

PHILLIPS VAN HEUSEN CORP /DE/
Form 10-Q
September 11, 2008

UNITED STATES
SECURITIES & 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 August 3, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 001-07572

PHILLIPS-VAN HEUSEN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-1166910
(I.R.S. Employer
Identification No.)

200 Madison Avenue, New York, New York
(Address of principal executive offices)

10016
(Zip Code)

(212) 381-3500

(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 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 Smaller reporting company

(do not check if a 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

The number of outstanding shares of common stock, par value \$1.00 per share, of the registrant as of September 2, 2008 was 51,460,675.

PHILLIPS-VAN HEUSEN CORPORATION

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Forward-looking statements in this Quarterly Report on Form 10-Q including, without limitation, statements relating to our future revenues and cash flows, plans, strategies, objectives, expectations and intentions, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy, and some of which might not be anticipated, including, without limitation, the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) the levels of sales of our apparel, footwear and related products, both to our wholesale customers and in our retail stores, and the levels of sales of our licensees at wholesale and retail, and the extent of discounts and promotional pricing in which we and our licensees and other licensing partners are required to engage, all of which can be affected by weather conditions, changes in the economy, fuel prices, reductions in travel, fashion trends, consolidations, repositionings and bankruptcies in the retail industries, repositioning of brands by our licensors and other factors; (iii) our plans and results of operations will be affected by our ability to manage our growth and inventory, including our ability to continue to realize revenue growth from developing and growing Calvin Klein; (iv) our operations and results could be affected by quota restrictions and the imposition of safeguard controls (which, among other things, could limit our ability to produce products in cost-effective countries that have the labor and technical expertise needed), the availability and cost of raw materials (particularly petroleum-based synthetic fabrics, which are currently in high demand), our ability to adjust timely to changes in trade regulations and the migration and development of manufacturers (which can affect where our products can best be produced), and civil conflict, war or terrorist acts, the threat of any of the foregoing, or political and labor instability in the United States or any of the countries where our products are or are planned to be produced; (v) disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas; (vi) acquisitions and issues arising with acquisitions and proposed transactions, including without limitation, the ability to integrate an acquired entity into us with no substantial adverse affect on the acquired entity or our existing operations, employee relationships, vendor relationships, customer relationships or financial performance; (vii) the failure of our licensees to market successfully licensed products or to preserve the value of our

brands, or their misuse of our brands; and (viii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

We do not undertake any obligation to update publicly any forward-looking statement, including, without limitation, any estimate regarding revenues or cash flows, whether as a result of the receipt of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Phillips-Van Heusen Corporation

We have reviewed the consolidated balance sheets of Phillips-Van Heusen Corporation as of August 3, 2008 and August 5, 2007, the related consolidated income statements for the thirteen and twenty-six week periods ended August 3, 2008 and August 5, 2007 and the related consolidated statements of cash flows for the twenty-six week periods ended August 3, 2008 and August 5, 2007. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Phillips-Van Heusen Corporation as of February 3, 2008, and the related consolidated income statement, statement of changes in stockholders' equity, and statement of cash flows for the year then ended (not presented herein) and in our report dated March 24, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of February 3, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

New York, New York

September 9, 2008

Phillips-Van Heusen Corporation

Consolidated Balance Sheets

(In thousands, except share and per share data)

	August 3, <u>2008</u>	February 3, <u>2008</u>	August 5, <u>2007</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>	<u>UNAUDITED</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 260,505	\$ 269,914	\$ 366,271
Trade receivables, net of allowances for doubtful accounts of \$5,173, \$2,611 and \$3,555	173,915	154,355	152,103
Other receivables	13,907	31,622	7,629
Inventories	325,140	322,223	322,068
Prepaid expenses	34,042	48,295	34,727
Other, including deferred taxes of \$0, \$0 and \$1,969	<u>4,707</u>	<u>9,810</u>	<u>8,998</u>
Total Current Assets	812,216	836,219	891,796
Property, Plant and Equipment, net	248,351	232,028	185,179
Goodwill	349,434	322,001	285,205
Tradenames	621,135	621,135	621,135
Perpetual License Rights	86,000	86,000	86,000
Customer Relationships, net	37,659	32,943	34,126

Other Assets	<u>44,740</u>	<u>42,068</u>	<u>30,281</u>
Total Assets	<u>\$2,199,535</u>	<u>\$2,172,394</u>	<u>\$2,133,722</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 94,678	\$ 112,829	\$ 104,948
Accrued expenses, including deferred taxes of \$2,853, \$2,853 and \$0	160,744	212,900	142,145
Deferred revenue	<u>38,429</u>	<u>34,419</u>	<u>31,041</u>
Total Current Liabilities	293,851	360,148	278,134
Long-Term Debt	399,560	399,552	399,545
Other Liabilities, including deferred taxes of \$219,672, \$219,552 and \$220,924	468,215	456,411	406,017
Stockholders' Equity:			
Preferred stock, par value \$100 per share; 150,000 total shares authorized; no shares issued or outstanding	-	-	-
Common stock, par value \$1 per share; 240,000,000 shares authorized; 56,681,253; 56,505,842 and 56,461,452 shares issued	56,681	56,506	56,461
Additional capital	568,107	558,960	552,949

Retained earnings	630,307	558,538	471,571
Accumulated other comprehensive loss	(16,823)	(17,384)	(30,721)
Less: 5,222,491; 5,221,857 and 4,207 shares of common stock held in treasury, at cost	<u>(200,363)</u>	<u>(200,337)</u>	<u>(234)</u>
Total Stockholders' Equity	<u>1,037,909</u>	<u>956,283</u>	<u>1,050,026</u>
Total Liabilities and Stockholders' Equity	<u>\$2,199,535</u>	<u>\$2,172,394</u>	<u>\$2,133,722</u>

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Income Statements

Unaudited

(In thousands, except per share data)

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	August 3, <u>2008</u>	August 5, <u>2007</u>	August 3, <u>2008</u>	August 5, <u>2007</u>
Net sales	\$480,297	\$488,863	\$1,023,466	\$1,009,315
Royalty revenue	55,975	44,983	115,963	96,589
Advertising and other revenue	<u>24,695</u>	<u>18,530</u>	<u>47,236</u>	<u>38,378</u>
Total revenue	560,967	552,376	1,186,665	1,144,282
Cost of goods sold	<u>272,030</u>	<u>274,923</u>	<u>586,938</u>	<u>574,256</u>
Gross profit	288,937	277,453	599,727	570,026
Selling, general and administrative expenses	234,451	209,517	464,532	416,546
Gain on sale of investments	<u>-</u>	<u>-</u>	<u>1,864</u>	<u>3,335</u>
Income before interest and taxes	54,486	67,936	137,059	156,815

Interest expense	8,388	8,493	16,764	16,973
Interest income	<u>1,561</u>	<u>4,550</u>	<u>3,425</u>	<u>8,556</u>
Income before taxes	47,659	63,993	123,720	148,398
Income tax expense	<u>18,453</u>	<u>24,893</u>	<u>47,713</u>	<u>56,292</u>
Net income	<u>\$ 29,206</u>	<u>\$ 39,100</u>	<u>\$ 76,007</u>	<u>\$ 92,106</u>
Basic net income per share	<u>\$ 0.57</u>	<u>\$ 0.69</u>	<u>\$ 1.48</u>	<u>\$ 1.64</u>
Diluted net income per share	<u>\$ 0.56</u>	<u>\$ 0.68</u>	<u>\$ 1.45</u>	<u>\$ 1.60</u>
Dividends declared per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ 0.075</u>	<u>\$ 0.075</u>

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Statements of Cash Flows

Unaudited

(In thousands)

	<u>Twenty-Six Weeks Ended</u>	
	August 3, <u>2008</u>	August 5, <u>2007</u>
OPERATING ACTIVITIES		
Net income	\$ 76,007	\$ 92,106
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	23,364	18,668
Amortization	3,826	3,480
Deferred taxes	120	906
Stock-based compensation	5,410	5,431
Gain on sale of investments	(1,864)	(3,335)
Impairment of long-lived assets	6,773	1,279
Changes in operating assets and liabilities:		
Trade receivables	(21,156)	(59,155)
Inventories	(3,243)	(37,174)
Accounts payable, accrued expenses and deferred revenue	(46,841)	(3,973)

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Prepaid expenses	12,875	4,826
Proceeds in connection with acquisition of CMI	38,500	-
Other, net	<u>13,646</u>	<u>11,904</u>
Net cash provided by operating activities	<u>107,417</u>	<u>34,963</u>
INVESTING ACTIVITIES ⁽¹⁾		
Purchase of property, plant and equipment	(54,418)	(33,347)
Contingent purchase price payment to Superba	(14,517)	-
Contingent purchase price payments to Mr. Calvin Klein	(21,079)	(18,265)
Acquisition of CMI	(17,146)	-
Acquisition of Mulberry	(11,377)	-
Sale of investments	1,864	3,335
Purchase price adjustment from acquisition of Superba, net	<u>-</u>	<u>782</u>
Net cash used by investing activities	<u>(116,673)</u>	<u>(47,495)</u>
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	2,708	11,845

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Excess tax benefits from stock-based compensation transactions	1,038	5,249
Cash dividends on common stock	(3,872)	(4,206)
Acquisition of treasury shares	<u>(27)</u>	<u>(184)</u>
Net cash (used) provided by financing activities	<u>(153)</u>	<u>12,704</u>
(Decrease) Increase in cash ⁽²⁾	(9,409)	172
Cash at beginning of period	<u>269,914</u>	<u>366,099</u>
Cash at end of period	<u>\$ 260,505</u>	<u>\$366,271</u>

⁽¹⁾ See Note 12 for information on noncash investing transactions.

⁽²⁾ The effect of exchange rate changes on cash and cash equivalents was immaterial for the twenty-six weeks ended August 3, 2008 and August 5, 2007.

See accompanying notes.

PHILLIPS-VAN HEUSEN CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in thousands, except per share data)

1. GENERAL

The Company's fiscal years are based on the 52-53 week period ending on the Sunday closest to February 1 and are designated by the calendar year in which the fiscal year commences. Unless otherwise noted, references to years are to the Company's fiscal years.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not contain all disclosures required by accounting principles generally accepted in the United States for complete financial statements. Reference should be made to the audited consolidated financial statements, including the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended February 3, 2008.

