PHILLIPS VAN HEUSEN CORP /DE/
Form 10-Q
December 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 November 2, 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 December 2, 2008 was 51,477,957.

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 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 November 2, 2008 and November 4, 2007, the related consolidated income statements for the thirteen and thirty-nine week periods ended November 2, 2008 and November 4, 2007 and the related consolidated statements of cash flows for the thirty-nine week periods ended November 2, 2008 and November 4, 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

December 10, 2008

Phillips-Van Heusen Corporation

Consolidated Balance Sheets

(In thousands, except share and per share data)

	November 2, 2008	February 3, 2008	November 4, 2007
	UNAUDITED	AUDITED	UNAUDITED
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 197,557	$ 269,914	$ 336,629
Trade receivables, net of allowances for doubtful accounts of $5,252, $2,611 and $2,587	301,173	154,355	264,083
Other receivables	15,124	31,622	10,590
Inventories	329,001	322,223	332,107
Prepaid expenses	29,650	48,295	31,058
Other, including deferred taxes of $0, $0 and $1,969	4,904	9,810	9,026
Total Current Assets	877,409	836,219	983,493
Property, Plant and Equipment, net	253,284	232,028	202,748
Goodwill	366,943	322,001	295,363
Tradenames	621,135	621,135	621,135
Perpetual License Rights	86,000	86,000	86,000
Customer Relationships, net	34,653	32,943	33,534

Other Assets	44,475	42,068	29,573
Total Assets	$2,283,899	$2,172,394	$2,251,846
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	$ 104,473	$ 112,829	$ 128,090
Accrued expenses, including deferred taxes of $2,853, $2,853 and $0	211,513	212,900	174,565
Deferred revenue	33,611	34,419	20,641
Total Current Liabilities	349,597	360,148	323,296
Long-Term Debt	399,564	399,552	399,549
Other Liabilities, including deferred taxes of $219,828, $219,552 and $221,377	443,673	456,411	418,469
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; 56,700,448; 56,505,842 and 56,491,355 shares issued	56,700	56,506	56,491
Additional capital	571,571	558,960	556,052

Retained earnings	680,117	558,538	528,204
Accumulated other comprehensive loss	(16,960)	(17,384)	(29,981)
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	1,091,065	956,283	1,110,532
Total Liabilities and Stockholders Equity	$2,283,899	$2,172,394	$2,251,846

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Income Statements

Unaudited

(In thousands, except per share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2008	November 4, 2007	November 2, 2008	November 4, 2007
Net sales	$636,210	$611,399	$1,659,676	$1,620,714
Royalty revenue	66,690	62,851	182,653	159,440
Advertising and other revenue	24,584	22,120	71,820	60,498
Total revenue	727,484	696,370	1,914,149	1,840,652
Cost of goods sold	386,184	367,762	973,122	942,018
Gross profit	341,300	328,608	941,027	898,634
Selling, general and administrative expenses	254,832	226,310	719,364	642,856
Gain on sale of investments	-	-	1,864	3,335
Income before interest and taxes	86,468	102,298	223,527	259,113

Interest expense	8,486	8,405	25,250	25,378
Interest income	1,455	4,300	4,880	12,856
Income before taxes	79,437	98,193	203,157	246,591
Income tax expense	25,738	37,314	73,451	93,606
Net income	$ 53,699	$ 60,879	$ 129,706	$ 152,985
Basic net income per share	$ 1.04	$ 1.08	$ 2.52	$ 2.72
Diluted net income per share	$ 1.03	$ 1.05	$ 2.48	$ 2.65
Dividends declared per share	$ 0.075	$ 0.075	$ 0.15	$ 0.15

See accompanying notes.

Phillips-Van Heusen Corporation

Consolidated Statements of Cash Flows

Unaudited

(In thousands)

	Thirty-Nine Weeks Ended	
	November 2, 2008	November 4, 2007
OPERATING ACTIVITIES		
Net income	$129,706	$152,985
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	35,169	28,540
Amortization	5,682	5,243
Deferred taxes	276	1,359
Stock-based compensation	8,391	7,668
Gain on sale of investments	(1,864)	(3,335)
Impairment of long-lived assets	8,123	1,331
Changes in operating assets and liabilities:		
Trade receivables	(148,741)	(171,135)
Inventories	(5,195)	(47,213)

