 27, 2014		December 28, 2013	
	Operating Income (millions)	Operating Margin	Operating Income (millions)	Operating Margin	\$ Change (millions)	Margin Change
Wholesale	\$207	24.7%	\$217	25.9%	\$(10)	(120 bps)
Retail	194	16.9%	221	19.5%	(27)	(260 bps)
Licensing	42	91.1%	40	90.1%	2	100 bps
	443		478		(35)	
Unallocated corporate expenses	(127)		(130)		3	
Unallocated restructuring and other charges	(1)		(14)		13	
Total operating income	\$315	15.5%	\$334	16.6%	\$(19)	(110 bps)

Wholesale operating margin declined by 120 basis points compared to the corresponding period in the prior fiscal year, including a 40 basis point decline attributable to the unfavorable impact of certain foreign exchange rates on our derivative contracts. The remainder of the Wholesale operating margin decline was primarily due to a less favorable product mix and the impact of a more promotional retail environment, as previously discussed.

Retail operating margin declined by 260 basis points, primarily attributable to a 70 basis point increase in depreciation and amortization costs, a 50 basis point increase in compensation-related expenses, both primarily associated with our global store development efforts and new store openings, and a 20 basis point increase in advertising, marketing, and promotional expenses. The remaining 120 basis point decline in the Retail operating margin was due to other factors, including lower profitability from our retail operations, reflecting the impact of a more promotional retail environment, as previously discussed.

Licensing operating margin increased by 100 basis points due to our operating leverage on higher revenues, as previously discussed.

Unallocated corporate expenses declined by \$3 million, primarily attributable to decreased compensation-related costs of \$4 million and lower amortization expense of \$3 million, partially offset by increased depreciation expense of \$4 million.

Unallocated restructuring and other charges were \$1 million during the three-months ended December 27, 2014 and \$14 million during the three-months ended December 28, 2013, as previously described above and in Note 9 to the accompanying unaudited interim consolidated financial statements.

Non-operating Expense, net. Non-operating expense, net is comprised of net foreign currency gains (losses), interest expense, interest and other income, net, and equity in losses from our joint venture, the Ralph Lauren Watch and Jewelry Company Srl (the "RL Watch Company"), which is accounted for under the equity method of accounting. Non-operating expense, net increased \$4 million to \$14 million for the three months ended December 27, 2014, compared to \$10 million for the three months ended December 28, 2013, largely driven by higher foreign currency losses, primarily related to the revaluation and settlement of Japanese Yen-denominated receivables. Foreign currency gains and losses do not result from the translation of the operating results of our foreign subsidiaries to U.S. dollars.

Provision for Income Taxes. The provision for income taxes decreased by \$1 million, or 1.2%, to \$86 million for the three months ended December 27, 2014, from \$87 million for the three months ended December 28, 2013, due to lower pretax income, partially offset by the increase of 170 basis points in our reported effective tax rate, to 28.6% for the three months ended December 27, 2014 from 26.9% for the three months ended December 28, 2013. The higher effective tax rate for the three months ended December 27, 2014 was primarily due to the absence of the prior-year tax reserve reductions associated with the conclusion of a tax examination, partially offset by the favorable impact resulting from a greater proportion of earnings generated in lower-taxed jurisdictions. The effective tax rate differs from the statutory tax rate 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 period to period based on various 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.

Net Income. Net income declined by \$22 million, or 9.1%, to \$215 million for the three months ended December 27, 2014, from \$237 million for the three months ended December 28, 2013. The decline in net income was primarily due to the \$19 million decline in operating income, as previously discussed.

Net Income per Diluted Share. Net income per diluted share declined by \$0.16, or 6.2%, to \$2.41 per share for the three months ended December 27, 2014, from \$2.57 per share for the three months ended December 28, 2013. The decline was due to lower net income, as previously discussed, partially offset by lower weighted-average diluted shares outstanding during the three months ended December 27, 2014, driven by our share repurchases over the last twelve months.

Nine Months Ended December 27, 2014 Compared to Nine Months Ended December 28, 2013

The following table summarizes our results of operations and expresses the percentage relationship to net revenues of certain financial statement captions. All percentages shown in the below table and the discussion that follows have been calculated using unrounded numbers.

	Nine Months Ended		\$	% / bps	
	December 27, 2014	December 28, 2013				Change	Change
	(millions, except per share data)				
Net revenues	\$5,735	\$5,583	\$152	2.7	%
Cost of goods sold ^(a)	(2,401)	(2,323)	(78)	3.4	%
Gross profit	3,334	3,260	74	2.2	%
Gross profit as % of net revenues	58.1	% 58.4	%	(30 bps)	
Selling, general, and administrative expenses ^(a)	(2,463)	(2,327)	(136)	5.8	%
SG&A expenses as % of net revenues	42.9	% 41.7	%	120 bps	
Amortization of intangible assets	(19)	(28)	9	(33.1	%)
Gain on acquisition of Chaps	—	16	(16)	NM	
Restructuring and other charges	(7)	(16)	9	NM	
Operating income	845	905	(60)	(6.7	%)
Operating income as % of net revenues	14.7	% 16.2	%	(150 bps)	
Foreign currency losses	(14)	(9)	(5)	53.9	%
Interest expense	(12)	(16)	4	(22.6	%)
Interest and other income, net	4	4	—	4.1	%
Equity in losses of equity-method investees	(9)	(7)	(2)	24.6	%
Income before provision for income taxes	814	877	(63)	(7.2	%)
Provision for income taxes	(236)	(254)	18	(7.0	%)
Effective tax rate ^(b)	29.0	% 29.0	%	0 bps	
Net income	\$578	\$623	\$(45)	(7.2	%)
Net income per common share:					
Basic	\$6.53	\$6.89	\$(0.36)	(5.2	%)
Diluted	\$6.46	\$6.74	\$(0.28)	(4.2	%)

^(a) Includes total depreciation expense of \$200 million