The preparation of interim financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from the estimates.

The results of operations for the thirteen and twenty-six weeks ended August 3, 2008 and August 5, 2007 are not necessarily indicative of those for a full fiscal year due, in part, to seasonal factors. The data contained in these financial statements are unaudited and are subject to year-end adjustments. However, in the opinion of management, all known adjustments (which consist only of normal recurring accruals) have been made to present fairly the consolidated operating results for the unaudited periods.

Certain reclassifications have been made to the consolidated financial statements and the notes thereto for the prior year periods to present that information on a basis consistent with the current year.

References to the brand names *Calvin Klein Collection*, *ck Calvin Klein*, *Calvin Klein*, *Van Heusen*, *IZOD*, *Eagle*, *Bass*, *G.H. Bass & Co.*, *Geoffrey Beene*, *ARROW*, *BCBG Max Azria*, *BCBG Attitude*, *CHAPS*, *Sean John*, *Donald J.*

Trump Signature Collection, JOE Joseph Abboud, Kenneth Cole New York, Kenneth Cole Reaction, MICHAEL Michael Kors, Michael Kors Collection, DKNY, Perry Ellis Portfolio, Tommy Hilfiger, Nautica, Ike Behar, Jones New York, J. Garcia, Claiborne, U.S. POLO ASSN., Axxess and Timberland and to other brand names are to registered trademarks owned by the Company or licensed to the Company by third parties and are identified by italicizing the brand name.

2. INVENTORIES

Inventories related to the Company's wholesale operations, comprised principally of finished goods, are stated at the lower of cost or market. Inventories related to the Company's retail operations, comprised entirely of finished goods, are stated at the lower of average cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost is calculated by applying a cost-to-retail ratio to the retail value of inventories. Permanent and point of sale markdowns, when recorded, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. Cost for certain apparel and accessory inventory is determined using the last-in, first-out method (LIFO). Cost for principally all other inventory is determined using the first-in, first-out method (FIFO). At August 3, 2008, February 3, 2008 and August 5, 2007, no LIFO reserves were recorded because LIFO cost approximated FIFO cost.

3. ACQUISITION OF CMI

The Company acquired 100% of the issued and outstanding shares of Confezioni Moda Italia, S.r.L. (CMI) from Warnaco, Inc. (Warnaco) on January 30, 2008. CMI is the licensee of the *Calvin Klein Collection* apparel and accessories businesses under agreements with the Company's Calvin Klein, Inc. subsidiary. Warnaco acquired the shares of CMI in January 2008 and was obligated to operate the *Calvin Klein Collection* businesses through 2013. In return for the Company's assuming ownership of CMI, Warnaco made a payment of \$38,500 to the Company in the first quarter of 2008. Under the terms of the acquisition agreement, the amount paid to the Company is subject to

certain refund provisions if the Company were to cease operating the *Calvin Klein Collection* businesses prior to 2012. The Company will amortize into income each year that it continues to operate such business the amount set forth in the acquisition agreement that would have been refunded to Warnaco for such year if the Company had ceased operating such business. Each amount so amortized is amortized in equal quarterly installments. As part of this transaction, the Company paid to Warnaco \$17,146 in the first quarter of 2008 based on a percentage of the net working capital of CMI as of the closing date. This amount is subject to adjustment and the Company is in the process of finalizing the closing date valuation. During the second quarter of 2008, the Company adjusted the preliminary allocation of the purchase price based on an updated estimate of the working capital of CMI as of the closing date. This adjustment resulted in the Company recording goodwill of \$4,831. The Company granted Warnaco certain new licenses and expanded certain existing license rights as part of the CMI transaction.

4. ACQUISITION OF MULBERRY ASSETS

The Company acquired in April 2008 certain assets of Mulberry Thai Silks, Inc. (Mulberry), a manufacturer and distributor of neckwear in the United States. The Company acquired the rights to produce and market neckwear under the *Kenneth Cole New York*, *Kenneth Cole Reaction*, *J. Garcia*, *Claiborne*, *Sean John*, *BCBG Max Azria*, *BCBG Attitude*, *U.S. POLO ASSN.* and *Axcess* brands in connection with this transaction. The Company paid \$11,377, including transaction expenses, during the twenty-six weeks ended August 3, 2008 in connection with the acquisition. The amount paid by the Company is subject to adjustment based on the actual valuation of the closing date working capital of the acquired business. The Company is in the process of finalizing the valuation.

5. GOODWILL

The changes in the carrying amount of goodwill for the period ended August 3, 2008, by segment, were as follows:

	Wholesale Dress <u>Furnishings</u>	Wholesale Sportswear and Related <u>Products</u>	Calvin Klein <u>Licensing</u>	Corporate/ <u>Other</u>	<u>Total</u>
Balance as of February 3, 2008	\$63,659	\$82,133	\$176,209	\$ -	\$322,001
Contingent purchase price payments to Mr. Calvin Klein	-	-	17,883	-	17,883
Adjustment to contingent purchase price payment					

to Superba	(483)	-	-	-	(483)
Acquisition of Mulberry assets	5,202	-	-	-	5,202
Adjustment to CMI preliminary purchase price allocation	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,831</u>	<u>4,831</u>
Balance as of August 3, 2008	<u>\$68,378</u>	<u>\$82,133</u>	<u>\$194,092</u>	<u>\$4,831</u>	<u>\$349,434</u>

Contingent purchase price payments to Mr. Calvin Klein relate to the Company's acquisition in 2003 of all of the issued and outstanding stock of Calvin Klein, Inc. and certain affiliated companies (collectively, Calvin Klein). Such payments are based on 1.15% of total worldwide net sales, as defined in the agreement governing the Calvin Klein acquisition, of products bearing any of the *Calvin Klein* brands for 15 years from the date of purchase. A significant portion of the sales on which the payments to Mr. Klein are made are wholesale sales by the Company and its licensees and other business partners to retailers.

The Company acquired in January 2007 substantially all of the assets of Superba, Inc. (now known as Skipper, Inc., Superba). The Company is obligated to make contingent purchase price payments to Superba if the earnings of the acquired business exceed certain targets in 2007, 2008 and 2009. The Company estimated the payment based on the 2007 earnings, as defined in the underlying asset purchase agreement, achieved by the acquired business to be \$15,000 and recorded this amount in 2007 as an addition to goodwill. The Company paid Superba \$14,517 in the first quarter of 2008 based on the actual calculation of the 2007 earnings, as defined in the underlying asset purchase agreement, achieved by the acquired business, which resulted in an adjustment of \$483 to goodwill during the twenty-six weeks ended August 3, 2008. The maximum payout that Superba can receive is \$25,000 and \$30,000 with respect to earnings in 2008 and 2009, respectively.

6. RETIREMENT AND BENEFIT PLANS

The Company has noncontributory defined benefit pension plans covering substantially all employees resident in the United States who meet certain age and service requirements. For those vested (after five years of service), the plans provide monthly benefits upon retirement based on career compensation and years of credited service.

The Company also has for certain of such employees an unfunded non-qualified supplemental defined benefit pension plan, which provides benefits for compensation in excess of Internal Revenue Service earnings limits and requires payments to vested employees upon employment termination or retirement, or shortly thereafter.

In addition to the defined benefit pension plans described above, the Company has a capital accumulation program (CAP Plan), which is an unfunded non-qualified supplemental defined benefit plan covering 22 current and retired executives. Under the individual participants CAP Plan agreements, the participants will receive a predetermined amount during the 10 years following the attainment of age 65, provided that prior to the termination of employment with the Company, the participant has been in the CAP Plan for at least 10 years and has attained age 55.

The Company and its domestic subsidiaries also provide certain postretirement health care and life insurance benefits. Retirees contribute to the cost of this plan, which is unfunded. During 2002, the postretirement plan was amended to eliminate benefits for active participants who, as of January 1, 2003, had not attained age 55 and 10 years of service.

As required by Financial Accounting Standards Board (FASB) Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R), for 2008, the Company changed its measurement date for plan assets and liabilities to coincide with its fiscal year end. The adoption of the measurement date provisions of FASB Statement No. 158 resulted in a reduction, net of tax, of \$366 to the Company s 2008 opening balance of retained earnings.

Net benefit cost related to the Company s pension plans was recognized as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Service cost, including plan expenses	\$ 2,081	\$ 2,038	\$ 3,962	\$ 3,864
Interest cost	4,055	3,649	7,916	7,238

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Amortization of net loss	742	1,378	1,119	2,549
Expected return on plan assets	(4,585)	(4,334)	(9,171)	(8,676)
Amortization of prior service cost	<u>10</u>	<u>21</u>	<u>19</u>	<u>51</u>
Total	<u>\$ 2,303</u>	<u>\$ 2,752</u>	<u>\$ 3,845</u>	<u>\$ 5,026</u>

Net benefit cost related to the Company's CAP Plan was recognized as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Service cost, including plan expenses	\$ 19	\$ 46	\$ 37	\$ 92
Interest cost	247	251	494	502
Amortization of net gain	<u>(22)</u>	<u>-</u>	<u>(44)</u>	<u>-</u>
Total	<u>\$244</u>	<u>\$297</u>	<u>\$487</u>	<u>\$594</u>

Net benefit cost related to the Company's postretirement plan was recognized as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Interest cost	\$ 352	\$ 350	\$ 712	\$ 698
Amortization of net loss	64	99	136	194

Amortization of prior service credit	<u>(205)</u>	<u>(205)</u>	<u>(409)</u>	<u>(409)</u>
Total	<u>\$ 211</u>	<u>\$ 244</u>	<u>\$ 439</u>	<u>\$ 483</u>

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7. COMPREHENSIVE INCOME

Comprehensive income was as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Net income	\$29,206	\$39,100	\$76,007	\$92,106
Reclassification of retirement and benefit plan costs to net income, net of taxes	<u>365</u>	<u>802</u>	<u>509</u>	<u>1,479</u>
Comprehensive income	<u>\$29,571</u>	<u>\$39,902</u>	<u>\$76,516</u>	<u>\$93,585</u>

The income tax effect related to the reclassification of pension and postretirement costs to net income was an expense of \$224 and \$312 for the thirteen and twenty-six weeks ended August 3, 2008, respectively, and \$491 and \$906 for the thirteen and twenty-six weeks ended August 5, 2007, respectively.

