

RALPH LAUREN CORP
Form 10-Q
November 05, 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 September 26, 2015

or

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

Commission File Number: 001-13057

Ralph Lauren Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

650 Madison Avenue,

New York, New York

(Address of principal executive offices)

(212) 318-7000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At October 30, 2015, 58,813,247 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

	September 26, 2015 (millions) (unaudited)	March 28, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$380	\$500
Short-term investments	746	644
Accounts receivable, net of allowances of \$259 million and \$251 million	594	655
Inventories	1,380	1,042
Income tax receivable	65	57
Deferred tax assets	147	145
Prepaid expenses and other current assets	268	281
Total current assets	3,580	3,324
Property and equipment, net	1,519	1,436
Deferred tax assets	43	45
Goodwill	906	903
Intangible assets, net	255	267
Other non-current assets	140	131
Total assets	\$6,443	\$6,106
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt	\$130	\$234
Accounts payable	206	210
Income tax payable	16	27
Accrued expenses and other current liabilities	926	715
Total current liabilities	1,278	1,186
Long-term debt	597	298
Non-current liability for unrecognized tax benefits	90	116
Other non-current liabilities	667	615
Commitments and contingencies (Note 14)		
Total liabilities	2,632	2,215
Equity:		
Class A common stock, par value \$.01 per share; 100.8 million and 100.0 million shares issued; 58.8 million and 60.4 million shares outstanding	1	1
Class B common stock, par value \$.01 per share; 25.9 million shares issued and outstanding	—	—
Additional paid-in-capital	2,199	2,117
Retained earnings	5,926	5,787
Treasury stock, Class A, at cost; 42.0 million and 39.6 million shares	(4,148)	(3,849)
Accumulated other comprehensive loss	(167)	(165)
Total equity	3,811	3,891
Total liabilities and equity	\$6,443	\$6,106
See accompanying notes.		

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
	(millions, except per share data)			
	(unaudited)			
Net sales	\$1,923	\$1,949	\$3,500	\$3,617
Licensing revenue	47	45	88	85
Net revenues	1,970	1,994	3,588	3,702
Cost of goods sold ^(a)	(857)	(862)	(1,509)	(1,527)
Gross profit	1,113	1,132	2,079	2,175
Selling, general, and administrative expenses ^(a)	(839)	(836)	(1,661)	(1,624)
Amortization of intangible assets	(6)	(7)	(12)	(13)
Impairment of assets	(7)	(1)	(15)	(2)
Restructuring and other charges	(31)	(2)	(65)	(6)
Total other operating expenses, net	(883)	(846)	(1,753)	(1,645)
Operating income	230	286	326	530
Foreign currency losses	(5)	(3)	(6)	(6)
Interest expense	(4)	(5)	(8)	(9)
Interest and other income, net	1	3	3	4
Equity in losses of equity-method investees	(3)	(3)	(6)	(6)
Income before provision for income taxes	219	278	309	513
Provision for income taxes	(59)	(77)	(85)	(150)
Net income	\$160	\$201	\$224	\$363
Net income per common share:				
Basic	\$1.87	\$2.27	\$2.60	\$4.09
Diluted	\$1.86	\$2.25	\$2.58	\$4.05
Weighted average common shares outstanding:				
Basic	85.6	88.4	86.1	88.7
Diluted	86.0	89.2	86.8	89.7
Dividends declared per share	\$0.50	\$0.45	\$1.00	\$0.90
^(a) Includes total depreciation expense of:	\$(71)	\$(65)	\$(139)	\$(128)

See accompanying notes.

RALPH LAUREN CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
	(millions)			
	(unaudited)			
Net income	\$ 160	\$ 201	\$ 224	\$ 363
Other comprehensive income (loss), net of tax:				
Foreign currency translation gains (losses)	(6	) (97	) 13	(100
Net gains (losses) on cash flow hedges	(8	) 23	(16	) 25
Net gains on defined benefit plans	1	1	1	1
Other comprehensive loss, net of tax	(13	) (73	) (2	) (74
Total comprehensive income	\$ 147	\$ 128	\$ 222	\$ 289

See accompanying notes.

