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POLO RALPH LAUREN CORP  
Form 10-Q  
August 14, 2001

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 001-13057

POLO RALPH LAUREN CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)

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

650 MADISON AVENUE, NEW YORK, NEW YORK  
(Address of principal executive offices)

10022  
(Zip Code)

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

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 registrants were required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

At August 9, 2001, 31,603,083 shares of the registrant's Class A Common Stock, \$.01 par value, were outstanding, 43,280,021 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding and 22,720,979 shares of the registrant's Class C Common Stock, \$.01 par value were outstanding.

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POLO RALPH LAUREN CORPORATION

INDEX TO FORM 10-Q

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## PART 1. FINANCIAL INFORMATION

	PAGE
Item 1. Financial Statements	
Consolidated Balance Sheets as of June 30, 2001 (Unaudited) and March 31, 2001.....	3
Consolidated Statements of Income for the three months ended June 30, 2001 and July 1, 2000 (Unaudited)....	4
Consolidated Statements of Cash Flows for the three months ended June 30, 2001 and July 1, 2000 (Unaudited)....	5-6
Notes to Consolidated Financial Statements.....	7-13
Item 2. Management's Discussion and Analysis of  Financial Condition and Results of Operations.....	14-21
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	21

## PART II. OTHER INFORMATION

Item 6. Reports on Form 8-K.....	22
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2

### POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	JUNE 30, 2001 ----- (UNAUDITED)	MARCH 31, 2001 -----
ASSETS		
Current assets		
Cash and cash equivalents	\$ 76,658	\$ 51,498
Marketable securities	52,943	50,721
Accounts receivable, net of allowances of \$9,970 and \$12,090	237,039	269,010
Inventories	448,123	425,594
Deferred tax assets	28,608	31,244
Prepaid expenses and other	55,414	73,654
	-----	-----
TOTAL CURRENT ASSETS	898,785	901,721
Property and equipment, net	324,357	328,929

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Deferred tax assets	63,299	61,056
Goodwill, net	244,701	249,391
Other assets, net	86,149	84,996
	-----	-----
	\$ 1,617,291	\$ 1,626,093
	=====	=====

## LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Notes and acceptances payable - banks	\$ 36,372	\$ 86,112
Accounts payable	224,156	178,293
Accrued expenses and other	128,672	175,172
	-----	-----
TOTAL CURRENT LIABILITIES	389,200	439,577
Long-term debt	290,132	296,988
Other noncurrent liabilities	80,196	80,219
Stockholders' equity		
Common Stock		
Class A, par value \$.01 per share; 500,000,000 shares authorized; 35,365,906 and 34,948,730 shares issued	353	349
Class B, par value \$.01 per share; 100,000,000 shares authorized; 43,280,021 shares issued and outstanding	433	433
Class C, par value \$.01 per share; 70,000,000 shares authorized; 22,720,979 shares issued and outstanding	227	227
Additional paid-in-capital	473,907	463,001
Retained earnings	461,098	430,047
Treasury Stock, Class A, at cost (3,771,806 shares)	(71,179)	(71,179)
Accumulated other comprehensive loss	(4,236)	(10,529)
Unearned compensation	(2,840)	(3,040)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	857,763	809,309
	-----	-----
	\$ 1,617,291	\$ 1,626,093
	=====	=====

See accompanying notes to consolidated financial statements.

## POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA) (UNAUDITED)

THREE MONTHS ENDED	
-----	-----
JUNE 30,	JULY 1,
2001	2000
-----	-----

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Net sales	\$ 461,058	\$ 434,861
Licensing revenue	56,771	52,436
	-----	-----
Net revenues	517,829	487,297
Cost of goods sold	255,468	234,750
	-----	-----
Gross profit	262,361	252,547
Selling, general and administrative expenses	208,773	206,400
	-----	-----
Income from operations	53,588	46,147
Foreign currency gains	2,827	--
Interest expense	(5,924)	(6,505)
	-----	-----
Income before income taxes	50,491	39,642
Provision for income taxes	19,440	15,659
	-----	-----
Net income	\$ 31,051	\$ 23,983
	=====	=====
Net income per share - Basic and Diluted	\$ 0.32	\$ 0.25
	=====	=====
Weighted average common shares outstanding - Basic	97,108,788	97,092,017
	=====	=====
Weighted average common shares outstanding - Diluted	98,493,077	97,350,907
	=====	=====

See accompanying notes to consolidated financial statements.