8. STOCK-BASED COMPENSATION

The Company's 2006 Stock Incentive Plan (the "2006 Plan") was approved at the Company's Annual Meeting of Stockholders held in June 2006. The 2006 Plan replaced the Company's existing 1997, 2000 and 2003 Stock Option Plans. The 1997, 2000 and 2003 Stock Option Plans terminated on the date of such approval, other than with respect to outstanding options under those plans, which will continue to be governed by the respective plan under which they were granted. Shares issued as a result of stock-based compensation transactions are primarily funded with the issuance of new shares of the Company's common stock.

2006 Stock Incentive Plan

The Company may grant the following types of incentive awards under the 2006 Plan: (i) non-qualified stock options (NQOs); (ii) incentive stock options (ISOs); (iii) stock appreciation rights; (iv) restricted stock; (v) restricted stock units (RSUs); (vi) performance shares; and (vii) other stock-based awards. Each award granted under the 2006 Plan is evidenced by an award agreement that specifies, as applicable, the exercise price, the term of the award, the periods of restriction, the number of shares to which the award pertains, applicable performance period(s) and performance

measure(s), and such other terms and conditions as the plan committee determines.

Through August 3, 2008, the Company has granted service-based NQs and RSUs, as well as contingently issuable performance shares under the 2006 Plan. According to the terms of the 2006 Plan, for purposes of determining the number of shares available for grant, an issuance of a stock option is counted as one share and an issuance of an RSU or performance share is counted as three shares. The per share exercise price of options granted under the 2006 Plan cannot be less than the closing price of the common stock on the date of grant (the business day prior to the date of grant for awards granted prior to September 21, 2006). The award agreements for options and RSUs granted under the 2006 Plan generally provide for accelerated vesting upon the participant's retirement (as defined in the 2006 Plan). The maximum term of options granted under the 2006 Plan is ten years.

1997, 2000 and 2003 Stock Option Plans

The Company currently has service-based NQs and ISOs outstanding under its 1997, 2000 and 2003 Stock Option Plans. Options were granted with an exercise price equal to the closing price of the common stock on the business day immediately preceding the date of grant. NQs and ISOs granted have a ten-year term. Such options currently outstanding are generally cumulatively exercisable in four equal installments commencing one year after the date of grant. The options provide for accelerated vesting upon the optionee's retirement (as defined in the 1997, 2000 and 2003 Stock Option Plans).

Net income for the twenty-six weeks ended August 3, 2008 and August 5, 2007 included \$5,410 and \$5,431, respectively, of pre-tax expense related to stock-based compensation.

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes-Merton model. The estimated fair value of the options, net of estimated forfeitures, is expensed on a straight-line basis over the options' vesting period.

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The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during the twenty-six weeks ended August 3, 2008 and August 5, 2007, respectively:

	<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>
Weighted average risk-free interest rate	2.79%	4.69%
Weighted average expected option life	6.3 Years	6.3 Years
Weighted average expected volatility	29.5%	33.3%
Expected annual dividends per share	\$ 0.15	\$ 0.15
Weighted average estimated fair value per share of options granted	\$12.16	\$24.08

The Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 110 in December 2007. SAB No. 110 allows for the continued use, under certain circumstances, of the simplified method discussed in SAB No. 107 for estimating the expected term of plain vanilla stock options. The Company has continued to utilize the simplified method to estimate the expected term for its stock options granted and will continue to evaluate the appropriateness of utilizing such method.

Service-based stock option activity for the twenty-six weeks ended August 3, 2008 was as follows:

	<u>Options</u>	<u>Weighted Average Price Per Option</u>
Outstanding at February 3, 2008	3,336	\$28.55
Granted	333	36.59
Exercised	173	15.69

Cancelled	<u>13</u>	<u>34.11</u>
Outstanding at August 3, 2008	<u>3,483</u>	<u>\$29.93</u>
Exercisable at August 3, 2008	<u>2,241</u>	<u>\$25.00</u>

RSUs granted to employees generally vest in three installments commencing two years after the date of grant. RSUs granted to non-employee directors vest in four equal installments commencing one year after the date of grant. The RSU award agreements provide for accelerated vesting upon the award recipient's retirement (as defined in the 2006 Plan). The fair value of the RSUs is equal to the closing price of the Company's common stock on the date of grant.

The fair value of the RSUs, net of estimated forfeitures, is expensed on a straight-line basis over the RSUs' vesting period.

RSU activity for the twenty-six weeks ended August 3, 2008 was as follows:

	<u>Shares</u>	Weighted Average Grant Date <u>Fair Value</u>
Non-vested at February 3, 2008	155	\$56.16
Granted	276	39.67
Vested	3	60.05
Cancelled	<u>7</u>	<u>48.19</u>
Non-vested at August 3, 2008	<u>421</u>	<u>\$45.46</u>

The Company's executive officers received contingently issuable performance share awards during the first quarter of 2008, subject to a performance period of three years. The final number of shares that will be earned, if any, is contingent upon the Company's achievement of goals for each of the performance periods based on both earnings per share growth and return on equity during the applicable performance cycle. Depending on the level of objectives achieved, up to a total number of 89 shares could be issued for the three-year performance period. The Company records expense for the contingently issuable performance shares ratably based on fair value and the Company's current expectations of the probable number of shares that will ultimately be issued. The fair value of the contingently issuable performance shares is equal to the closing price of the Company's common stock on the date of grant, reduced for the present value of any dividends expected to be paid on the Company's common stock during the performance cycle, as the contingently issuable performance shares do not accrue dividends prior to being earned.

Performance share activity for the twenty-six weeks ended August 3, 2008 was as follows:

	<u>Shares</u>	Weighted Average Grant Date <u>Fair Value</u>
Non-vested at February 3, 2008	82	\$53.53
Granted	89	41.80
Vested	-	-
Cancelled	<u>-</u>	<u>-</u>
Non-vested at August 3, 2008	<u>171</u>	<u>\$47.39</u>

The Company receives a tax deduction for certain stock-based compensation transactions. The actual income tax benefits realized from stock-based compensation transactions for the twenty-six weeks ended August 3, 2008 and August 5, 2007 were \$1,362 and \$6,485, respectively. Of those amounts, \$1,038 and \$5,249, respectively, were reported as excess tax benefits from stock-based compensation transactions. Excess tax benefits arise when the actual tax benefit resulting from a stock option exercise or RSU or performance share vesting exceeds the tax benefit associated with the grant date fair value of the related stock award.

9. ACTIVITY EXIT COSTS AND ASSET IMPAIRMENTS

Activity Exit Costs

The Company announced in the second quarter of 2008 that it will not renew its license agreements to operate *Geoffrey Beene* outlet retail stores and committed to a plan to close its Geoffrey Beene outlet retail division. This decision was based on the division not materially or consistently contributing to the Company's overall profitability. The Geoffrey Beene outlet retail division, which operated approximately 100 stores at the time of the announcement, is expected to cease operations by the end of 2008. Approximately 25 stores will be converted, substantially all to the

Calvin Klein outlet retail format, with the remaining stores being closed.

Costs associated with the closure of the Company's Geoffrey Beene outlet retail division were as follows:

	Total Expected to be <u>Incurred</u>	Incurred During the Thirteen and Twenty-Six Weeks <u>Ended 8/3/08</u>	Liability <u>at 8/3/08</u>
Severance and termination benefits	\$ 3,648	\$ 872	\$719
Long-lived asset impairments	5,977	5,977	-
Inventory liquidation costs	12,000	1,598	-
Lease termination and other costs	<u>2,375</u>	<u>240</u>	<u>-</u>
Total	<u>\$24,000</u>	<u>\$8,687</u>	<u>\$719</u>

The estimate of \$12,000 for inventory liquidation costs expected to be incurred includes excess markdowns above historical averages for inventory committed to but not received as of August 3, 2008.

The charges for severance and termination benefits, asset impairments, lease terminations and other costs are included in selling, general and administrative expenses of the Retail Apparel and Related Products segment. Inventory liquidation costs are included in cost of goods sold of the Retail Apparel and Related Products segment.

Asset Impairments

The recent performance of the Company's continuing heritage brand outlet retail businesses (Bass, Van Heusen and Izod) was an impairment indicator in the second quarter of 2008, which caused the Company to evaluate whether the

net book value of the long-lived assets in the Company's heritage brand outlet retail stores was recoverable. Based on this evaluation, the Company determined that the long-lived assets in certain stores were not recoverable and

recorded an impairment charge in selling, general and administrative expenses of \$796 in the second quarter of 2008, of which \$340 was included in the Retail Apparel and Related Products segment and \$456 was included in the Retail Footwear and Related Products segment.

The level of profitability in the first quarter of 2007 in certain of the Company's outlet retail stores was an impairment indicator, which caused the Company to evaluate whether the net book value of the long-lived assets in such stores was recoverable. Based on these evaluations, the Company determined that the long-lived assets in certain stores were not recoverable and recorded an impairment charge in selling, general and administrative expenses in the Retail Apparel and Related Products segment of \$1,279 in the first quarter of 2007.

The determinations of the impairments recorded in the second quarter of 2008 and the first quarter of 2007 were made by comparing each store's expected undiscounted future cash flows to the carrying amount of the long-lived assets. Since the long-lived assets in certain stores were deemed not recoverable, the net book value of the long-lived assets in excess of the fair value was written off. Fair value was estimated based on the estimated recovery costs of the assets in the stores.

10. SALE OF INVESTMENTS

Warnaco acquired 100% of the shares of the companies that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe on January 31, 2006. The Company's Calvin Klein, Inc. subsidiary is the licensor of the businesses sold and had minority interests in certain of the entities sold. During the first quarter of 2007, \$3,335 was released to the Company from escrow in connection with this sale. The Company received a distribution of \$1,864 during the first quarter of 2008, representing its share of the amount that remained in escrow in connection with this sale. The Company recorded these amounts as gains during each of the applicable quarters.