RALPH LAUREN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	September 26, 2015	September 27, 2014
	(millions)	
	(unaudited)	
Cash flows from operating activities:		
Net income	\$224	\$363
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	151	141
Deferred income tax benefit	(38)	(9)
Equity in losses of equity-method investees	6	6
Non-cash stock-based compensation expense	54	42
Non-cash impairment of assets	15	2
Excess tax benefits from stock-based compensation arrangements	(7)	(5)
Other non-cash charges, net	4	2
Changes in operating assets and liabilities:		
Accounts receivable	59	(63)
Inventories	(339)	(295)
Prepaid expenses and other current assets	24	(21)
Accounts payable and accrued liabilities	207	104
Income tax receivables and payables	(30)	1
Deferred income	(10)	(9)
Other balance sheet changes, net	46	16
Net cash provided by operating activities	366	275
Cash flows from investing activities:		
Capital expenditures	(202)	(176)
Purchases of investments	(607)	(793)
Proceeds from sales and maturities of investments	515	532
Acquisitions and ventures	(12)	(3)
Change in restricted cash deposits	(5)	—
Net cash used in investing activities	(311)	(440)
Cash flows from financing activities:		
Proceeds from issuance of short-term debt	2,568	530
Repayments of short-term debt	(2,672)	(320)
Proceeds from issuance of long-term debt	299	—
Payments of capital lease obligations	(12)	(13)
Payments of dividends	(86)	(79)
Repurchases of common stock, including shares surrendered for tax withholdings	(299)	(281)
Proceeds from exercises of stock options	21	33
Excess tax benefits from stock-based compensation arrangements	7	5
Other financing activities	(2)	—
Net cash used in financing activities	(176)	(125)
Effect of exchange rate changes on cash and cash equivalents	1	(24)
Net decrease in cash and cash equivalents	(120)	(314)
Cash and cash equivalents at beginning of period	500	797
Cash and cash equivalents at end of period	\$380	\$483

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, Double RL, 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/or to use its various trademarks in connection with the manufacture and sale of designated products, such as certain apparel, eyewear, fragrances, and home furnishings.

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 28, 2015 (the "Fiscal 2015 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 2016 will end on April 2, 2016 and will be a 53-week period ("Fiscal 2016"). Fiscal year 2015 ended on March 28, 2015 and was a 52-week period ("Fiscal 2015"). The second quarter of Fiscal 2016 ended on September 26, 2015 and was a 13-week period. The second quarter of Fiscal 2015 ended on September 27, 2014 and was also a 13-week period.

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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; fair value measurements; accounting for income taxes and related uncertain tax positions; valuation of stock-based compensation awards and related estimated forfeiture rates; reserves for restructuring activity; 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.

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 impacting the Retail segment. In addition, fluctuations in sales, operating income, and cash flows in any fiscal quarter may be affected by other events affecting retail sales, such as changes in weather patterns. Accordingly, the Company's operating results and cash flows for the three-month and six-month periods ended September 26, 2015 are not necessarily indicative of the operating results and cash flows that may be expected for the full Fiscal 2016.

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 markdowns, 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 customer 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.

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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 \$10 million and \$19 million during the three-month and six-month periods ended September 26, 2015, respectively, and \$10 million and \$19 million during the three-month and six-month periods ended September 27, 2014, 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 \$44 million and \$85 million during the three-month and six-month periods ended September 26, 2015, respectively, and \$45 million and \$87 million during the three-month and six-month periods ended September 27, 2014, 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		Six Months Ended	
	September 26,	September 27,	September 26,	September 27,
	2015	2014	2015	2014
	(millions)			
Basic shares	85.6	88.4	86.1	88.7
Dilutive effect of stock options, restricted stock, and RSUs	0.4	0.8	0.7	1.0
Diluted shares	86.0	89.2	86.8	89.7

All earnings per share amounts have been calculated using unrounded numbers. Options to purchase shares of the Company's Class A 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) have been satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. As of September 26, 2015 and September 27, 2014, there were approximately 2.8 million and 2.0 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.

Accounts Receivable

In the normal course of business, the Company extends credit to wholesale customers that satisfy defined credit criteria. Accounts receivable 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,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
	(millions)			
Beginning reserve balance	\$ 210	\$ 245	\$ 240	\$ 254
Amount charged against revenue to increase reserve	239	212	389	369
Amount credited against customer accounts to decrease reserve	(203)	(167)	(384)	(332)
Foreign currency translation	—	(6)	1	(7)
Ending reserve balance	\$ 246	\$ 284	\$ 246	\$ 284

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 \$11 million as of September 26, 2015 and March 28, 2015, respectively. The change in the allowance for doubtful accounts was not material during the three-month and six-month periods ended September 26, 2015 and September 27, 2014.