Accounts payable, accrued expenses and deferred revenue	5,817	37,855
Prepaid expenses	17,232	8,495
Proceeds in connection with acquisition of CMI	38,500	-
Other, net	(13,680)	21,381
Net cash provided by operating activities	79,416	43,174
INVESTING ACTIVITIES[1]		
Purchase of property, plant and equipment	(72,099)	(61,026)
Contingent purchase price payment to Superba	(14,517)	-
Contingent purchase price payments to Mr. Calvin Klein	(29,556)	(25,049)
Acquisition of CMI	(17,146)	-
Acquisition of Mulberry	(11,309)	-
Acquisition of BVH	(5,449)	-
Sale of investments	1,864	3,335
Purchase price adjustment from acquisition of Superba, net	-	782
Net cash used by investing activities	(148,212)	(81,958)

FINANCING ACTIVITIES		
Proceeds from exercise of stock options	3,086	12,351
Excess tax benefits from stock-based compensation transactions	1,140	5,599
Cash dividends on common stock	(7,760)	(8,452)
Acquisition of treasury shares	(27)	(184)
Net cash (used) provided by financing activities	(3,561)	9,314
Decrease in cash[2]	(72,357)	(29,470)
Cash at beginning of period	269,914	366,099
Cash at end of period	$197,557	$336,629

[1] See Note 13 for information on noncash investing transactions.

[2] The effect of exchange rate changes on cash and cash equivalents was immaterial for the thirty-nine weeks ended November 2, 2008 and November 4, 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 thirty-nine weeks ended November 2, 2008 and November 4, 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 November 2, 2008, February 3, 2008 and November 4, 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 recorded 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 Warnaco s estimate of the net working capital of CMI as of the closing date. This amount is subject to adjustment. During the second quarter of 2008, the Company adjusted the preliminary allocation of the purchase price based on the Company s calculation of the working capital of CMI as of the closing date, which resulted in the Company recording goodwill of $4,831. Pursuant to the process set forth in the amended acquisition agreement, the Company has submitted its calculation of the closing date working capital to Warnaco and Warnaco has disputed the calculation. Warnaco and the Company are in discussion to resolve the disputed calculation, which would be submitted to arbitration if they cannot agree. As a result of such dispute, the amount of goodwill recorded could change materially. 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 (including certain inventories and receivables) 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 $11,309, including transaction expenses, during the thirty-nine weeks ended November 2, 2008 in connection with the acquisition.

5. ACQUISITION OF BVH ASSETS

The Company acquired through a subsidiary in October 2008 from The British Van Heusen Company Limited, a former licensee of *Van Heusen* men s dresswear and accessories in the United Kingdom and Ireland, and one of its affiliates (together, BVH) certain assets (including inventories) of the licensed business. The Company paid $5,449 during the third quarter of 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.

6. GOODWILL

The changes in the carrying amount of goodwill for the period ended November 2, 2008, by segment, were as follows:

Wholesale

	Wholesale Dress Furnishings	Sportswear and Related Products	Calvin Klein Licensing	Total
Balance as of February 3, 2008	$63,659	$82,133	$176,209	$322,001
Contingent purchase price payments to Mr. Calvin Klein	-	-	30,083	30,083
Adjustment to contingent purchase price payment to Superba	(483)	-	-	(483)
Goodwill from acquisition of Mulberry assets	7,434	-	-	7,434
Adjustment to CMI preliminary purchase price allocation	-	-	4,831	4,831
Goodwill from acquisition of BVH assets	3,358	-	-	3,358
Currency translation	(281)	-	-	(281)
Balance as of November 2, 2008	$73,687	$82,133	$211,123	$366,943

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 licensing 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 thirty-nine weeks ended November 2, 2008. The maximum payout that Superba can receive is $25,000 and $30,000 with respect to earnings in 2008 and 2009, respectively.

7. 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 six current and 16 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:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Service cost, including plan expenses	$ 1,981	$ 1,932	$ 5,943	$ 5,796
Interest cost	3,958	3,619	11,874	10,857
Amortization of net loss	559	1,275	1,678	3,824
Expected return on plan assets	(4,585)	(4,338)	(13,756)	(13,014)
Amortization of prior service cost	10	25	29	76
Total	$ 1,923	$ 2,513	$ 5,768	$ 7,539

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Service cost, including plan expenses	$ 19	$ 46	$ 56	$138
Interest cost	246	251	740	753
Amortization of net gain	(21)	-	(65)	-
Total	$244	$297	$731	$891