11. NET INCOME PER SHARE

The Company computed its basic and diluted net income per share as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Net income	<u>\$29,206</u>	<u>\$39,100</u>	<u>\$76,007</u>	<u>\$92,106</u>

Weighted average common shares outstanding for basic net income per share	51,428	56,340	51,383	56,134
Weighted average impact of dilutive securities	936	1,340	898	1,428
Weighted average impact of dilutive warrant	<u>97</u>	<u>163</u>	<u>89</u>	<u>162</u>
Total shares for diluted net income per share	<u>52,461</u>	<u>57,843</u>	<u>52,370</u>	<u>57,724</u>
Basic net income per share	<u>\$ 0.57</u>	<u>\$ 0.69</u>	<u>\$ 1.48</u>	<u>\$ 1.64</u>
Diluted net income per share	<u>\$ 0.56</u>	<u>\$ 0.68</u>	<u>\$ 1.45</u>	<u>\$ 1.60</u>

Potentially dilutive securities excluded from the calculation of diluted net income per share were as follows:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
Weighted average antidilutive securities	<u>871</u>	<u>289</u>	<u>831</u>	<u>214</u>

According to FASB Statement No. 128, Earnings per Share, contingently issuable shares that have not met the necessary conditions as of the end of a reporting period should not be included in the calculation of diluted net income per share for that period. The Company granted contingently issuable performance shares during the first quarters of 2008 and 2007 that did not meet the performance conditions as of August 3, 2008 and August 5, 2007 and, therefore, were excluded from the calculation of diluted net income per share for the thirteen and twenty-six weeks ended August 3, 2008 and August 5, 2007. The maximum number of potentially dilutive shares that could be issued upon vesting for the contingently issuable performance shares granted during the first quarter of 2008 and 2007 was 89 and 82, respectively. These contingently issuable performance shares were also excluded from the computation of weighted average antidilutive securities.

12. NONCASH INVESTING TRANSACTIONS

During the twenty-six weeks ended August 3, 2008, the Company recorded an increase to property, plant and equipment of \$46,608 related to capital expenditures that were paid in cash. In addition, during the twenty-six weeks ended August 3, 2008, the Company paid \$7,810 in cash related to property, plant and equipment that was acquired in the fourth quarter of 2007.

During the twenty-six weeks ended August 3, 2008 and August 5, 2007, the Company recorded increases to goodwill of \$17,883 and \$14,876, respectively, related to liabilities incurred for contingent purchase price payments to Mr. Calvin Klein. Such amounts are not due or paid in cash until 45 days subsequent to the Company's applicable quarter end. As such, during the twenty-six weeks ended August 3, 2008 and August 5, 2007, the Company paid \$21,079 and \$18,265, respectively, in cash related to contingent purchase price payments to Mr. Calvin Klein that were recorded as additions to goodwill during the periods the liabilities were incurred.

13. SEGMENT DATA

The Company manages its operations through its operating divisions, which are aggregated into five reportable segments: (i) Wholesale Dress Furnishings; (ii) Wholesale Sportswear and Related Products; (iii) Retail Apparel and Related Products; (iv) Retail Footwear and Related Products; and (v) Calvin Klein Licensing.

Wholesale Dress Furnishings Segment - The Company aggregates the results of its wholesale dress shirt and neckwear divisions into the Wholesale Dress Furnishings segment. The Company's wholesale dress shirt division derives revenue primarily from marketing dress shirts under the brand names *Van Heusen, IZOD, Eagle, Geoffrey Beene, ARROW, Kenneth Cole New York, Kenneth Cole Reaction, Calvin Klein Collection, ck Calvin Klein, Calvin Klein, BCBG Max Azria, BCBG Attitude, CHAPS, Sean John, Donald J. Trump Signature Collection, JOE Joseph Abboud, MICHAEL Michael Kors* and, beginning in the first quarter of 2008, *DKNY*. The Company's neckwear division derives revenue primarily from marketing neckwear under the brand names *ARROW, IZOD, Calvin Klein, DKNY, Tommy Hilfiger, Nautica, Ike Behar, Jones New York* and, beginning in the first quarter of 2008, in connection with the acquisition of the Mulberry assets, *Kenneth Cole New York, Kenneth Cole Reaction, J. Garcia, Claiborne, Sean John, BCBG Max Azria, BCBG Attitude, U.S. POLO ASSN.* and *Axcess*. In addition, through the second quarter of 2008, the Company sold neckwear under the *Perry Ellis Portfolio* brand name and agreed during the second quarter of 2008 to a termination of the license to sell neckwear under such brand. The Company markets its wholesale dress shirt and neckwear brands, as well as various private label brands, to department, mid-tier department and specialty stores.

Wholesale Sportswear and Related Products Segment - The Company aggregates the results of its wholesale sportswear divisions into the Wholesale Sportswear and Related Products segment. This segment derives revenue primarily from marketing men's sportswear under the brand names *Van Heusen, IZOD, Geoffrey Beene, ARROW, Calvin Klein* and, beginning principally in the second quarter of 2008, *Timberland* to department, mid-tier department and specialty stores. Additionally, beginning in the second quarter of 2007, this segment also derives

revenue from marketing women's sportswear under the brand name *IZOD* to department, mid-tier department and specialty stores.

Retail Apparel and Related Products Segment - The Company aggregates the results of its Van Heusen, Izod, Geoffrey Beene and Calvin Klein retail divisions into the Retail Apparel and Related Products segment. This segment derives revenue principally from operating retail stores, primarily in outlet centers, which sell apparel and accessories under the brand names *Van Heusen*, *IZOD*, *Geoffrey Beene* and *Calvin Klein*. The Company announced in the second quarter of 2008 that it will not renew its license to operate *Geoffrey Beene* outlet retail stores and committed to a plan to cease operations of its Geoffrey Beene outlet retail division by the end of 2008. This segment also derives revenue from selling *Calvin Klein Collection* branded high-end collection apparel and accessories through the Company's own full price retail store located in New York City. Beginning in the fourth quarter of 2007, this segment also derives revenue from the Company's *Calvin Klein* specialty retail stores located in premier malls in the United States.

Retail Footwear and Related Products Segment - This segment consists of the Company's Bass retail division. This division derives revenue principally from operating retail stores, primarily in outlet centers, which sell footwear, apparel, accessories and related products under the brand names *Bass* and *G.H. Bass & Co.*

Calvin Klein Licensing Segment - The Company aggregates the results of its Calvin Klein licensing and advertising divisions into the Calvin Klein Licensing segment. This segment derives revenue from licensing and similar arrangements worldwide relating to the use by third parties of the brand names *Calvin Klein Collection*, *ck Calvin Klein* and *Calvin Klein* for a broad array of products and retail services.

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The following table presents summarized information by segment:

	<u>Thirteen Weeks Ended</u>		<u>Twenty-Six Weeks Ended</u>	
	<u>8/3/08</u>	<u>8/5/07</u>	<u>8/3/08</u>	<u>8/5/07</u>
<u>Revenue - Wholesale Dress Furnishings</u>				
Net sales	\$106,179	\$113,845	\$ 251,451	\$ 257,311
Royalty revenue	1,414	1,375	3,089	3,021
Advertising and other revenue	<u>509</u>	<u>490</u>	<u>1,142</u>	<u>1,356</u>
Total	108,102	115,710	255,682	261,688
<u>Revenue - Wholesale Sportswear and Related Products</u>				
Net sales	108,623	122,659	279,876	285,917
Royalty revenue	2,648	2,530	5,260	5,266
Advertising and other revenue	<u>1,203</u>	<u>879</u>	<u>2,390</u>	<u>1,956</u>
Total	112,474	126,068	287,526	293,139
<u>Revenue - Retail Apparel and Related Products</u>				
Net sales	189,078	175,453	348,615	327,890
Royalty revenue	<u>1,851</u>	<u>1,891</u>	<u>3,651</u>	<u>3,831</u>
Total	190,929	177,344	352,266	331,721

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Revenue - Retail Footwear and Related Products

Net sales	73,422	76,906	133,391	138,197
Royalty revenue	75	50	233	100
Advertising and other revenue	<u>29</u>	<u>235</u>	<u>104</u>	<u>611</u>
Total	73,526	77,191	133,728	138,908

Revenue - Calvin Klein Licensing

Royalty revenue	49,987	39,137	103,730	84,371
Advertising and other revenue	<u>22,954</u>	<u>16,926</u>	<u>43,600</u>	<u>34,455</u>
Total	72,941	56,063	147,330	118,826

Revenue - Corporate/Other⁽¹⁾

Net sales	<u>2,995</u>	<u>-</u>	<u>10,133</u>	<u>-</u>
Total	2,995	-	10,133	-

Total Revenue

Net sales	480,297	488,863	1,023,466	1,009,315
Royalty revenue	55,975	44,983	115,963	96,589
Advertising and other revenue	<u>24,695</u>	<u>18,530</u>	<u>47,236</u>	<u>38,378</u>
Total	<u>\$560,967</u>	<u>\$552,376</u>	<u>\$1,186,665</u>	<u>\$1,144,282</u>

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Income before interest and taxes - Wholesale Dress Furnishings	\$ 8,616	\$ 11,254	\$ 35,219	\$ 36,267
Income before interest and taxes - Wholesale Sportswear and Related Products	8,279	15,468	35,491	45,432
Income before interest and taxes - Retail Apparel and Related Products	6,800 ⁽²⁾	18,340	15,295 ⁽²⁾	31,289
Income before interest and taxes - Retail Footwear and Related Products	4,472	7,800	3,563	11,311
Income before interest and taxes - Calvin Klein Licensing	43,380	29,450	78,726	59,787
Loss before interest and taxes - Corporate/Other ⁽¹⁾	<u>(17,061)</u>	<u>(14,376)</u>	<u>(31,235)</u>	<u>(27,271)</u>
Income before interest and taxes	<u>\$ 54,486</u>	<u>\$ 67,936</u>	<u>\$ 137,059</u>	<u>\$ 156,815</u>

(1)

Includes corporate expenses not allocated to any reportable segments and the results of the Company's *Calvin Klein Collection* wholesale business. These corporate expenses represent overhead operating expenses and include expenses for senior corporate management, corporate finance and information technology related to corporate infrastructure. Additionally, the Company includes all stock-based compensation expenses in these corporate expenses.