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 2015, 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) accounted for approximately 24% of total net revenues. As of September 26, 2015, these three key wholesale customers constituted approximately 36% of total 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 hedge accounting, the effective portion of changes in their fair value is either (i) offset against the changes in fair value of the related hedged assets, liabilities, or firm commitments through earnings or (ii) recognized in equity as a component of accumulated other comprehensive income ("AOCI") until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge against changes in fair value or cash flows and net investments, respectively.

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 hedge effectiveness, the Company generally uses regression analysis, a statistical method, to compare the change in the fair value of the derivative instrument to the change in fair value or 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 fair value or cash flows is assessed and documented by the Company on at least a quarterly basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Forward Foreign Currency Exchange Contracts

The Company enters into forward foreign currency exchange contracts to reduce its risk related to exchange rate fluctuations on inventory transactions, 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 are designated as cash flow hedges and are highly effective in offsetting changes in the value of the hedged items, the related gains or losses are initially deferred in equity as a component of AOCI and are 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.

To the extent that a derivative instrument designated as a cash flow hedge is not considered 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 immediately 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).

Hedge of a Net Investment in a Foreign Operation

Changes in the fair value of a derivative instrument or the carrying value of a non-derivative instrument that is designated as a hedge of a net investment in a foreign operation are reported in the same manner as a translation adjustment, to the extent it is effective. In assessing the effectiveness of a derivative financial instrument that is designated as a hedge of a net investment, the Company uses a method based on changes in spot rates to measure the impact of foreign currency exchange rate changes on both its foreign subsidiary net investment and the related hedging instrument. If the notional amount of the instrument designated as the hedge of a net investment is greater than the portion of the net investment being hedged, hedge ineffectiveness is recognized immediately in earnings within foreign currency gains (losses). To the extent the instrument remains effective, changes in its value are recorded in equity as foreign currency translation gains (losses), a component of AOCI, and are recognized in earnings within foreign currency gains (losses) only upon the sale or liquidation of the hedged net investment.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Hedges

Changes in the fair value of a derivative instrument that is designated as a fair value hedge, along with offsetting changes in the fair value of the related hedged item attributable to the hedged risk, are recorded in earnings. Hedge ineffectiveness is recorded in earnings to the extent that the change in the fair value of the hedged item does not offset the change in the fair value of the hedging instrument.

Undesignated Hedges

All of the Company's undesignated hedges are entered into to hedge specific economic risks, particularly foreign currency exchange rate risk related to foreign currency-denominated balances. 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 2015 10-K for a summary of all of the Company's significant accounting policies.

4. Recently Issued Accounting Standards

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers — Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for the Company beginning in its fiscal year 2019. ASU 2014-09 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 that ASU 2014-09 will have on its consolidated financial statements and related disclosures.

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 Accounting Standards Codification ("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 balance sheet. The comment period for the Exposure Draft ended in September 2013 and the FASB has now substantially completed its redeliberations on certain portions of the proposal. 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 currently unable to determine the impact that this proposed change in accounting would have on its consolidated financial statements.

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Inventories

Inventories consist of the following:

	September 26, 2015 (millions)	March 28, 2015	September 27, 2014
Raw materials	\$2	\$3	\$2
Work-in-process	2	2	2
Finished goods	1,376	1,037	1,288
Total inventories	\$1,380	\$1,042	\$1,292

6. Property and Equipment

Property and equipment, net consists of the following:

	September 26, 2015 (millions)	March 28, 2015
Land and improvements	\$17	\$17
Buildings and improvements	454	409
Furniture and fixtures	704	686
Machinery and equipment	324	317
Capitalized software	438	402
Leasehold improvements	1,215	1,185
Construction in progress	147	99
	3,299	3,115
Less: accumulated depreciation	(1,780)	(1,679)
Property and equipment, net	\$1,519	\$1,436

7. Other Assets and Liabilities

Prepaid expenses and other current assets consist of the following:

	September 26, 2015 (millions)	March 28, 2015
Other taxes receivable	\$101	\$93
Prepaid rent expense	36	31
Derivative financial instruments	28	65
Tenant allowances receivable	15	14
Prepaid samples	14	12
Restricted cash	11	2
Prepaid advertising and marketing	5	7
Other prepaid expenses and current assets	58	57
Total prepaid expenses and other current assets	\$268	\$281

