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)

x 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

o 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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(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 o No x

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

INDEX

PART I -- FINANCIAL INFORMATION

Item 1 - Financial Statements

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 s 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, 2008	February 3, 2008	August 5, 2007
	UNAUDITED	AUDITED	UNAUDITED
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	4,707	9,810	8,998
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	44,740	42,068	30,281
Total Assets	$2,199,535	$2,172,394	$2,133,722
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	38,429	34,419	31,041
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	(200,363)	(200,337)	(234)
Total Stockholders Equity	1,037,909	956,283	1,050,026
Total Liabilities and Stockholders Equity	$2,199,535	$2,172,394	$2,133,722

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Income Statements

Unaudited

(In thousands, except per share data)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2008	August 5, 2007	August 3, 2008	August 5, 2007
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	24,695	18,530	47,236	38,378
Total revenue	560,967	552,376	1,186,665	1,144,282
Cost of goods sold	272,030	274,923	586,938	574,256
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	-	-	1,864	3,335
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	1,561	4,550	3,425	8,556
Income before taxes	47,659	63,993	123,720	148,398
Income tax expense	18,453	24,893	47,713	56,292
Net income	$ 29,206	$ 39,100	$ 76,007	$ 92,106
Basic net income per share	$ 0.57	$ 0.69	$ 1.48	$ 1.64
Diluted net income per share	$ 0.56	$ 0.68	$ 1.45	$ 1.60
Dividends declared per share	$ 0.00	$ 0.00	$ 0.075	$ 0.075

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Statements of Cash Flows

Unaudited

(In thousands)

	Twenty-Six Weeks Ended	
	August 3, 2008	August 5, 2007
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)

Prepaid expenses	12,875	4,826
Proceeds in connection with acquisition of CMI	38,500	-
Other, net	13,646	11,904
Net cash provided by operating activities	107,417	34,963
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	-	782
Net cash used by investing activities	(116,673)	(47,495)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	2,708	11,845

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	(27)	(184)
Net cash (used) provided by financing activities	(153)	12,704
(Decrease) Increase in cash[2]	(9,409)	172
Cash at beginning of period	269,914	366,099
Cash at end of period	$ 260,505	$366,271

[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., Axcess 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 Furnishings	Wholesale Sportswear and Related Products	Calvin Klein Licensing	Corporate/ Other	Total
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	-	-	-	4,831	4,831
Balance as of August 3, 2008	$68,378	$82,133	$194,092	$4,831	$349,434

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 a