(2)

Income before interest and taxes for the Retail Apparel and Related Products segment for the thirteen and twenty-six weeks ended August 3, 2008 includes costs of \$8,687 associated with the closing of the Company's Geoffrey Beene outlet retail division.

Intersegment transactions consist of transfers of inventory principally between the Wholesale Dress Furnishings segment and the Retail Apparel and Related Products segment. These transfers are recorded at cost plus a standard mark up percentage. Such mark up percentage is eliminated in the Retail Apparel and Related Products segment.

14. OTHER COMMENTS

The Company has guaranteed the payment of certain purchases made by one of the Company's suppliers from a raw material vendor. The maximum amount guaranteed is \$500. The guarantee expires on January 31, 2009.

The Company has guaranteed to a former landlord the payment of rent and related costs by the tenant currently occupying space previously leased by the Company. The maximum amount guaranteed as of August 3, 2008 is approximately \$4,700, which is subject to exchange rate fluctuation. The Company has the right to seek recourse of approximately \$3,000 as of August 3, 2008, which is subject to exchange rate fluctuation. The guarantee expires on May 19, 2016.

15. RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issued FASB Statement No. 157, *Fair Value Measurements*, in September 2006. This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures about the use of fair value measurements. The Company adopted FASB Statement No. 157 prospectively as of the beginning of 2008 for all financial assets and liabilities and for non-financial assets and liabilities measured at fair value on a recurring basis (at least annually). This adoption had no impact on the Company's consolidated results of operations and

financial position. For all other non-financial assets and liabilities, the Company will adopt FASB Statement No. 157 as of the beginning of 2009. The Company is currently evaluating the impact that this adoption will have on its consolidated results of operations and financial position.

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

References to the brand names *Calvin Klein Collection*, *ck Calvin Klein*, *Calvin Klein*, *Van Heusen*, *IZOD*, *Eagle*, *Bass*, *Geoffrey Beene*, *ARROW*, *BCBG Max Azria*, *BCBG Attitude*, *CHAPS*, *Sean John*, *Donald J. Trump Signature Collection*, *Kenneth Cole New York*, *Kenneth Cole Reaction*, *DKNY*, *Perry Ellis Portfolio*, *Tommy Hilfiger*, *Nautica*, *Ike Behar*, *Jones New York*, *J. Garcia*, *Claiborne*, *Timberland* and to other brand names are to registered trademarks owned by us or licensed to us by third parties and are identified by italicizing the brand name.

References to the Mulberry acquisition refer to our April 2008 acquisition of certain assets of Mulberry Thai Silks, Inc., a manufacturer and distributor of neckwear in the United States, which we refer to as Mulberry.

References to our acquisition of CMI refer to our January 2008 acquisition of Confezioni Moda Italia S.r.L., which we refer to as CMI. CMI is the licensee of the *Calvin Klein Collection* apparel and accessories businesses under agreements with our Calvin Klein, Inc. subsidiary.

References to the Superba acquisition refer to our January 2007 acquisition of substantially all of the assets of Superba, Inc., a manufacturer and distributor of neckwear in the United States and Canada, which we refer to as Superba.

References to our acquisition of Arrow refer to our December 2004 acquisition of Cluett Peabody Resources Corporation and Cluett Peabody & Co., Inc., which companies we refer to collectively as Arrow.

References to our acquisition of Calvin Klein refer to our February 2003 acquisition of Calvin Klein, Inc. and certain affiliated companies, which companies we refer to collectively as Calvin Klein.

OVERVIEW

The following discussion and analysis is intended to help you understand us, our operations and our financial performance. It should be read in conjunction with our consolidated financial statements and the accompanying notes, which are included elsewhere in this report.

We are one of the largest apparel companies in the world, with a heritage dating back over 125 years. Our brand portfolio consists of nationally recognized brand names, including *Calvin Klein*, *Van Heusen*, *IZOD*, *ARROW*, *Bass* and *Eagle*, which are owned, and *Geoffrey Beene*, *Kenneth Cole New York*, *Kenneth Cole Reaction*, *BCBG Max Azria*, *BCBG Attitude*, *Sean John*, *CHAPS*, *Donald J. Trump Signature Collection*, *DKNY*, *Tommy Hilfiger*, *Nautica*, *Ike Behar*, *Jones New York* and *Timberland*, which are licensed. In the first quarter of 2008, we acquired certain assets of Mulberry, which enabled us to add the *J. Garcia* and *Claiborne* brand names, among others, to our portfolio of licensed brands. In addition, through the second quarter of 2008, we sold neckwear under the *Perry Ellis Portfolio* brand name and agreed during the second quarter of 2008 to a termination of the license to sell neckwear under such brand.

Our historical business strategy has been to manage and market a portfolio of nationally recognized brands at multiple price points and across multiple channels of distribution. We believe this strategy reduces our reliance on any one demographic group, merchandise preference or distribution channel. We have expanded this strategy, including through our acquisitions of Calvin Klein in February 2003 and Arrow in December 2004. These acquisitions not only provided us with brands that offer additional distribution channel and price point opportunities in our traditional categories of dress shirts and sportswear, thus building on our historical strategy, but also provided us with established international licensing businesses which do not require capital investments. These acquisitions have also provided us with growth opportunities in extending these brands through licensing into additional product categories and jurisdictions, as well as by providing us with some protection against general downturns in the U.S. economy. The Superba acquisition in January 2007 provided us with an established neckwear business base, which advances our historical strategy by adding a product category that can be leveraged into the strategy and is complementary to our heritage dress shirt business. The Mulberry acquisition in April 2008 built upon this base. The Superba and Mulberry acquisitions present us with opportunities to grow and enhance the performance of both the dress shirt and neckwear businesses by providing us with the ability to produce and market all of the neckwear for our owned brands over time and to leverage the design, merchandising and selling capabilities of both businesses to offer our customers a cohesive and comprehensive portfolio of branded dress shirts and neckwear. Our business

strategy was also supported by our assumption of the wholesale *IZOD* women's sportswear collection, which was previously a licensed business. During the second quarter of 2007, we assumed responsibility for the development and sale of the line, which allowed us to expand our operations for the first time to include the wholesale distribution of women's sportswear.

We intend to continue to build upon our business strategy by implementing new initiatives that provide us with the opportunity to promote our products and to fill product and brand portfolio needs. This is evidenced by our opening of *Calvin Klein* specialty retail stores in premier malls in the U.S., which are intended to serve as a platform for showcasing the totality of the *Calvin Klein* white label "better" product. We opened nine of these stores through the first half of 2008 and opened one additional store in the third quarter of 2008. In addition, we have a licensing arrangement with The Timberland Company to design, source and market men's and women's casual sportswear under the *Timberland* brand in North America. We have assumed the management of the men's apparel line for the Fall 2008 season and currently plan to launch a women's line for Spring 2010. *Timberland* is an authentic outdoor traditional brand targeted to the department and specialty store channels of distribution that we believe has a unique positioning that will complement our existing portfolio of sportswear brands and enable us to reach a broader spectrum of consumers.

A significant portion of our total income before interest and taxes is derived from international sources, primarily driven by the significant international component of our *Calvin Klein* licensing business. We intend to continue to expand our operations globally through direct marketing by us and through partnerships with licensees. We recently expanded our wholesale operations to include sales of certain of our products to department and specialty stores throughout Canada and parts of Europe and have entered into many license agreements with partners across the globe for our brands.

OPERATIONS OVERVIEW

We generate net sales from (i) the wholesale distribution of men's dress shirts, men's sportswear, neckwear and women's sportswear (beginning in the second quarter of 2007); and (ii) the sale, through over 750 company-operated retail stores, of apparel, footwear and accessories under the brand names *Van Heusen*, *IZOD*, *Geoffrey Beene*, *Bass* and *Calvin Klein*.

We announced in the second quarter of 2008 our plan to close our *Geoffrey Beene* outlet retail division. The *Geoffrey Beene* outlet retail division, which operated approximately 100 stores at the time of the announcement, is expected to cease operations by the end of 2008. Approximately 25 stores will be converted, substantially all to the *Calvin Klein* outlet retail format, with the remaining stores being closed. We have recorded pre-tax charges of approximately \$6 million related to non-cash asset impairments and approximately \$3 million related to inventory liquidations, contract terminations, severance and other costs in the second quarter of 2008 in connection with the closure of the division. We expect to incur additional pre-tax charges of approximately \$15 million related to inventory liquidations, contract terminations, severance and other costs over the balance of 2008. All charges associated with the closure are recorded in the Retail Apparel and Related Products segment.

Our stores principally operate in outlet centers. We also operate a full price store located in New York City under the *Calvin Klein Collection* brand, in which we principally sell men's and women's high-end collection apparel and accessories, soft home furnishings and tableware. We began opening and operating in the third quarter of 2007 a limited number of specialty retail stores in premier malls in the United States under the *Calvin Klein* brand, in which we principally sell men's and women's better apparel and accessories. There are currently 10 such stores in operation.

We generate royalty, advertising and other revenue from fees for licensing the use of our trademarks. Calvin Klein royalty, advertising and other revenue, which comprised 90% of total royalty, advertising and other revenue in the first half of 2008, is derived under licenses and other arrangements for a broad array of products, including jeans, underwear, fragrances, eyewear, watches and home furnishings.

Gross profit on total revenue is total revenue less cost of goods sold. Included as cost of goods sold are costs associated with the production and procurement of product, including inbound freight costs, purchasing and receiving costs, inspection costs, internal transfer costs and other product procurement related charges. Because there is no cost of goods sold associated with royalty, advertising and other revenue, 100% of such revenue is included in gross profit. As a result, our gross profit may not be comparable to that of other entities.

Selling, general and administrative expenses include all other expenses, excluding interest and income taxes. Salaries and related fringe benefits is the largest component of selling, general and administrative expenses, comprising 49% of such expenses in the first half of 2008. Rent and occupancy for offices, warehouses and retail stores is the next largest expense, comprising 23% of selling, general and administrative expenses in the first half of 2008.