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other non-current assets consist of the following:

	September 26, 2015 (millions)	March 28, 2015
Restricted cash	\$33	\$36
Security deposits	32	28
Derivative financial instruments	25	22
Other non-current assets	50	45
Total other non-current assets	\$140	\$131

Accrued expenses and other current liabilities consist of the following:

	September 26, 2015 (millions)	March 28, 2015
Accrued operating expenses	\$203	\$183
Accrued inventory	186	75
Accrued payroll and benefits	146	162
Other taxes payable	133	108
Accrued capital expenditures	99	62
Dividends payable	42	43
Deferred income	39	38
Restructuring reserve	36	5
Capital lease obligations	20	19
Other accrued expenses and current liabilities	22	20
Total accrued expenses and other current liabilities	\$926	\$715

Other non-current liabilities consist of the following:

	September 26, 2015 (millions)	March 28, 2015
Capital lease obligations	\$274	\$238
Deferred rent obligations	229	219
Deferred tax liabilities	87	87
Derivative financial instruments	14	1
Deferred income	10	20
Deferred compensation	9	9
Other non-current liabilities	44	41
Total other non-current liabilities	\$667	\$615

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Impairment of Assets

During the six months ended September 26, 2015, the Company recorded non-cash impairment charges of \$15 million, primarily to write off certain fixed assets related to its domestic and international stores and shop-within-shops in connection with the Global Reorganization Plan (see Note 9).

During the six months ended September 27, 2014, the Company recorded non-cash impairment charges of \$2 million, primarily to write off certain fixed assets related to its European operations and domestic retail stores.

9. Restructuring and Other Charges

A description of significant restructuring and other activities and related costs is included below.

Fiscal 2016

Global Reorganization Plan

On May 12, 2015, the Company's Board of Directors approved a reorganization and restructuring plan comprised of the following major actions: (i) the reorganization of the Company from its current channel and regional structure to an integrated global brand-based operating structure, which will streamline the Company's business processes to better align its cost structure with its long-term growth strategy; (ii) a strategic store and shop-within-shop performance review conducted by region and brand; (iii) a targeted corporate functional area review; and (iv) the consolidation of certain of the Company's luxury lines (collectively, the "Global Reorganization Plan"). The Global Reorganization Plan will result in a reduction in workforce and, once the performance review is complete, the closure of certain stores and shop-within-shops. The Global Reorganization Plan is expected to be substantially implemented by the beginning of Fiscal 2017.

The Company expects to incur total estimated charges of approximately \$120 million to \$150 million in connection with the Global Reorganization Plan, comprised of restructuring charges totaling approximately \$85 million to \$100 million, to be settled in cash, and non-cash charges totaling approximately \$35 million to \$50 million.

A summary of the restructuring and non-cash charges recorded in connection with the Global Reorganization Plan for the three-month and six-month periods ended September 26, 2015 is as follows:

	September 26, 2015	
	Three Months Ended	Six Months Ended
	(millions)	
Restructuring charges:		
Severance and benefit costs	\$6	\$38
Lease termination and store closure costs	6	7
Other cash charges ^(a)	7	8
Total restructuring charges	19	53
Non-cash charges:		
Impairment of assets (see Note 8)	7	15
Inventory-related charges ^(b)	—	3
Total non-cash charges	7	18
Total restructuring and non-cash charges	\$26	\$71

RALPH LAUREN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- (a) Other cash charges primarily consisted of consulting fees recorded in connection with the Global Reorganization Plan.
- (b) Inventory-related charges are recorded within cost of goods sold in the unaudited interim consolidated statements of income.

A summary of the activity in the restructuring reserve related to the Global Reorganization Plan is as follows:

	Severance and Benefit Costs	Lease Termination and Store Closure Costs	Other Cash Charges	Total
	(millions)			
Balance at March 28, 2015	\$—	\$—	\$—	\$—
Additions charged to expense	38	7	8	53
Cash payments charged against reserve	(16)	(1)	(3)	(20)
Non-cash adjustments	—	1	—	1
Balance at September 26, 2015	\$22	\$7	\$5	\$34

Other Charges

During the three months ended September 26, 2015, the Company recorded other charges of \$12 million primarily related to the settlement of certain litigation claims.