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Interest cost	$ 355	$ 349	$1,067	$1,047
Amortization of net loss	67	97	203	291
Amortization of prior service credit	(203)	(204)	(612)	(613)
Total	$ 219	$ 242	$ 658	$ 725

8. COMPREHENSIVE INCOME

Comprehensive income was as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Net income	$53,699	$60,879	$129,706	$152,985
Foreign currency translation adjustments, net of taxes	(392)	-	(392)	-
Reclassification of retirement and benefit plan costs to net income, net of taxes	255	740	764	2,219
Comprehensive income	$53,562	$61,619	$130,078	$155,204

The income tax effect related to the above items was a benefit of $84 and an expense of $228 for the thirteen and thirty-nine weeks ended November 2, 2008, respectively. The income tax effect related to the above items was an expense of $453 and $1,359 for the thirteen and thirty-nine weeks ended November 4, 2007, respectively.

9. 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.

The Company may grant the following types of incentive awards under the 2006 Plan: (i) non-qualified stock options (NQs); (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 subject to an award agreement that incorporates, 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 November 2, 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 Company currently has service-based NQs and ISOs outstanding under its 1997, 2000 and 2003 Stock Option Plans. Such 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.

Net income for the thirty-nine weeks ended November 2, 2008 and November 4, 2007 included $8,391 and $7,668, 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.

The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during the thirty-nine weeks ended November 2, 2008 and November 4, 2007, respectively:

	Thirty-Nine Weeks Ended	
	11/2/08	11/4/07
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 thirty-nine weeks ended November 2, 2008 was as follows:

	Options	Weighted Average Price Per Option
Outstanding at February 3, 2008	3,336	$28.55
Granted	333	36.59
Exercised	192	16.09
Cancelled	16	33.87
Outstanding at November 2, 2008	3,461	$29.98
Exercisable at November 2, 2008	2,230	$25.09

Options currently outstanding are generally cumulatively exercisable in four equal installments commencing one year after the date of grant. The vesting of options outstanding is also accelerated upon retirement (as defined in the applicable plan). Options are generally granted with a 10-year term.

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.

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RSU activity for the thirty-nine weeks ended November 2, 2008 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at February 3, 2008	155	$56.16
Granted	285	39.62
Vested	3	60.05
Cancelled	11	47.36
Non-vested at November 2, 2008	426	$45.30

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 thirty-nine weeks ended November 2, 2008 was as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at February 3, 2008	82	$53.53

Granted	89	41.80
Vested	-	-
Cancelled	-	-
Non-vested at November 2, 2008	171	$47.39

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 thirty-nine weeks ended November 2, 2008 and November 4, 2007 were $1,508 and $6,891, respectively. Of those amounts, $1,140 and $5,599, 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 delivery of shares upon vesting of RSUs or performance shares exceeds the tax benefit associated with the grant date fair value of the related stock award.

10. 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. As of the end of the third quarter, approximately 15 of these stores had been closed. Approximately 20 stores will be converted, substantially all to the *Calvin Klein* outlet retail format.

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

	Total Expected to be Incurred	Incurred During the Thirteen Weeks Ended 11/2/08	Incurred During the Thirty-Nine Weeks Ended 11/2/08	Liability at 11/2/08
Severance and termination benefits	$ 2,985	$ 459	$ 1,331	$ 640
Long-lived asset impairments	6,220	243	6,220	-
Inventory liquidation costs	8,716	7,118	8,716	-
Lease termination and other costs	3,079	1,658	1,898	1,661
Total	$21,000	$9,478	$18,165	$2,301

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

Comparable store sales declines in the Company s continuing heritage brand outlet retail businesses (Bass, Van Heusen and Izod) was an impairment indicator in the second and third quarters 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 impairment charges in selling, general and administrative expenses of $1,903 through the third quarter of 2008 (of which $796 was recorded in the second quarter of 2008 and $1,107 was recorded in the third quarter of 2008). The second quarter impairment charge of $796 was comprised of charges of $340 in the Retail Apparel and Related Products segment and $456 in the Retail Footwear and Related Products segment. The third quarter impairment charge of $1,107 was comprised of charges of $760 in the Retail Apparel and Related Products segment and $347 in the Retail Footwear and Related Products segment.

The level of profitability in 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 impairment charges in selling, general and administrative expenses in the Retail Apparel and Related Products segment of $1,331 through the third quarter of 2007 (of which $1,279 was recorded in the first quarter of 2007 and $52 was recorded in the third quarter of 2007).