4

POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	THREE MONTHS ENDED	
	-----	-----
	JUNE 30,	JULY 1,
	2001	2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 31,051	\$ 23,983
Adjustments to reconcile net income to net cash provided by operating activities:		

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Depreciation and amortization	20,923	20,327
Provision for losses on accounts receivable	357	904
Changes in deferred liabilities	(2,265)	9,323
Other	(5,276)	554
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	28,401	31,480
Inventories	(23,143)	(56,646)
Prepaid expenses and other	24,901	3,393
Other assets	975	2,348
Accounts payable	30,110	24,884
Accrued expenses and other	(21,022)	(17,970)
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	85,012	42,580
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, net	(16,237)	(17,987)
Investments in marketable securities	(3,136)	--
Acquisitions, net of cash acquired	--	(21,637)
Cash surrender value - officers' life insurance	(837)	(1,108)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(20,210)	(40,732)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of common stock	--	(7,998)
Proceeds from issuance of common stock	10,114	--
Repayments of short-term borrowings, net	(48,665)	(18,713)
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(38,551)	(26,711)
	-----	-----
Effect of exchange rate changes on cash	(1,091)	199
	-----	-----
Net increase (decrease) in cash and cash equivalents	25,160	(24,664)
Cash and cash equivalents at beginning of period	51,498	164,571
	-----	-----
Cash and cash equivalents at end of period	\$ 76,658	\$ 139,907
	=====	=====

See accompanying notes to consolidated financial statements.

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	----- JUNE 30, 2001 -----	JULY 1, 2000 -----
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,848 =====	\$ 2,742 =====
Cash paid for income taxes	\$ 1,417 =====	\$ 3,077 =====

See accompanying notes to consolidated financial statements.

6

## POLO RALPH LAUREN CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (INFORMATION FOR JUNE 30, 2001 AND JULY 1, 2000 IS UNAUDITED) (IN THOUSANDS, EXCEPT WHERE OTHERWISE INDICATED)

### 1 BASIS OF PRESENTATION

#### UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements include the accounts of Polo Ralph Lauren Corporation ("PRLC") and its wholly and majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated. PRLC and its subsidiaries are collectively referred to herein as "we," "us" and "our."

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in a manner consistent with that used in the preparation of our March 31, 2001 audited consolidated financial statements. In our opinion, the accompanying consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial position and results of operations and cash flows for the periods presented.

Operating results for the three months ended June 30, 2001 and July 1, 2000 are not necessarily indicative of the results that may be expected for a full year. In addition, the unaudited interim consolidated financial statements do not include all information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles. These consolidated financial statements should be read in conjunction with our March 31, 2001 audited consolidated financial statements included in our Form 10-K for the year then ended.

#### RECLASSIFICATIONS

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

## 2 COMPREHENSIVE INCOME

For the three months ended June 30, 2001 and July 1, 2000, comprehensive income was as follows:

	THREE MONTHS ENDED	
	JUNE 30, 2001	JULY 1, 2000
Net income	\$ 31,051	\$ 23,983
Other comprehensive income (loss), net of taxes:		
Foreign currency translation adjustments	2,421	(5,407)
Cumulative transition adjustment gains, net	4,028	-
Unrealized losses on cash flow hedge contracts, net	(156)	-
Comprehensive income	\$ 37,344	\$ 18,576
	=====	=====

The income tax effect related to foreign currency translation adjustments, cumulative transition adjustment gains, net and unrealized losses on cash flow hedge contracts, net was an expense of \$3.9 million in the three months ended June 30, 2001 and a benefit of \$3.5 million in the three months ended July 1, 2000.