Fiscal 2015

During Fiscal 2015, the Company recorded restructuring charges of \$10 million, \$6 million of which were recorded during the six months ended September 27, 2014. These charges were primarily related to severance and benefit costs associated with certain of its retail, wholesale, and corporate operations. At March 28, 2015, the restructuring reserve related to these charges was \$5 million, which was reduced by payments to \$2 million at September 26, 2015.

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 27.1% and 27.8% during the three-month periods ended September 26, 2015 and September 27, 2014, respectively, and 27.6% and 29.3% during the six-month periods ended September 26, 2015 and September 27, 2014, respectively. The effective tax rates in the periods presented were lower than the U.S. federal statutory income tax rate of 35% principally as a result of the proportion of earnings generated in lower taxed foreign jurisdictions versus the U.S. In addition, the effective tax rate for the six months ended September 26, 2015 was favorably impacted by the reversal of certain tax liabilities due to the expiration of statutes of limitations and a change in estimate related to the assessment period of certain tax liabilities. The effective tax rate for the six months ended September 27, 2014 was also favorably impacted from the legal entity restructuring of certain of the Company's foreign operations during Fiscal 2015, partially offset by additional tax reserves associated with the conclusion of tax examinations.

During the three months ended September 26, 2015, the Company concluded, with the assistance of a third-party consultant, that based on recent audit settlements and taxpayer audit trends, the assessment period associated with certain tax liabilities established under ASC Topic 740, "Income Taxes," should be reduced. This change is considered a change in estimate for accounting purposes and is reflected in the current period. This change lowered the Company's provision for income taxes by \$8 million, including interest and penalties, and net of deferred tax asset reversals, and increased basic and diluted earnings per share by \$0.09 for each of the three-month and six-month periods ended September 26, 2015.

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 \$90 million and \$116 million as of September 26, 2015 and March 28, 2015, 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 the reversal of tax liabilities of \$11 million and \$9 million due to the change in estimate previously discussed and the expiration of statutes of limitations, respectively, as well as tax audit settlements of \$8 million, partially offset by additional tax liabilities largely associated with the conclusion of a tax examination.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate was \$66 million and \$85 million as of September 26, 2015 and March 28, 2015, 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, it is reasonably possible that the balance of gross unrecognized tax benefits, excluding interest and penalties, could potentially be reduced by approximately \$11 million during the next 12 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 its fiscal year ended March 31, 2007.

11. Debt

Debt consists of the following:

	September 26, 2015 (millions)	March 28, 2015
\$300 million 2.125% Senior Notes ^(a)	\$300	\$298
\$300 million 2.625% Senior Notes ^(b)	297	—
Commercial paper notes	130	234
Total debt	727	532
Less: short-term debt	130	234
Total long-term debt	\$597	\$298

During the first quarter of Fiscal 2016, the Company entered into an interest rate swap contract which it designated as a hedge against changes in the fair value of its fixed-rate 2.125% Senior Notes (see Note 13). Accordingly, the carrying value of the 2.125% Senior Notes as of September 26, 2015 reflects an adjustment of \$1 million for the change in fair value attributable to the benchmark interest rate. The carrying value of the 2.125% Senior Notes is also net of unamortized debt issuance costs and discount of \$1 million and \$2 million as of September 26, 2015 and March 28, 2015, respectively.

^(a) The carrying value of the 2.125% Senior Notes is net of unamortized debt issuance costs and discount of \$3 million as of September 26, 2015.

^(b) The carrying value of the 2.625% Senior Notes is net of unamortized debt issuance costs and discount of \$3 million as of September 26, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, which bear interest at a fixed rate of 2.125%, payable semi-annually (the "2.125% Senior Notes"). The 2.125% Senior Notes were issued at a price equal to 99.896% of their principal amount. The proceeds from this offering were used for general corporate purposes, including repayment of the Company's previously outstanding €209 million principal amount of 4.5% Euro-denominated notes, which matured on October 4, 2013.

In August 2015, the Company completed a second registered public debt offering and issued an additional \$300 million aggregate principal amount of unsecured senior notes due August 18, 2020, which bear interest at a fixed rate of 2.625%, payable semi-annually (the "2.625% Senior Notes"). The 2.625% Senior Notes were issued at a price equal to 99.795% of their principal amount. The proceeds from this offering were used for general corporate purposes. The Company has the option to redeem the 2.125% Senior Notes and 2.625% Senior Notes (collectively, the "Senior Notes"), in whole or in part, at any time at a price equal to accrued and unpaid interest on the redemption date, plus the greater of (i) 100% of the principal amount of the series of Senior Notes to be redeemed or (ii) the sum of the present value of Remaining Scheduled Payments, as defined in the supplemental indentures governing such Senior Notes (together with 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 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 allowed it to issue up to \$300 million of unsecured commercial paper notes through private placement using third-party broker-dealers. In May 2015, the Company initiated an expansion of its Commercial Paper Program to allow for a total issuance of up to \$500 million of unsecured commercial paper notes.