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

11. 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.

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12. NET INCOME PER SHARE

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Net income	$53,699	$60,879	$129,706	$152,985
Weighted average common shares outstanding for basic net income per share	51,467	56,475	51,411	56,248
Weighted average impact of dilutive securities	764	1,211	853	1,355
Weighted average impact of dilutive warrant	63	147	80	157
Total shares for diluted net income per share	52,294	57,833	52,344	57,760
Basic net income per share	$ 1.04	$ 1.08	$ 2.52	$ 2.72
Diluted net income per share	$ 1.03	$ 1.05	$ 2.48	$ 2.65

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Weighted average antidilutive securities	1,809	298	1,157	242

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 November 2, 2008 and November 4, 2007 and, therefore, were excluded from the calculation of diluted net income per share for the thirteen and thirty-nine weeks ended November 2, 2008 and November 4, 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.

13. NONCASH INVESTING TRANSACTIONS

During the thirty-nine weeks ended November 2, 2008, the Company recorded an increase to property, plant and equipment of $64,289 related to capital expenditures that were paid in cash. In addition, during the thirty-nine weeks ended November 2, 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 thirty-nine weeks ended November 2, 2008 and November 4, 2007, the Company recorded increases to goodwill of $30,083 and $25,034, 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 thirty-nine weeks ended November 2, 2008 and November 4, 2007, the Company paid $29,556 and $25,049, 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.

14. 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, MICHAEL Michael Kors, Michael Kors Collection* 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, into the third quarter of 2008, the Company sold neckwear under the *Perry Ellis Portfolio* brand name. The license to sell neckwear under such brand terminated during the third quarter of 2008. The Company markets its wholesale dress shirt and neckwear brands, as well as various private label brands, primarily 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 close its Geoffrey Beene outlet retail division by the end of 2008. (Please see Note 10, Activity Exit Costs and Asset Impairments, for details of the closure). This segment also derives revenue from selling *Calvin Klein Collection* branded high-end collection apparel and accessories through the Company s own full price *Calvin Klein Collection* 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:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	11/2/08	11/4/07	11/2/08	11/4/07
Revenue - Wholesale Dress Furnishings				
Net sales	$168,935	$157,294	$ 420,386	$ 414,605
Royalty revenue	1,580	1,659	4,669	4,680
Advertising and other revenue	657	826	1,799	2,182
Total	171,172	159,779	426,854	421,467
Revenue - Wholesale Sportswear and Related Products				
Net sales	206,146	205,260	486,022	491,177
Royalty revenue	2,673	2,819	7,933	8,085
Advertising and other revenue	1,168	924	3,558	2,880
Total	209,987	209,003	497,513	502,142
Revenue - Retail Apparel and Related Products				
Net sales	183,874	175,849	532,489	503,739
Royalty revenue	1,796	1,983	5,447	5,814
Total	185,670	177,832	537,936	509,553

Revenue - Retail Footwear and Related Products				
Net sales	69,170	72,996	202,561	211,193
Royalty revenue	117	50	350	150
Advertising and other revenue	58	236	162	847
Total	69,345	73,282	203,073	212,190
Revenue - Calvin Klein Licensing				
Royalty revenue	60,524	56,340	164,254	140,711
Advertising and other revenue	22,701	20,134	66,301	54,589
Total	83,225	76,474	230,555	195,300
Revenue - Other[1]				
Net sales	8,085	-	18,218	-
Total	8,085	-	18,218	-
Total Revenue				
Net sales	636,210	611,399	1,659,676	1,620,714
Royalty revenue	66,690	62,851	182,653	159,440
Advertising and other revenue	24,584	22,120	71,820	60,498
Total	$727,484	$696,370	$1,914,149	$1,840,652

Income before interest and taxes - Wholesale Dress Furnishings	$ 34,642	$ 30,089	$ 69,861	$ 66,356
Income before interest and taxes - Wholesale Sportswear and Related Products	30,585	29,588	66,076	75,020
(Loss)/Income before interest and taxes - Retail Apparel and Related Products	(2,132)[2]	15,091	13,163[2]	46,380
Income before interest and taxes - Retail Footwear and Related Products	2,826	6,114	6,389	17,425
Income before interest and taxes - Calvin Klein Licensing	37,043	35,714	115,769	95,501
Loss before interest and taxes - Other[1]	(16,496)	(14,298)	(47,731)	(41,569)
Income before interest and taxes	$ 86,468	$102,298	$ 223,527	$ 259,113

(1)

Includes corporate expenses not allocated to any reportable segments and the results of the Company s Calvin Klein Collection wholesale business. 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)

Loss/Income before interest and taxes for the Retail Apparel and Related Products segment for the thirteen and thirty-nine weeks ended November 2, 2008 includes costs of $9,478 and $18,165, respectively, associated with the closing of the Company s Geoffrey Beene outlet retail division. Please see Note 10, Activity Exit Costs and Asset Impairments, for further information.