## 3 RECENTLY ISSUED PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, BUSINESS COMBINATIONS. This Statement addresses the financial accounting and reporting for business combinations and supersedes Accounting Principles Bulletin ("APB") No. 16, BUSINESS COMBINATIONS, and SFAS No. 38, ACCOUNTING FOR PREACQUISITION CONTINGENCIES OF PURCHASED ENTERPRISES. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and establishes criteria to separately recognize intangible assets apart from goodwill. We do not believe that the adoption of this pronouncement will have a material impact on our consolidated results of operations.

In July 2001, the FASB issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, INTANGIBLE ASSETS. This Statement requires, among other things, that goodwill and intangible assets that have indefinite useful lives should not be amortized, but rather should be tested at least annually for impairment, using the guidance for measuring impairment set forth in the Statement. SFAS No. 142 is effective for our first quarter in the fiscal year ending March 29, 2003, or for any business combinations initiated after June 30, 2001. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

In April 2001, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 00-25, VENDOR INCOME STATEMENT CHARACTERISTICS OF CONSIDERATION PAID TO A RESELLER OF THE VENDOR'S PRODUCTS ("EITF No. 00-25"). EITF No. 00-25 concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for our first quarter in the fiscal year ending March 29, 2003. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. This Statement, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivatives, whether designated in hedging relationships or not, as either assets or liabilities in the statement of financial position, and measurement of those instruments at fair value. The accounting for changes in the fair value of a derivative is dependent upon the intended use of the derivative. SFAS No. 133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value will be recognized in earnings.

We adopted the provisions of SFAS No. 133 as of April 1, 2001. As of this date, we had outstanding interest rate swap agreements and forward foreign exchange contracts that qualify as cash flow hedges under SFAS No. 133. In accordance with SFAS No. 133, we recorded the fair value of these derivatives at April 1, 2001, and the resulting net unrealized gain, after taxes, of approximately \$4.0 million was recorded in other comprehensive income as a cumulative transition adjustment.

4 INVENTORIES

	JUNE 30, 2001	MARCH 31, 2001
	-----	-----
Raw materials	\$ 5,853	\$ 7,024
Work-in-process	8,476	6,251
Finished goods	433,794	412,319
	-----	-----
	\$ 448,123	\$ 425,594
	=====	=====

5 RESTRUCTURING AND SPECIAL CHARGES  
(A) 2001 OPERATIONAL PLAN



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

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

Additionally, as a result of changes in market conditions combined with our change in retail strategy in certain locations in which we operate full-price retail stores, we performed an evaluation of the recoverability of the assets of certain of these stores in accordance with SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF. We concluded from the results of this evaluation that a significant permanent impairment of long-lived assets had occurred. Accordingly, we recorded a write down of these assets (primarily leasehold improvements) to their estimated fair value based on discounted future cash flows.

In connection with the implementation of the Operational Plan, we recorded a pretax restructuring charge of \$123.6 million in fiscal 2001. The activity for the three months ended June 30, 2001, was as follows:

	SEVERANCE AND TERMINATION BENEFITS	ASSET WRITE DOWNS	LEASE AND CONTRACT TERMINATION COSTS
	-----	-----	-----
Balance at March 31, 2001 .....	\$ 2,942	\$ --	\$ 4,169
2002 activity .....	(992)	--	(1,244)
	-----	-----	-----
Balance at June 30, 2001 .....	\$ 1,950	\$ --	\$ 2,925
	=====	=====	=====

Total severance and termination benefits as a result of the Operational Plan related to approximately 550 employees, 450 of whom have been terminated as of June 30, 2001. Total cash outlays related to the Operational Plan are expected to be approximately \$24.7 million, \$19.5 million of which have been paid to date. We expect to complete the implementation of the Operational Plan by the end of our second quarter of fiscal 2002 and expect to settle the remaining liabilities in accordance with contract terms which extend until fiscal 2003.

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During the fourth quarter of fiscal 1999, we formalized our plans to streamline operations within our wholesale and retail operations and reduce our overall cost structure ("Restructuring Plan"). The major initiatives of the Restructuring Plan included the following: (1) an evaluation of our retail operations and site locations; (2) the realignment and operational integration of our wholesale operating units; and (3) the realignment and consolidation of corporate strategic business functions and internal processes.