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 forms of unsecured indebtedness. As of September 26, 2015, the Company had \$130 million in borrowings outstanding under its Commercial Paper Program, with a weighted-average annual interest rate of 0.22% and a weighted-average remaining term of 20 days.

Revolving Credit Facilities

Global Credit Facility

In February 2015, the Company entered into an amended and restated credit facility that provides for a \$500 million senior unsecured revolving line of credit through February 11, 2020 (the "Global Credit Facility") under terms and conditions substantially similar to those previously in effect. The Global Credit Facility 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 September 26, 2015, there were no borrowings outstanding under the Global Credit Facility and the Company was contingently liable for \$9 million of outstanding letters of credit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 26, 2015, no Event of Default (as such term is defined pursuant to the Global Credit Facility) has occurred under the Company's Global 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. 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 7, 2016, and may also be used to support bank guarantees. As of September 26, 2015, bank guarantees supported by this facility were not material.

Malaysia Credit Facility — provided Ralph Lauren (Malaysia) Sdn Bhd with a revolving line of credit of up to 16 million Malaysian Ringgit (approximately \$4 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 \$9 million) through October 31, 2016.

• Taiwan Credit Facility — provided 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 September 26, 2015, there were no borrowings outstanding under any of the Pan-Asia Credit Facilities.

Refer to Note 14 of the Fiscal 2015 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 or 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

	September 26, 2015 (millions)	March 28, 2015
Financial assets recorded at fair value:		
Corporate bonds — non-U.S.	\$8	\$8
Derivative financial instruments ^(b)	53	87
Total	\$61	\$95
Financial liabilities recorded at fair value:		
Derivative financial instruments ^(b)	\$24	\$19
Total	\$24	\$19

(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 and are valued using pricing models that are primarily based on market observable external inputs, including spot and forward currency exchange rates, benchmark interest rates, and discount rates consistent with the instrument's tenor, and consider 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 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 value of the Company's commercial paper notes is 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 September 26, 2015 approximates their carrying value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 26, 2015		March 28, 2015	
	Carrying Value	Fair Value ^(a)	Carrying Value	Fair Value ^(a)
	(millions)			
\$300 million 2.125% Senior Notes	\$300	(b) \$303	\$298	(b) \$304
\$300 million 2.625% Senior Notes	297	(b) 303	—	—
Commercial paper notes	130	130	234	234

^(a) Based on Level 2 measurements.

^(b) See Note 11 for discussion of the carrying values of the Company's Senior Notes as of September 26, 2015 and March 28, 2015.

Unrealized gains or losses resulting from changes in the fair value of 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.

During the three-month and six-month periods ended September 26, 2015 and September 27, 2014, the Company recorded non-cash impairment charges to reduce the carrying values of certain long-lived store and shop-within-shop assets to their fair values. The fair values of these assets were determined based on Level 3 measurements. Inputs to these fair value measurements included estimates of the amount and timing of the stores' or shop-within-shops' net future discounted cash flows based on historical experience, current trends, and market conditions.

The following table summarizes the impairment charges recorded during the three-month and six-month periods ended September 26, 2015 and September 27, 2014:

	Three Months Ended		Six Months Ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
	(millions)			
Aggregate carrying value of long-lived assets written down to fair value	\$7	\$ 1	\$15	\$ 2
Impairment charges (see Note 8)	(7	) (1	) (15	) (2

No goodwill impairment charges were recorded during either of the six-month periods ended September 26, 2015 or September 27, 2014. The Company performed its annual goodwill impairment assessment using a qualitative approach as of the beginning of the second quarter of Fiscal 2016. In performing the assessment, the Company identified and considered the significance of relevant key factors, events, and circumstances that affected the fair values and/or carrying amounts of its reporting units. These factors included external factors such as macroeconomic, industry, and market conditions, as well as entity-specific factors, such as the Company's actual and planned financial performance. Additionally, the results of the Company's most recent quantitative goodwill impairment test indicat