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 markup percentage. Such markup percentage is eliminated in the Retail Apparel and Related Products segment.

15. 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 November 2, 2008 is approximately $3,900, which is subject to exchange rate fluctuation. The Company has the right to seek recourse of approximately $2,500 as of November 2, 2008, which is subject to exchange rate fluctuation. The guarantee expires on May 19, 2016.

16. 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 does not expect that this adoption will have a material impact 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 BVH acquisition refer to our October 2008 acquisition from The British Van Heusen Company Limited, a former licensee of *Van Heusen* men s dresswear and accessories in the United Kingdom and Ireland, and one of its affiliates of certain assets (including inventories) of the licensed business. We refer to The British Van Heusen Company Limited and its affiliate together as BVH.

References to the Mulberry acquisition refer to our April 2008 acquisition of certain assets (including certain inventories and receivables) 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 from Warnaco, Inc. (Warnaco) 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, into the third quarter of 2008, we sold neckwear under the *Perry Ellis Portfolio* brand name. The license to sell neckwear under such brand terminated during the third quarter of 2008.

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. 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 have built 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. As of the end of the third quarter of 2008, we operated 10 of these stores and we currently do not intend to open additional *Calvin Klein* specialty retail stores. Another example is our 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 assumed the management of the men s apparel line for the Fall 2008 season. *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 international operations to include sales of certain of our products to department and specialty stores throughout Canada and parts of Europe, including through the recent BVH acquisition that provided us with a wholesale distribution component, and a limited number of retail locations, principally for *Van Heusen* dress furnishings in the United Kingdom and Ireland. We have also 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 locations, 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. As of the end of the third quarter, approximately 15 of these stores had been closed. Approximately 20 stores will be converted, substantially all to the *Calvin Klein* outlet retail format. We have recorded pre-tax charges in the second and third quarters of 2008 that totaled approximately $18 million, of which

approximately $6 million related to non-cash asset impairments and approximately $12 million related to inventory liquidations, lease terminations, severance and other costs in connection with the closure of the division. We expect to incur additional pre-tax charges of approximately $3 million related to lease terminations, severance and other costs in the fourth quarter 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. As of the end of the third quarter of 2008, we operated 10 of these stores and we currently do not intend to open additional *Calvin Klein* specialty retail stores.

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 91% of total royalty, advertising and other revenue in the first nine months 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 46% of such expenses in the first nine months of 2008. Rent and occupancy for offices, warehouses and retail stores is the next largest expense, comprising 22% of selling, general and administrative expenses in the first nine months of 2008.

RESULTS OF OPERATIONS

Thirteen Weeks Ended November 2, 2008 Compared With Thirteen Weeks Ended November 4, 2007

Net Sales

Net sales in the third quarter of 2008 increased 4.1% to $636.2 million from $611.4 million in the third quarter of the prior year. The increase of $24.8 million was due to the net effect of the items described below:

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The addition of $12.5 million of net sales attributable to growth in our wholesale segments. This was primarily driven by the launch of our Timberland wholesale men s sportswear business in the second quarter of 2008 and increases in our dress furnishings and Calvin Klein men s sportswear businesses, partially offset by declines in our heritage brand wholesale sportswear businesses, a portion of which was previously planned, resulting from the difficult economic environment.

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The addition of $8.1 million of net sales attributable to our recent acquisition of CMI.

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The addition of $4.2 million of net sales attributable to growth in our retail segments. This was primarily driven by the opening of *Calvin Klein* specialty retail stores located in premier malls in the United States, as well as *Calvin Klein* outlet retail store openings and a 1% comparable store sales increase in our Calvin Klein outlet retail business, partially offset by decreases in our heritage brand outlet retail businesses, which experienced a comparable store sales decline of 7%. 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.