In connection with the implementation of the Restructuring Plan, we recorded a pretax restructuring charge of \$58.6 million in our fourth quarter of fiscal 1999. The activity for the three months ended June 30, 2001, was as follows:

	SEVERANCE AND TERMINATION BENEFITS	ASSET WRITE DOWNS	LEASE AND CONTRACT TERMINATION COSTS
	-----	-----	-----
Balance at March 31, 2001 .....	\$ 4,246	\$ --	\$ 1,747
2002 activity .....	(857)	--	(310)
	-----	-----	-----
Balance at June 30, 2001 .....	\$ 3,389	\$ --	\$ 1,437
	=====	=====	=====

Total severance and termination benefits as a result of the Restructuring Plan related to approximately 280 employees, all of whom have been terminated. Total cash outlays related to the Restructuring Plan are approximately \$39.5 million, \$34.7 million of which have been paid to date. We completed the implementation of the Restructuring Plan in fiscal 2000 and expect to settle the remaining liabilities in accordance with contract terms that extend until fiscal 2003.

### 6 SEGMENT REPORTING

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

11

Our net revenues and income from operations for the three months ended June 30, 2001 and July 1, 2000, by segment were as follows:

THREE MONTHS ENDED
-----
JUNE 30,                      JULY 1,

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	2001	2000
	-----	-----
NET REVENUES:		
Wholesale	\$ 245,173	\$ 226,154
Retail	215,885	208,707
Licensing	56,771	52,436
	-----	-----
	\$ 517,829	\$ 487,297
	=====	=====
INCOME FROM OPERATIONS:		
Wholesale	\$ 21,545	\$ 21,264
Retail	3,466	(61)
Licensing	28,577	24,944
	-----	-----
	\$ 53,588	\$ 46,147
	=====	=====

Our net revenues for the three months ended June 30, 2001 and July 1, 2000, and our long-lived assets as of June 30, 2001 and March 31, 2001, by geographic location were as follows:

	THREE MONTHS ENDED	
	-----	-----
	JUNE 30,	JULY 1,
	2001	2000
	-----	-----
NET REVENUES:		
United States	\$ 405,182	\$ 394,830
France	62,008	50,860
Foreign countries	50,639	41,607
	-----	-----
	\$ 517,829	\$ 487,297
	=====	=====
	JUNE 30,	MARCH 31,
	2001	2001
	-----	-----
LONG-LIVED ASSETS:		
United States	\$ 279,064	\$ 286,257
Foreign countries	45,293	42,672
	-----	-----
	\$ 324,357	\$ 328,929
	=====	=====

## 7 SUBSEQUENT EVENT

In July 2001, we signed a letter of intent to acquire PRL Fashions of Europe SRL ("PRL Fashions") which holds licenses to sell our women's Ralph Lauren apparel in Europe, our men's and boys' Polo Ralph Lauren apparel in Italy and men's and women's Polo Jeans Co. collections in Italy. PRL Fashions had revenues of approximately \$75.0 million for calendar year 2000. The purchase price of this transaction will be approximately \$22.0 million in cash plus earn-out payments based on achieving profitability

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targets over the first three years. The acquisition is expected to close in September 2001 and will be accounted for as a purchase from the effective date of the transaction.

13

### POLO RALPH LAUREN CORPORATION

#### ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH OUR CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES THERETO WHICH ARE INCLUDED HEREIN. WE UTILIZE A 52-53 WEEK FISCAL YEAR ENDING ON THE SATURDAY NEAREST MARCH 31. FISCAL YEARS 2002 AND 2001 END ON MARCH 30, 2002 AND MARCH 31, 2001, RESPECTIVELY. DUE TO THE COLLABORATIVE AND ONGOING NATURE OF OUR RELATIONSHIPS WITH OUR LICENSEES, SUCH LICENSEES ARE REFERRED TO HEREIN AS "LICENSING PARTNERS" AND THE RELATIONSHIPS ARE REFERRED TO HEREIN AS "LICENSING ALLIANCES." NOTWITHSTANDING THESE REFERENCES, HOWEVER, THE LEGAL RELATIONSHIP BETWEEN OUR LICENSEES AND US IS ONE OF LICENSOR AND LICENSEE, AND NOT ONE OF PARTNERSHIP.