RESULTS OF OPERATIONS

Thirteen Weeks Ended August 3, 2008 Compared With Thirteen Weeks Ended August 5, 2007

Net Sales

Net sales in the second quarter of 2008 decreased 1.8% to \$480.3 million from \$488.9 million in the second quarter of the prior year. The decrease of \$8.6 million was due principally to the net effect of the items described below:

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the reduction of \$21.7 million of net sales attributable to our wholesale segments resulting primarily from declines in our heritage brand sportswear and dress furnishings businesses. These declines were due, in part, to the recent bankruptcy filings of certain of our wholesale customers, combined with the negative impact of the difficult overall macroeconomic environment in the United States. Partially offsetting these decreases was the addition of sales associated with the launch of our *Timberland* wholesale men's sportswear business in the second quarter of 2008 and a full quarter of sales of our *IZOD* women's sportswear line, which began shipping late in the second quarter of 2007;

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the addition of \$10.1 million of net sales attributable to growth in our retail segments driven by the opening of *Calvin Klein* specialty retail stores located in premier malls in the United States, as well as store openings and strong performance in our *Calvin Klein* outlet retail business. Partially offsetting this increase were declines in our heritage brand outlet retail businesses. Total outlet retail comparable store sales decreased 2% for the quarter, with the *Calvin Klein* outlet retail business achieving comparable store sales growth of 9% and the heritage brand outlet retail businesses experiencing a comparable store sales decline of 5%. We exclude from our comparable store sales percentage measures all stores that are scheduled to be closed. As such, our *Geoffrey Beene* outlet retail stores are excluded from the foregoing comparable store sales measures; and

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the addition of \$3.0 million of net sales attributable to our recent acquisition of CMI.

Royalty, Advertising and Other Revenue

Royalty, advertising and other revenue in the second quarter of 2008 increased 27.0% to \$80.7 million from \$63.5 million in the second quarter of the prior year. This increase was primarily attributable to our Calvin Klein Licensing segment, as a result of growth across virtually all product categories and regions of the globe, with jeans and underwear performing exceptionally well.

Gross Profit on Total Revenue

Gross profit on total revenue in the second quarter of 2008 was \$288.9 million, or 51.5% of total revenue, compared with \$277.5 million, or 50.2% of total revenue in the second quarter of the prior year. The 130 basis point increase was due to a change in revenue mix, as royalty, advertising and other revenue, which does not carry a cost of sales and has a gross profit percentage of 100%, increased as a percentage of total revenue. This increase was offset, in part, by a decrease in gross margin due to increased promotional selling in our heritage brand outlet retail businesses, which were negatively affected by the overall weak retail environment. Also negatively affecting the gross profit percentage was a 30 basis point decrease in gross margin as a result of inventory liquidation markdowns associated with the closure of our Geoffrey Beene outlet retail division.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the second quarter of 2008 were \$234.5 million, or 41.8% of total revenue, compared with \$209.5 million, or 37.9% of total revenue, in the second quarter of the prior year. The 390 basis point increase includes an increase of approximately 130 basis points related to asset impairments, severance, contract termination and other costs associated with the closure of our Geoffrey Beene outlet retail division. The remaining 260 basis point increase was due principally to the sales decreases in our heritage outlet retail businesses mentioned

previously, SG&A expenses associated with our new *Calvin Klein* specialty retail stores and additional expenses associated with the continued opening of *Calvin Klein* outlet retail stores, as our retail businesses typically have higher expense rates than our wholesale businesses. The \$24.9 million increase in SG&A expenses in the second quarter of 2008 included: (i) increased expenses of approximately \$9.0 million associated with our new *Timberland* mens sportswear business and *Calvin Klein* specialty retail stores; (ii) expenses of \$7.1 million related to asset impairments, severance, contract termination and other costs associated with the closure of our Geoffrey Beene outlet retail division; (iii) operating expenses of \$4.6 million related to our recent acquisition of CMI; (iv) an increase in advertising expenditures of \$2.0 million, due principally to the timing of expenditures; and (v) increased expenses of \$1.4 million in our retail segments principally related to the continued opening of *Calvin Klein* outlet retail stores.

Interest Expense and Interest Income

The majority of our interest expense relates to our fixed rate long-term debt. As a result, variances in our net interest expense tend to be driven by changes in interest income and, to a lesser extent, costs related to our revolving credit facility.

Interest expense of \$8.4 million in the second quarter of 2008 was relatively flat to the prior year's second quarter amount of \$8.5 million. Interest income decreased to \$1.6 million in the second quarter of 2008 from \$4.6 million in the second quarter of the prior year. This decrease was due principally to a decrease in our cash position during 2008 as a result of the completion of our \$200.0 million stock repurchase in the fourth quarter of 2007, combined with a decrease in investment rates of return compared to the prior year.

Income Taxes

In the first quarter of 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN 48). Under FIN 48, volatility in our tax rate may occur, either from quarter to quarter, or from year to year, due to events or new information that causes us to re-evaluate our unrecognized tax benefits.

Income taxes for the second quarter of 2008 were provided for at a rate of 38.7% compared with last year's full year rate of 37.8%.

Twenty-Six Weeks Ended August 3, 2008 Compared With Twenty-Six Weeks Ended August 5, 2007

Net Sales

Net sales in the first half of 2008 increased 1.4% to \$1,023.5 million from \$1,009.3 million in the first half of the prior year. The increase of \$14.2 million was due principally to the net effect of the items described below:

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the addition of \$15.9 million of net sales attributable to growth in our retail segments driven by the opening of *Calvin Klein* specialty retail stores located in premier malls in the United States, as well as store openings and strong performance in our *Calvin Klein* outlet retail business. Partially offsetting this increase were declines in our heritage brand outlet retail businesses. Total outlet retail comparable store sales decreased 2% for the first half, with the *Calvin Klein* outlet retail business achieving comparable store sales growth of 9% and the heritage brand outlet retail businesses experiencing a comparable store sales decline of 5%. We exclude from our comparable store sales percentage measures all stores that are scheduled to be closed. As such, our *Geoffrey Beene* outlet retail stores are excluded from the foregoing comparable store sales measures;

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the reduction of \$11.9 million of net sales attributable to our wholesale segments resulting principally from declines in our heritage brand sportswear and dress furnishings businesses. These declines were due, in part, to the recent bankruptcy filings of certain of our wholesale customers, combined with the negative impact of the difficult overall macroeconomic environment in the United States. Partially offsetting these decreases was the addition of sales associated with the launch of our *Timberland* wholesale men's sportswear business in the second quarter of 2008, a full six months of sales of our *IZOD* women's sportswear line, which began shipping late in the second quarter of 2007, and growth in our *Calvin Klein* men's sportswear business; and

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the addition of \$10.1 million of net sales attributable to our recent acquisition of CMI.

Our net sales for the full year 2008 are expected to increase approximately 5% to 6% due to projected growth in our *Calvin Klein* men's sportswear business, the continued opening of *Calvin Klein* outlet retail stores and comparable store sales growth in our *Calvin Klein* outlet retail business, the impact of a full year of sales from our *IZOD* women's sportswear business, the launch of our *Timberland* wholesale men's sportswear line, which began selling principally in the second quarter of 2008, the sales of the recently opened *Calvin Klein* specialty retail stores located in premier malls in the United States and the sales of our recently acquired CMI subsidiary. Partially offsetting these increases are anticipated sales decreases in our heritage outlet retail businesses as a result of the continued overall weak retail environment in the United States.

Royalty, Advertising and Other Revenue

Royalty, advertising and other revenue in the first half of 2008 increased 20.9% to \$163.2 million from \$135.0 million in the first half of the prior year. This increase was primarily attributable to our Calvin Klein Licensing segment, as a result of growth across virtually all product categories and regions of the globe, with jeans and underwear performing exceptionally well.

We currently expect that royalty, advertising and other revenue will increase approximately 15% in our Calvin Klein Licensing segment for the full year 2008 as a result of growth in the businesses of existing licensees, as well as royalties generated under new license agreements. Royalty, advertising and other revenue in our other segments is expected to be relatively flat for the full year 2008.

Gross Profit on Total Revenue

Gross profit on total revenue in the first half of 2008 was \$599.7 million, or 50.5% of total revenue, compared with \$570.0 million, or 49.8% of total revenue in the first half of the prior year. The 70 basis point increase was due to a change in revenue mix, as royalty, advertising and other revenue, which does not carry a cost of sales and has a gross profit percentage of 100%, increased as a percentage of total revenue. This increase was offset, in part, by a decrease in gross margin due to increased promotional selling in our heritage brand outlet retail businesses, which were negatively affected by the overall weak retail environment. Also negatively affecting the gross profit percentage was a 20 basis point decrease in gross margin as a result of inventory liquidation markdowns associated with the closure of our Geoffrey Beene outlet retail division.

We currently expect that the gross profit on total revenue percentage will decrease approximately 20 basis points for the full year 2008 compared to 2007. This includes a decrease of approximately 50 basis points related to inventory liquidation markdowns associated with closing our Geoffrey Beene outlet retail division. The remaining increase of 30 basis points is expected to be driven by gross margin growth attributable to our *Calvin Klein* businesses, which is expected to be partially offset by gross margin declines in our heritage brand outlet retail businesses due principally to additional promotional selling.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the first half of 2008 were \$464.5 million, or 39.1% of total revenue, and \$416.5 million, or 36.4% of total revenue, in the first half of the prior year. The 270 basis point increase includes an increase of approximately 60 basis points related to asset impairments, severance, contract termination and other costs associated with the closure of our Geoffrey Beene outlet retail division. The remaining 210 basis point increase was due principally to the addition of expenses associated with our new *Timberland* wholesale men's sportswear business, which began shipping principally in the second quarter of 2008, SG&A expenses associated with our new *Calvin Klein* specialty retail stores and additional expenses associated with the continued opening of *Calvin Klein* outlet retail stores, as our retail businesses typically have higher expense rates than our wholesale businesses. The \$48.0 million increase in SG&A expenses in the first half of 2008 included: (i) increased expenses of approximately \$16.0 million associated with our new *Timberland* wholesale men's sportswear business and *Calvin Klein* specialty retail stores; (ii) an increase in advertising expenditures of \$7.6 million, due principally to the timing of expenditures; (iii) operating expenses of \$7.4 million related to our recent acquisition of CMI; (iv) expenses of \$7.1 million related to asset impairments, severance, contract termination and other costs associated with the closure of our Geoffrey Beene outlet retail division; and (v) increased expenses of \$4.2 million in our retail segments principally related to the continued opening of *Calvin Klein* outlet retail stores.