Royalty, Advertising and Other Revenue

Royalty, advertising and other revenue in the third quarter of 2008 increased 7.4% to $91.3 million from $85.0 million in the third quarter of the prior year. This increase was primarily attributable to our Calvin Klein Licensing segment, due principally to recently launched product categories and strength in jeans and underwear.

Gross Profit on Total Revenue

Gross profit on total revenue in the third quarter of 2008 was $341.3 million, or 46.9% of total revenue, compared with $328.6 million, or 47.2% of total revenue in the third quarter of the prior year. The 30 basis point decrease was driven by a 100 basis point decrease in gross margin as a result of inventory liquidation markdowns associated with the closure of our Geoffrey Beene outlet retail division and further by a decrease in gross margin resulting from increased promotional selling in our heritage brand outlet retail businesses, which were negatively affected by the overall weak retail environment. Offsetting these decreases was a gross margin increase that was driven by strong performance in our wholesale dress furnishings and sportswear businesses and 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.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the third quarter of 2008 were $254.8 million, or 35.0% of total revenue, compared with $226.3 million, or 32.5% of total revenue, in the third quarter of the prior year. The 250 basis point increase includes an increase of approximately 30 basis points related to asset impairments, severance, lease termination and other costs associated with the closure of our Geoffrey Beene outlet retail division. The remaining 220 basis point increase was due principally to an increase in advertising expenditures, the sales decreases in our heritage brand 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 $28.5 million increase in SG&A expenses in the third quarter of 2008 included: (i) increased expenses of approximately $11.0 million associated with our new Timberland wholesale men s sportswear business and *Calvin Klein* specialty retail stores; (ii) an increase in advertising expenditures of $8.6 million, due principally to the *Calvin Klein* 40th anniversary celebration and the Olympics; (iii) increased expenses of $3.5 million in our retail segments principally related to the continued opening of *Calvin Klein* outlet retail stores; (iv) operating expenses of $2.9 million related to our recent acquisition of CMI; and (v) expenses of $2.4 million related to asset impairments, severance, lease termination and other costs associated with the closure of our Geoffrey Beene outlet retail division.

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 $8.5 million in the third quarter of 2008 was relatively flat to the prior year s third quarter amount of $8.4 million. Interest income decreased to $1.5 million in the third quarter of 2008 from $4.3 million in the third 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 decreased by $11.6 million to $25.7 million in the third quarter of 2008 from $37.3 million in the third quarter of 2007. The decrease was primarily due to a decrease in income before taxes during the third quarter of 2008 compared to the third quarter of 2007, combined with a reduction in our reported effective tax rate for the third quarter of 2008. Income taxes for the third quarter of 2008 were provided for at a rate of 32.4% compared with last year s full year rate of 37.8%. The decline is due to discrete items, principally related to deferred tax and state net operating loss carryforward valuation allowance adjustments recorded in the third quarter of 2008. The adjustments to the state net operating loss carryforward valuation allowance were based on our determination, subsequent to a review of our taxable income levels over the past three years, that the realization of these loss carryforwards is more likely than not.

Thirty-Nine Weeks Ended November 2, 2008 Compared With Thirty-Nine Weeks Ended November 4, 2007

Net Sales

Net sales in the first nine months of 2008 increased 2.4% to $1,659.7 million from $1,620.7 million in the first nine months of the prior year. The increase of $39.0 million was due principally to the net effect of the items described below:

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The addition of $20.1 million of net sales attributable to growth in our retail segments. This was primarily driven by the opening of *Calvin Klein* specialty retail stores located in premier malls in the United States, as well as *Calvin Klein* outlet retail store openings and comparable store sales growth of 6% in our Calvin Klein outlet retail business, partially offset by decreases in our heritage brand outlet retail businesses, which experienced a comparable store sales decline of 6%. 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 addition of $18.2 million of net sales attributable to our recent acquisition of CMI.

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The addition of $0.6 million of net sales attributable to growth in our wholesale segments. This was primarily driven by the launch of our Timberland wholesale men s sportswear business in the second quarter of 2008, a full nine months of sales of our *IZOD* women s sportswear line, which began shipping late in the second quarter of 2007, and growth in our dress furnishings and Calvin Klein men s sportswear businesses, partially offset by declines in our heritage brand wholesale sportswear businesses, a portion of which was previously planned, resulting from the difficult economic environment.