CERTAIN STATEMENTS IN THIS FORM 10-Q AND IN FUTURE FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, IN OUR PRESS RELEASES AND IN ORAL STATEMENTS MADE BY OR WITH THE APPROVAL OF AUTHORIZED PERSONNEL CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON CURRENT EXPECTATIONS AND ARE INDICATED BY WORDS OR PHRASES SUCH AS "ANTICIPATE," "ESTIMATE," "EXPECT," "PROJECT," "WE BELIEVE," "IS OR REMAINS OPTIMISTIC," "CURRENTLY ENVISIONS" AND SIMILAR WORDS OR PHRASES AND INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. SUCH FACTORS INCLUDE, AMONG OTHERS, THE FOLLOWING: RISKS ASSOCIATED WITH CHANGES IN THE COMPETITIVE MARKETPLACE, INCLUDING THE INTRODUCTION OF NEW PRODUCTS OR PRICING CHANGES BY OUR COMPETITORS; CHANGES IN GLOBAL ECONOMIC CONDITIONS; RISKS ASSOCIATED WITH OUR DEPENDENCE ON SALES TO A LIMITED NUMBER OF LARGE DEPARTMENT STORE CUSTOMERS, INCLUDING RISKS RELATED TO EXTENDING CREDIT TO CUSTOMERS; RISKS ASSOCIATED WITH OUR DEPENDENCE ON OUR LICENSING PARTNERS FOR A SUBSTANTIAL PORTION OF OUR NET INCOME AND RISKS ASSOCIATED WITH A LACK OF OPERATIONAL AND FINANCIAL CONTROL OVER LICENSED BUSINESSES; RISKS ASSOCIATED WITH FINANCIAL DISTRESS OF LICENSEES, INCLUDING THE IMPACT ON OUR NET INCOME AND BUSINESS OF ONE OR MORE LICENSEE'S REORGANIZATION; RISKS ASSOCIATED WITH CONSOLIDATIONS, RESTRUCTURINGS AND OTHER OWNERSHIP CHANGES IN THE RETAIL INDUSTRY; RISKS ASSOCIATED WITH COMPETITION IN THE SEGMENTS OF THE FASHION AND CONSUMER PRODUCT INDUSTRIES IN WHICH WE OPERATE, INCLUDING OUR ABILITY TO SHAPE, STIMULATE AND RESPOND TO CHANGING CONSUMER TASTES AND DEMANDS BY PRODUCING ATTRACTIVE PRODUCTS, BRANDS AND MARKETING, AND OUR ABILITY TO REMAIN COMPETITIVE IN THE AREAS OF QUALITY AND PRICE; RISKS ASSOCIATED WITH UNCERTAINTY RELATING TO OUR ABILITY TO IMPLEMENT OUR GROWTH STRATEGIES; RISKS ASSOCIATED WITH OUR ENTRY INTO NEW MARKETS EITHER THROUGH INTERNAL DEVELOPMENT ACTIVITIES OR THROUGH ACQUISITIONS; RISKS ASSOCIATED WITH THE POSSIBLE ADVERSE IMPACT OF OUR UNAFFILIATED MANUFACTURERS' INABILITY TO MANUFACTURE IN A TIMELY MANNER, TO MEET QUALITY STANDARDS OR TO USE ACCEPTABLE

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LABOR PRACTICES; RISKS ASSOCIATED WITH CHANGES IN SOCIAL, POLITICAL, ECONOMIC AND OTHER CONDITIONS AFFECTING FOREIGN OPERATIONS AND SOURCING, AND THE POSSIBLE ADVERSE IMPACT OF CHANGES IN IMPORT RESTRICTIONS; RISKS RELATED TO OUR ABILITY TO ESTABLISH AND PROTECT OUR TRADEMARKS AND OTHER PROPRIETARY RIGHTS; RISKS RELATED TO FLUCTUATIONS IN FOREIGN CURRENCY AFFECTING OUR FOREIGN SUBSIDIARIES' AND FOREIGN LICENSEES' RESULTS OF OPERATIONS AND THE RELATIVE PRICES AT WHICH WE AND OUR FOREIGN COMPETITORS SELL PRODUCTS