Our full year 2008 SG&A expenses as a percentage of total revenue is currently expected to increase approximately 170 to 180 basis points. This includes an increase of approximately 50 basis points related to asset impairments,

severance, contract termination and other costs associated with closing our Geoffrey Beene outlet retail division. The remaining increase of 120 to 130 basis points is due primarily to higher SG&A expenses associated with our new *Calvin Klein* specialty retail stores and additional expenses associated with the continued opening of *Calvin Klein* outlet retail stores, as our retail businesses typically have higher expense rates than our wholesale businesses.

Gain on Sale of Investments

We sold, in the first quarter of 2006, minority interests held by one of our subsidiaries in certain entities that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. During the first quarter of 2007, \$3.3 million was released to us from escrow in connection with this sale. During the first quarter of 2008, we received a distribution of \$1.9 million representing our share of the amount that remained in escrow. We recorded these amounts as gains in each of the respective quarters.

Interest Expense and Interest Income

The majority of our interest expense relates to our fixed rate long-term debt. As a result, variances in our net interest expense tend to be driven by changes in interest income and, to a lesser extent, costs related to our revolving credit facility.

Interest expense of \$16.8 million in the first half of 2008 was relatively flat to the prior year's first half amount of \$17.0 million. Interest income decreased to \$3.4 million in the first half of 2008 from \$8.6 million in the first half of the prior year. This decrease was due principally to a decrease in our cash position in the first half of 2008 as a result of the completion of our \$200.0 million stock repurchase in the fourth quarter of 2007, combined with a decrease in investment rates of return compared to the prior year.

Income Taxes

Income taxes for the first half of 2008 were provided for at a rate of 38.6% compared with last year's full year rate of 37.8%. We currently anticipate that our full year 2008 tax expense as a percentage of pre-tax income will be between 36.5% and 37.0%. The decline in the full year tax rate for 2008 is due to discrete items that we expect will occur in the second half of 2008 that did not occur in 2007.

It is possible that our estimated full year rate could change from discrete events arising from specific transactions, audits by tax authorities or the receipt of new information. Under FIN 48, additional volatility in our tax rate may

occur in the future, either from quarter to quarter, or from year to year, due to events or new information that causes us to re-evaluate our unrecognized tax benefits.

LIQUIDITY AND CAPITAL RESOURCES

Generally, our principal source of cash is from operations, and our principal uses of cash are for capital expenditures, contingent purchase price payments and dividends. Additionally, in the fourth quarter of 2007, we utilized \$200.0 million of cash to repurchase approximately 5.2 million shares of our common stock.

Operations

Cash provided by operating activities was \$107.4 million in the first half of 2008, which compares with \$35.0 million in the first half of the prior year. This increase was due, in part, to \$38.5 million of cash proceeds we received in connection with our acquisition of CMI. Please see Note 3, Acquisition of CMI, in the Notes to Consolidated Financial Statements included in Item 1 of this report for a further discussion. Also contributing to the increase was a change in working capital, including: (i) an increase in cash resulting from a change in inventories, as inventories remained relatively flat at the end of the second quarter of 2008 when compared to the year end 2007 balance in order to maintain clean inventory levels in a difficult retail environment, while inventories in the prior year reflected an increase due to an anticipated sales increase; and (ii) an increase in cash resulting from a change in receivables due to the timing and amounts of shipments in the second quarter of 2008 as compared to the second quarter of 2007. This was partially offset by a decrease in cash resulting from a change in accounts payable, accrued expenses and deferred revenue due principally to the timing of inventory payments in our sportswear and retail businesses.

Capital Expenditures

Our capital expenditures paid in cash in the first half of 2008 were \$54.4 million. We currently expect that capital expenditures for the full year 2008 will be approximately \$90.0 million. This compares to the capital expenditures paid in cash for the full year 2007 of \$94.7 million.

Contingent Purchase Price Payments

In connection with our acquisition of Calvin Klein, we are obligated to pay Mr. Calvin Klein contingent purchase price payments for 15 years from the date of purchase based on 1.15% of total worldwide net sales, as defined in the agreement governing the Calvin Klein acquisition, of products bearing any of the *Calvin Klein* brands. A significant portion of the sales on which the payments to Mr. Klein are made are wholesale sales by us and our licensees and other business partners to retailers. Such contingent purchase price payments totaled \$21.1 million in the first half of 2008. We currently expect that such payments will be \$40.0 million to \$42.0 million for the full year 2008.

In connection with the Superba acquisition in January 2007, we are obligated to pay Superba contingent purchase price payments if the earnings of the acquired business exceed certain targets in 2007, 2008 and 2009. Any such contingent purchase price payments are payable 90 days after each applicable fiscal year end. Such contingent purchase price payments totaled \$14.5 million in the first quarter of 2008 based on the actual calculation of the 2007 earnings, as defined in the underlying asset purchase agreement, achieved by the acquired business. The maximum payout that Superba can receive is \$25.0 million and \$30.0 million with respect to earnings in 2008 and 2009, respectively.

Acquisition of CMI

We acquired CMI from Warnaco, Inc. (Warnaco) on January 30, 2008. CMI is the licensee of the *Calvin Klein Collection* apparel and accessories businesses under agreements with our Calvin Klein, Inc. subsidiary. Warnaco acquired the shares of CMI in January 2008 and was obligated to operate the *Calvin Klein Collection* businesses through 2013. In return for us assuming ownership of CMI, Warnaco made a payment of \$38.5 million to us in the first quarter of 2008. As part of this transaction, we paid to Warnaco \$17.1 million in the first quarter of 2008 based on a percentage of the net working capital of CMI as of the closing date. This amount is subject to adjustment and we are in the process of finalizing the closing date valuation. Please see Note 3, Acquisition of CMI, in the Notes to Consolidated Financial Statements included in Item 1 of this report for a further discussion.

Acquisition of Mulberry

We completed the Mulberry acquisition in the first quarter of 2008. We acquired the rights to produce and market neckwear under the *Kenneth Cole New York*, *Kenneth Cole Reaction*, *J. Garcia*, *Claiborne*, *Sean John*, *BCBG Max Azria*, *BCBG Attitude*, *U.S. POLO ASSN.* and *Axcess* brands in connection with this transaction. We paid \$11.4 million, including transaction expenses, during the twenty-six weeks ended August 3, 2008 in connection with the acquisition. We are in the process of finalizing the closing date valuation. As such, this amount is subject to adjustment. Please see Note 4, Acquisition of Mulberry Assets, in the Notes to Consolidated Financial Statements included in Item 1 of this report for a further discussion.

Dividends

Our common stock, which as of August 3, 2008 is the only class of stock issued, currently pays annual dividends totaling \$0.15 per share.

We project that cash dividends on our common stock in 2008 will be \$7.7 million to \$7.8 million based on our current dividend rate, the number of shares of our common stock outstanding at August 3, 2008 and our estimates of stock issuances in 2008 in connection with our stock-based compensation.

Cash Flow Summary

Our net cash outflow in the first half of 2008 was \$9.4 million. Cash flow for the full year 2008 will be impacted by various other factors in addition to those discussed above in this Liquidity and Capital Resources section. For example, the exercise of stock options provided \$12.6 million of cash in 2007. We currently estimate the proceeds from stock option exercises to be lower in 2008.

Based on our current operations, and considering all of the above factors, we currently expect to generate \$80.0 million to \$90.0 million of cash flow for the full year 2008. This estimate includes the one-time costs associated with closing our Geoffrey Beene outlet retail division, net of the benefit associated with liquidating the working capital of this division. There can be no assurance that this estimate will prove to be accurate. Unforeseen events, including changes in our net income, working capital requirements or other items, including acquisitions and equity transactions, could occur, which could cause our cash flow to vary significantly from this estimate.

Financing Arrangements

Our capital structure as of August 3, 2008 was as follows:

(in millions)

Long-term debt	\$ 399.6
Stockholders' equity	\$1,037.9

We believe our capital structure provides a secure base to support our current operations and our planned growth in the future. There are no maturities of our long-term debt until 2011.

For near-term liquidity, in addition to our cash balance, we have a \$325.0 million secured revolving credit facility that provides for revolving credit borrowings, as well as the issuance of letters of credit. We may, at our option, borrow and repay amounts up to a maximum of \$325.0 million for revolving credit borrowings and the issuance of letters of credit, which may be increased by us under certain conditions by up to \$100.0 million, with a sublimit of \$50.0 million for standby letters of credit and with no sublimit on trade letters of credit. Based on our working capital projections, we believe that our borrowing capacity under this facility provides us with adequate liquidity for our peak seasonal needs for the foreseeable future. During the first half of 2008, we had no revolving credit borrowings under the facility, and the maximum amount of letters of credit outstanding was \$148.1 million. As of August 3, 2008, we had \$134.0 million outstanding letters of credit under this facility. We currently do not expect to have any revolving credit borrowings under the facility during the remainder of 2008.

Given our capital structure and our projections for future profitability and cash flow, we believe we could obtain additional financing, if necessary, for refinancing our long-term debt, or, if opportunities present themselves, future acquisitions. Although we believe we could obtain such financing, due to the current state of credit markets, there can

be no assurance that such financing could be obtained on terms as favorable to us as our current financings or otherwise on terms satisfactory to us. Furthermore, as credit markets are constantly changing, there can be no assurance that such financing, if needed, could be obtained at such time as a need arises or that it would be available to us on terms satisfactory to us.