Our net sales for the full year 2008 are expected to increase approximately 2% to 3%, which approximates the increase experienced through the first nine months of 2008 as compared to the prior year. Net sales in the fourth quarter are expected to be approximately flat with the prior year, as the positive fourth quarter impact expected from 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 are expected to be offset by an anticipated fourth quarter comparable store sales decline of between 8% and 13% in all of our outlet retail businesses combined.

<u>Royalty, Advertising and Other Revenue</u>

Royalty, advertising and other revenue in the first nine months of 2008 increased 15.7% to $254.5 million from $219.9 million in the prior year. This increase was primarily attributable to our Calvin Klein Licensing segment, due principally to recently launched product categories and strength in jeans and underwear.

We currently expect that royalty, advertising and other revenue will increase approximately 14% in our Calvin Klein Licensing segment for the full year 2008 as a result of the growth exhibited in the first nine months of 2008 in the businesses of existing licensees, as well as in royalties generated under new license agreements. Royalty, advertising and other revenue in our Calvin Klein Licensing segment is expected to be relatively flat in the fourth quarter of 2008 as compared to the prior year, as the continued growth in our international licensees businesses in local currency is expected to be offset by the impact of a stronger United States dollar as compared to the prior year. In addition, revenue from our domestic licensees businesses is expected to be relatively flat in the fourth quarter. 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 nine months of 2008 was $941.0 million, or 49.2% of total revenue, compared with $898.6 million, or 48.8% of total revenue in the first nine months of the prior year. The 40 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 40 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 rate will decrease approximately 70 to 80 basis points for the full year 2008 as compared to the prior year, which includes a decrease of approximately 40 basis points related to inventory liquidation markdowns associated with closing our Geoffrey Beene outlet retail division. The gross profit percentage increase experienced through the first nine months of 2008 as compared to the prior year is expected to be more than offset by fourth quarter gross margin declines in our heritage brand wholesale sportswear and outlet retail businesses due to increased promotional selling to maintain clean inventory levels.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the first nine months of 2008 were $719.4 million, or 37.6% of total revenue, and $642.9 million, or 34.9% of total revenue, in the first nine months of the prior year. The 270 basis point increase includes an increase of approximately 50 basis points related to asset impairments, severance, lease termination and other costs associated with the closure of our Geoffrey Beene outlet retail division. The remaining 220 basis point increase was due

principally to an increase in advertising expenditures, the sales decreases in our heritage brand 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 $76.5 million increase in SG&A expenses in the first nine months of 2008 included: (i) increased expenses of approximately $27.0 million associated with our new Timberland wholesale men s sportswear business and *Calvin Klein* specialty retail stores; (ii) an increase in advertising expenditures of $16.2 million, due principally to the timing of expenditures, including for the *Calvin Klein* 40th anniversary celebration and the Olympics; (iii) operating expenses of $10.3 million related to our recent acquisition of CMI; (iv) expenses of $9.4 million related to asset impairments, severance, lease termination and other costs associated with the closure of our Geoffrey Beene outlet retail division; and (v) increased expenses of $7.7 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 190 to 200 basis points, which includes an increase of approximately 50 basis points related to asset impairments, severance, lease termination and other costs associated with closing our Geoffrey Beene outlet retail division. The remaining increase of 140 to 150 basis points reflects the increase experienced through the first nine months of 2008 as compared to the prior year, partially offset by an anticipated fourth quarter decrease due to a reduction in advertising expenditures and a smaller increase in SG&A expenses associated with our new *Calvin Klein* specialty retail stores.

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 $25.3 million in the first nine months of 2008 was relatively flat to the prior year s first nine months amount of $25.4 million. Interest income decreased to $4.9 million in the first nine months of 2008 from $12.9 million in the first nine months of the prior year. This decrease was due principally to a decrease in our cash position in the first nine months 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 decreased by $20.2 million to $73.5 million in the first nine months of 2008 from $93.6 million in the first nine months of 2007. The decrease was primarily due to a decrease in income before taxes during the first nine months of 2008 compared to the first nine months of 2007, combined with a reduction in our reported effective tax rate for the first nine months of 2008. Income taxes for the first nine months of 2008 were provided for at a rate of 36.2% 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 approximately 36.5%. The anticipated decline is due to discrete items, principally related to deferred tax and state net operating loss carryforward valuation allowance adjustments recorded in the third quarter of 2008. The adjustments to the state net operating loss carryforward valuation allowance were based on our determination, subsequent to a review of our taxable income levels over the past three years, that the realization of these loss carryforwards is more likely than not.