14

IN THE SAME MARKET AND OUR OPERATING AND MANUFACTURING COSTS OUTSIDE OF THE UNITED STATES; AND, RISKS ASSOCIATED WITH OUR CONTROL BY LAUREN FAMILY MEMBERS AND THE ANTI-TAKEOVER EFFECT OF MULTIPLE CLASSES OF STOCK. WE UNDERTAKE NO OBLIGATION TO PUBLICLY UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

### OVERVIEW

We began operations in 1968 as a designer and marketer of premium quality men's clothing and sportswear. Since our inception, we have grown through increased sales of existing product lines, the introduction of new brands and products, expansion into international markets, development of our retail operations and acquisitions. Our net revenues are generated from our three integrated operations: wholesale, retail and licensing.

### RESULTS OF OPERATIONS

The table below sets forth the percentage relationship to net revenues of certain items in our statements of income for the three months ended June 30, 2001 and July 1, 2000:

	JUNE 30, 2001 -----	JULY 1, 2000 -----
Net sales.....	89.0%	89.2%
Licensing revenue.....	11.0 ----	10.8 ----
Net revenues.....	100.0 ----	100.0 ----
Gross profit.....	50.7	51.8
Selling, general and administrative expenses.....	40.3 ----	42.4 ----
Income from operations.....	10.4	9.4
Foreign currency gains.....	0.5	0.0
Interest expense .....	(1.1) ----	(1.3) ----
Income before income taxes.....	9.8% =====	8.1% =====

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JULY 1, 2000

NET SALES. Net sales increased 6.0% to \$461.1 million in the three months ended June 30, 2001, from \$434.9 million in the three months ended July 1, 2000. Wholesale net sales increased 8.4% to \$245.2 million in the three months ended June 30, 2001, from \$226.2 million in the corresponding period of fiscal 2001. Wholesale growth primarily reflects increased unit sales of existing products, principally from our international wholesale business in Europe and our domestic women's business.

Retail sales increased by 3.4% to \$215.9 million in the three months ended June 30, 2001, from \$208.7 million in the corresponding period in fiscal 2001. This increase is primarily attributable to a \$12.6 million benefit from the following:

- o new store openings in the three months ended June 30, 2001 (3 stores, net of store closures); and
- o a full quarter of revenues for new stores opened in fiscal 2001.

This increase was offset by decreases of 2.9% in our comparable store sales, which represent net sales of stores open in both reporting periods for the full portion of such periods. Although our stores remain productive, the comparable store declines were due to the effects of a promotionally driven and highly competitive retail store environment. At June 30, 2001, we operated 232 stores, including 29 Polo brand stores, seven Polo concept stores, 56 Club Monaco full-price stores, 93 Polo full line outlet stores, 27 Polo Jeans Co. outlet stores, 11 European outlet stores and nine Club Monaco outlet stores.

LICENSING REVENUE. Licensing revenue increased 8.3% to \$56.8 million in the three months ended June 30, 2001, from \$52.4 million in the corresponding period of fiscal 2001. This increase is primarily due to strong results from our international businesses, particularly in Asia.

GROSS PROFIT. Gross profit as a percentage of net revenues decreased to 50.7% in the three months ended June 30, 2001, from 51.8% in the corresponding period of fiscal 2001. Wholesale gross margins decreased due to an increase in off-price sales and allowances as a result of the softer economic environment. Additionally, wholesale gross margins were negatively impacted in our European operations due to higher inventory costs on unhedged purchases driven by unfavorable foreign exchange rates. Retail gross margins were slightly down in comparison to last year's corresponding quarter due to an increase in promotional markdowns in our European outlet stores. These decreases were offset by increases in licensing revenue that has no associated cost of goods sold.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative ("SG&A") expenses as a percentage of net revenues decreased to 40.3% in the three months ended June 30, 2001, from 42.4% of net revenues in the corresponding period of fiscal 2001. This decrease in SG&A expenses as a percentage of net revenues was primarily due to leveraging of our expenses in conjunction with the increase in net revenues. Additionally, in connection with our fiscal 2001

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operational review, we closed 23 full-price stores that carried high operating expense margins.