SEASONALITY

Our business generally follows a seasonal pattern. Our wholesale businesses tend to generate higher levels of sales and income in the first and third quarters, as the selling of Spring and Fall merchandise to our customers occurs at higher levels as these selling seasons begin. Our retail businesses tend to generate higher levels of sales and income in the third and fourth quarters, due to the back to school and holiday selling seasons. Royalty, advertising and other revenue tends to be earned somewhat evenly throughout the year, although the third quarter has the highest level of royalty revenue due to higher sales by licensees in advance of the holiday season.

Due to the above factors, our operating results for the thirteen and twenty-six week periods ended August 3, 2008 are not necessarily indicative of those for a full fiscal year.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments held by us include cash equivalents and long-term debt. Interest rates on our long-term debt are fixed. Therefore, a change in rates generally would not have an effect on our interest expense. Note 7, Long-Term Debt, in the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended February 3, 2008 outlines the principal amounts, interest rates, fair values and other terms required to evaluate the expected sensitivity of interest rate changes on the fair value of our fixed rate long-term debt. Cash and cash equivalents held by us are affected by short-term interest rates. Therefore, a change in short-term interest rates would have an impact on our interest income. Given our balance of cash and cash equivalents as of August 3, 2008,

the effect of a 50 basis point change in short-term interest rates on our interest income would be approximately \$1.3 million annually.

Principally all of our revenue and expenses are currently denominated in United States dollars. However, certain of our operations and license agreements expose us to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro, the Yen and the Canadian dollar. Our principal exposure to changes in exchange rates for the United States dollar results from our licensing businesses. Many of our license agreements require the licensee to report sales to us in the licensee's local currency, but to pay us in United States dollars based on the exchange rate as of the last day of the contractual selling period. Thus, while we are not exposed to exchange rate gains and losses between the end of the selling period and the date we collect payment, we are exposed to exchange rate changes during and up to the last day of the selling period. During times of a strengthening United States dollar, our foreign royalty revenue will be negatively impacted, and during times of a weakening United States dollar, our foreign royalty revenue will be favorably impacted.

A secondary exposure to changes in exchange rates for the United States dollar results from our foreign wholesale operations. Our wholesale operations include sales of certain of our products to department and specialty stores throughout Canada and parts of Europe. Sales for these foreign operations are both generated and collected in foreign currency, which exposes us to foreign exchange gains and losses between the date of the sale and the date we collect payment. As with our licensing business, the results of these operations will be negatively impacted during times of a strengthening United States dollar and favorably impacted during times of a weakening United States dollar.

Not all foreign license agreements expose us to foreign exchange risk. Many of our foreign license agreements specify that contractual minimums be paid in United States dollars. Thus, for these foreign license agreements where the licensee's sales do not exceed contractual minimums, the licensee assumes the risk of changes in exchange rates and we do not.

Somewhat mitigating our exposure to changes in the exchange rate for the Euro is our Calvin Klein administrative office in Milan, Italy. Operating expenses of our recently-acquired CMI business have further mitigated our exposure to changes in the exchange rate of the Euro, as the acquired business has certain operations in Italy. During times of a strengthening United States dollar against the Euro, the expenses associated with these business operations will be favorably impacted, and during times of a weakening United States dollar against the Euro, the expenses associated with these business operations will be negatively impacted.

ITEM 4 - CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were

effective as of the end of the period covered by this report. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

<u>Period</u>	<u>(a) Total Number of Shares (or Units) Purchased</u>	<u>(b) Average Price Paid per Share (or Unit)</u>	<u>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
May 5, 2008 - June 1, 2008	-	\$ -	-	\$2,072 ⁽²⁾
June 2, 2008 - July 6, 2008	508 ⁽¹⁾	42.79 ⁽¹⁾	-	2,072 ⁽²⁾
July 7, 2008 - August 3, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,072⁽²⁾</u>
Total	<u>508⁽¹⁾</u>	<u>\$42.79⁽¹⁾</u>	<u>-</u>	<u>\$2,072⁽²⁾</u>

⁽¹⁾ Our Stock Option Plans generally provide participants with the right to deliver previously owned stock to pay the exercise price of stock options. All shares shown in this table were delivered during the second quarter of 2008 in payment of the exercise price for stock options that permitted such delivery.

⁽²⁾ On November 30, 2007, our Board of Directors authorized us to repurchase up to \$200,000,000 of our outstanding common stock. The Board's authorization was effective through the end of 2008 and permitted us to effect the purchases through open market purchases, privately negotiated transactions, including accelerated and guaranteed share repurchase agreements, and other means. We deemed this share repurchase program to have been completed during the fourth quarter of 2007.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

Our Annual Meeting of Stockholders was held on June 19, 2008. There were present in person or by proxy, holders of 47,224,250 shares of our common stock, or 91.9% of all shares of common stock eligible to be voted at the meeting. The holders of the common stock voted on all matters reported below.

The following directors were elected to serve for a term of one year:

	<u>For</u>	<u>Vote Withheld</u>
Mary Baglivo	44,642,032	2,582,218
Emanuel Chirico	42,374,219	4,850,031
Edward H. Cohen	42,015,637	5,208,613
Joseph B. Fuller	36,952,391	10,271,859
Margaret L. Jenkins	44,657,809	2,566,441
Bruce Maggin	42,365,566	4,858,684
V. James Marino	44,647,268	2,576,982
Henry Nasella	44,314,541	2,909,709
Rita M. Rodriguez	44,655,323	2,568,927
Craig Rydin	44,644,513	2,579,737

The proposal for Ernst & Young LLP to serve as our independent auditors until our next Annual Meeting of Stockholders was ratified. The votes were 44,562,059 For; 2,570,203 Against; and 91,988 Abstentions.

ITEM 6 - EXHIBITS

The following exhibits are included herein:

- 3.1 Certificate of Incorporation (incorporated by reference to Exhibit 5 to the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 1977).
- 3.2 Amendment to Certificate of Incorporation, filed June 27, 1984 (incorporated by reference to Exhibit 3B to the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 1985).
- 3.3 Certificate of Designation of Series A Cumulative Participating Preferred Stock, filed June 10, 1986 (incorporated by reference to Exhibit A of the document filed as Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 1986).
- 3.4 Amendment to Certificate of Incorporation, filed June 2, 1987 (incorporated by reference to Exhibit 3(c) to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1988).
- 3.5 Amendment to Certificate of Incorporation, filed June 1, 1993 (incorporated by reference to Exhibit 3.5 to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1994).
- 3.6 Amendment to Certificate of Incorporation, filed June 20, 1996 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 28, 1996).
- 3.7 Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Phillips-Van Heusen Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on February 26, 2003).
- 3.8 Corrected Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of Phillips-Van Heusen Corporation, dated as of April 17, 2003 (incorporated by reference to Exhibit 3.9 to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2003).

- 3.9 Certificate of Amendment of Certificate of Incorporation, filed June 29, 2006 (incorporated by reference to Exhibit 3.9 to the Company's Quarterly Report on Form 10-Q for the period ended May 6, 2007).
- 3.10 Certificate Eliminating Reference to Series B Convertible Preferred Stock from Certificate of Incorporation of Phillips-Van Heusen Corporation, filed June 12, 2007 (incorporated by reference to Exhibit 3.10 to the Company's Quarterly Report on Form 10-Q for the period ended May 6, 2007).
- 3.11 Certificate Eliminating Reference To Series A Cumulative Participating Preferred Stock From Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed on September 28, 2007).
- 3.12 By-Laws of Phillips-Van Heusen Corporation, as amended through September 27, 2007 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on September 28, 2007).
- 4.1 Specimen of Common Stock certificate (incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1981).
- 4.2 Indenture, dated as of November 1, 1993, between Phillips-Van Heusen Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-3 (Reg. No. 33-50751) filed on October 26, 1993).
- 4.3 First Supplemental Indenture, dated as of October 17, 2002 to Indenture dated as of November 1, 1993 between Phillips-Van Heusen Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.15 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2002).
- 4.4 Second Supplemental Indenture, dated as of February 12, 2002 to Indenture, dated as of November 1, 1993, between Phillips-Van Heusen Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on February 26, 2003).

4.5	Indenture, dated as of May 5, 2003, between Phillips-Van Heusen Corporation and SunTrust Bank, as Trustee (incorporated by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2003).
4.6	Indenture, dated as of February 18, 2004 between Phillips-Van Heusen Corporation and SunTrust Bank, as Trustee (incorporated by reference to Exhibit 4.14 to the Company's Annual Report on Form 10-K for the fiscal year ended February 1, 2004).
10.1	First Amendment to Amended and Restated Employment Agreement, dated July 1, 2008, between Phillips-Van Heusen Corporation and Allen Sirkin (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 3, 2008).
10.2	Restricted Stock Unit Award Agreement, dated July 1, 2008, between Phillips-Van Heusen Corporation and Allen Sirkin (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on July 3, 2008).
10.3	Form of Restricted Stock Unit Award Agreement for Special Grants to Allen Sirkin (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on July 3, 2008).
+10.4	Revised Form of Restricted Stock Unit Agreement for Employees under the Phillips-Van Heusen Corporation 2006 Stock Incentive Plan, effective as of July 1, 2008.
+10.5	Revised Form of Restricted Stock Unit Agreement for Directors under the Phillips-Van Heusen Corporation 2006 Stock Incentive Plan, effective as of July 1, 2008.
+10.6	Schedule of Non-Management Directors' Fees, effective June 19, 2008.
+15	Acknowledgement of Independent Registered Public Accounting Firm.
+31.1	Certification of Emanuel Chirico, Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
+31.2	

Certification of Michael Shaffer, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

+32.1

Certification of Emanuel Chirico, Chairman and Chief Executive Officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. Section 1350.

+32.2

Certification of Michael Shaffer, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. Section 1350.

+ Filed herewith.

Exhibits 32.1 and 32.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibits shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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.

PHILLIPS-VAN HEUSEN CORPORATION

Registrant

Dated: September 11, 2008

/s/ Bruce Goldstein

Bruce Goldstein

Senior Vice President and Controller

(Chief Accounting Officer)

Exhibit Index

Exhibit

Description

10.4	Revised Form of Restricted Stock Unit Agreement for Employees under the Phillips-Van Heusen Corporation 2006 Stock Incentive Plan, effective as of July 1, 2008.
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