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 $79.4 million in the first nine months of 2008, which compares with $43.2 million in the first nine months of the prior year. This increase was due principally 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. In addition, cash provided by operating activities was impacted by changes in working capital, including the following:

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An increase in cash resulting from a change in inventories, as inventories remained relatively flat at the end of the third quarter of 2008 when compared to the year end 2007 balance as the liquidation of our Geoffrey Beene outlet retail businesses and decreases in our other businesses in order to maintain clean inventory levels in a difficult retail environment mostly offset inventory increases as a result of new businesses. Inventories in the prior year reflected an increase due to an anticipated fourth quarter sales increase.

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An increase in cash resulting from a change in trade receivables due to the timing and amounts of shipments in the third quarter of 2008 as compared to the third quarter of 2007.

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A decrease in cash resulting from a change in accounts payable, accrued expenses, deferred revenue and other, net due principally to the timing of inventory payments in our sportswear and retail businesses. Included in the change in other, net for the first nine months of 2008 as compared to the prior year was the movement of approximately $30.0 million of liabilities from other liabilities to accrued expenses, as these liabilities are expected to be relieved within the next year. This had no impact on cash provided by operating activities for the first nine months of 2008.

Capital Expenditures

Our capital expenditures paid in cash in the first nine months of 2008 were $72.1 million. We currently expect that capital expenditures for the full year 2008 will be $85.0 million to $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 $29.6 million in the first nine months of 2008. We currently expect that such payments will be $40.0 million to $41.0 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. We currently do not expect that Superba will achieve any payout for 2008.

Acquisition of CMI

We acquired CMI from 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 Warnaco s estimate of the net working capital of CMI as of the closing date. This amount is subject to adjustment. During the second quarter of 2008, we adjusted the preliminary allocation of the purchase price based on our calculation of the working capital of CMI as of the closing date. Pursuant to the process set forth in the amended acquisition agreement, we submitted our calculation of the closing date working capital to Warnaco and Warnaco has disputed the calculation. We are in discussion with Warnaco to resolve the disputed calculation, which would be submitted to arbitration if we cannot agree. 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 certain assets (including certain inventories and receivables) and 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 $11.3 million, including transaction expenses, during the thirty-nine weeks ended November 2, 2008 in connection with the acquisition. 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.

Acquisition of BVH

We completed the BVH acquisition in the third quarter of 2008. As part of this transaction, we acquired certain assets (including inventories) of the licensed Van Heusen men s dresswear and accessories business in the United Kingdom and Ireland. We paid $5.4 million during the thirty-nine weeks ended November 2, 2008 in connection with this acquisition. We are in the process of finalizing the closing date valuation. As such, this amount is subject to adjustment. Please see Note 5, Acquisition of BVH 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 November 2, 2008 is the only class of stock issued, currently pays annual dividends totaling $0.15 per share, all of which was paid in the first nine months of 2008.

Cash dividends on our common stock totaled $7.8 million for the full year 2008.

Cash Flow Summary

Our net cash outflow in the first nine months of 2008 was $72.4 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 approximately $3.1 million in 2008.

Based on our current operations, and considering all of the above factors, we currently expect to generate approximately $70.0 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. Events including changes in our net income, working capital requirements, contributions to our pension plans, acquisitions and equity transactions and other transactions, could occur, which could cause our cash flow to vary significantly from this estimate.

Financing Arrangements

Our capital structure as of November 2, 2008 was as follows:

(in millions)	
Long-term debt	$ 399.6
Stockholders equity	$1,091.1

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 with JPMorgan Chase Bank, N.A. as the Administrative Agent and Collateral Agent that expires in July 2012 and 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 nine months 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 November 2, 2008, we had $122.8 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.

We believe our capital structure, along with our significant availability under our revolving credit facility and our strong cash position, provides a secure base to support our current operations and our planned growth in the future. Given our capital structure and our projections for future profitability and cash flow, notwithstanding the current global credit crisis and economic turmoil, 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, there can be no assurance that such financing, if needed, could be obtained at such time as a need arises.

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 thirty-nine week periods ended November 2, 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 November 2, 2008, the effect of a 50 basis point change in short-term interest rates on our interest income would be approximately $1.0 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.

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 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).
+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: December 9, 2008

/s/ Bruce Goldstein
Bruce Goldstein
Senior Vice President and Controller
(Chief Accounting Officer)

Exhibit Index

Exhibit	**Description**
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.