**INTEREST EXPENSE.**Interest expense decreased to \$5.9 million in the three months ended June 30, 2001, from \$6.5 million in the comparable period in fiscal 2001. This decrease was due to lower levels of borrowings during the current quarter primarily as a result of repurchases of a portion of our outstanding Euro debt in fiscal 2001.

**INCOME TAXES.**The effective tax rate decreased to 38.5% in the three months ended June 30, 2001, from 39.5% in the corresponding period in fiscal 2001. This decline is primarily a result of the benefit of tax strategies implemented.

### LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities increased to \$85.0 million in the three months ended June 30, 2001, from \$42.6 million in the comparable period in fiscal 2001. This improvement was primarily driven by favorable changes in inventory levels during the current quarter as a result of the timing of shipments to retailers. Net cash used in investing activities decreased to \$20.2 million in the three months ended June 30, 2001, from \$40.7 million in the comparable period in fiscal 2001. This decrease principally reflects the use of cash in the three months ended July 1, 2000 to complete the acquisition of our European license. Net cash used in financing activities increased to \$38.6 million in the three months ended June 30, 2001, from \$26.7 million in the comparable period in fiscal 2001. This increase is primarily due to the use of funds to repay short-term borrowings.

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

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

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we entered into interest rate swap agreements with an aggregate notional amount of \$100.0 million to convert the variable interest rate on the 1999 senior credit facility to a fixed rate of 5.5%.

The syndicated bank credit facility and 1999 senior credit facility contain customary representations, warranties, covenants and events of default, including covenants regarding maintenance of net worth and leverage ratios, limitations on indebtedness, loans, investments and incurrences of liens, and restrictions on sales of assets and transactions with affiliates. Additionally, the agreements provide that an event of default will occur if Mr. Ralph Lauren and related entities fail to maintain a specified minimum percentage of the voting power of our common stock.

In November 1999, we issued Euro 275.0 million of 6.125 percent notes due November 2006. Our Euro debt is listed on the London Stock Exchange. The net proceeds from the Euro offering were \$281.5 million based on the Euro exchange rate on the issuance date. Interest on the Euro debt is payable annually. A portion of the net proceeds from the issuance was used to acquire our European license while the remaining net proceeds were retained for general corporate purposes. In fiscal 2001, we repurchased Euro 27.5 million, or \$25.3 million based on Euro exchange rates, of our outstanding Euro debt.

As of June 30, 2001, we had \$36.4 million outstanding in direct borrowings, \$80.0 million outstanding under the term loan and \$210.1 million outstanding in Euro debt based on the quarter end exchange rate. We were also contingently liable for \$24.3 million in outstanding letters of credit related to commitments for the purchase of inventory. The weighted average interest rate on outstanding borrowings at June 30, 2001, was 6.0%.

During fiscal 2001, we completed an internal operational review and formalized our plans to enhance the growth of our international luxury retail business, to better manage inventory and to increase our overall profitability. Total cash outlays related to the operational review are expected to be approximately \$24.7 million, \$19.5 million of which has been paid through June 30, 2001. The remaining obligations approximated \$5.2 million at June 30, 2001, and primarily relate to severance and lease termination agreements, which extend until fiscal 2003.

Total cash outlays related to the 1999 restructuring plan are approximately \$39.5 million, \$34.7 million of which has been paid through June 30, 2001. The remaining obligations approximated \$4.8 million at June 30, 2001, and primarily relate to severance and lease termination agreements, which extend until fiscal 2003.

Capital expenditures were \$16.2 million and \$18.0 million in the three months ended June 30, 2001 and July 1, 2000, respectively. Capital expenditures primarily reflect costs associated with the following:

- o our retail stores;
- o the expansion of our European operations;
- o the shop-within-shops development program which includes new shops,



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renovations and expansions;

- o our information systems; and
- o other capital projects.

In March 1998, the Board of Directors authorized the repurchase, subject to market conditions, of up to \$100.0 million our Class A common stock. Share repurchases under this plan were made in the open market over a two-year period which commenced April 1, 1998. On March 2, 2000, the Board of Directors authorized a two-year extension to the stock repurchase program. Shares acquired under the repurchase program will be used for stock option programs and for other corporate purposes. As of June 30, 2001, we had repurchased 3,771,806 shares of our Class A common stock at an aggregate cost of \$71.2 million.

In July 2001, we signed a letter of intent to acquire PRL Fashions of Europe SRL ("PRL Fashions") which holds licenses to sell our women's Ralph Lauren apparel in Europe, our men's and boys' Polo Ralph Lauren apparel in Italy and men's and women's Polo Jeans Co. collections in Italy. PRL Fashions had revenues of approximately \$75.0 million for calendar year 2000. The purchase price of this transaction will be approximately \$22.0 million in cash plus earn-out payments based on achieving profitability targets over the first three years. The acquisition is expected to close in September 2001 and will be accounted for as a purchase from the effective date of the transaction.

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

### SEASONALITY OF BUSINESS

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

### NEW ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, BUSINESS COMBINATIONS. This Statement addresses the financial accounting and reporting for business combinations and supersedes Accounting Principles Bulletin ("APB") No. 16, BUSINESS COMBINATIONS, and SFAS No. 38, ACCOUNTING FOR PREACQUISITION CONTINGENCIES OF PURCHASED ENTERPRISES. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June

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30, 2001 and establishes criteria to separately recognize intangible assets apart from goodwill. We do not believe that the adoption of this pronouncement will have a material impact on our consolidated results of operations.

In July 2001, the FASB issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. This Statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB No. 17, INTANGIBLE ASSETS. This Statement requires, among other things, that goodwill and intangible assets that have indefinite useful lives should not be amortized, but rather should be tested at least annually for impairment, using the guidance for measuring impairment set forth in the Statement. SFAS No. 142 is effective for our first quarter in the fiscal year ending March 29, 2003, or for any business combinations initiated after June 30, 2001. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

In April 2001, the FASB's Emerging Issues Task Force reached a consensus on Issue No. 00-25, VENDOR INCOME STATEMENT CHARACTERISTICS OF CONSIDERATION PAID TO A RESELLER OF THE VENDOR'S PRODUCTS ("EITF No. 00-25"). EITF No. 00-25 concluded that consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement. That presumption is overcome and the consideration characterized as a cost incurred if a benefit is or will be received from the recipient of the consideration if certain conditions are met. This pronouncement is effective for our first quarter in the year ending March 29, 2003. We have not yet determined the impact of adopting this pronouncement on our consolidated results of operations.

20

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

We adopted the provisions of SFAS No. 133 as of April 1, 2001. As of this date, we had outstanding interest rate swap agreements and forward foreign exchange contracts that qualify as cash flow hedges under SFAS No. 133. In accordance with SFAS No. 133, we recorded the fair value of these derivatives at April 1, 2001, and the resulting net unrealized gain, after taxes, of approximately \$4.0 million was recorded in other comprehensive income as a cumulative transition adjustment.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The market risk inherent in our financial instruments represents the potential loss in fair value, earnings or cash flows arising from adverse changes in interest rates or foreign currency exchange rates. We manage these exposures through operating and financing activities and, when appropriate,

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through the use of derivative financial instruments. Our policy allows for the use of derivative financial instruments for identifiable market risk exposures, including interest rate and foreign currency fluctuations. Since March 31, 2001, there have been no significant changes in our interest rate and foreign currency exposures, changes in the types of derivative instruments used to hedge those exposures, or significant changes in underlying market conditions.

21

### PART II. OTHER INFORMATION

#### ITEM 6. REPORTS ON FORM 8-K.

##### (b) Reports on Form 8-K--

No reports on Form 8-K were filed in the three months ended June 30, 2001.

22

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POLO RALPH LAUREN CORPORATION

Date: August 14, 2001

By: /s/ GERALD M. CHANEY

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Gerald M. Chaney  
Senior Vice President of Finance and  
Chief Financial Officer

