PHILLIPS VAN HEUSEN CORP /DE/
Form 10-K
April 05, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended February 4, 2007
	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	**13-1166910**
(State of incorporation)	(IRS Employer Identification No.)

200 Madison Avenue

New York, New York 10016

(Address of principal executive offices)

212-381-3500

(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether 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 and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large Accelerated Filer x Accelerated Filer o Non-Accelerated Filer o

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 aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant (assuming, for purposes of this calculation only, that the registrant s directors and corporate officers are affiliates of the registrant) based upon the closing sale price of the registrant s common stock on July 30, 2006 (the last business day of the registrant s most recently completed second quarter) was $1,943,752,311.

Number of shares of Common Stock outstanding as of March 20, 2007: 55,888,771.

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Location in Form 10-K in which incorporated**
Registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on June 19, 2007	**Part III**

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Forward-looking statements made in this Annual Report on Form 10-K including, without limitation, statements relating to our future revenues and cashflows, 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 business 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 cashflows, whether as a result of the receipt of new information, future events or otherwise.

PART I

Item 1. Business

Unless the context otherwise requires, the terms we, our or us refer to Phillips-Van Heusen Corporation and its subsidiaries.

Our 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. References to a year are to our fiscal year, unless the context requires otherwise. Our 2006 year commenced on January 30, 2006 and ended on February 4, 2007; 2005 commenced on January 31, 2005 and ended on January 29, 2006; 2004 commenced on February 2, 2004 and ended on January 30, 2005.

We obtained the market and competitive position data used throughout this report from research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. While we believe that each of these studies and publications is reliable, we have not independently verified such data and we do not make any representation as to the accuracy of such information.

References to the brand names *Calvin Klein Collection, ck Calvin Klein, Calvin Klein, Van Heusen, IZOD, IZOD G, Eagle, Bass, G.H. Bass & Co., G.H. Bass Earth, Geoffrey Beene, Arrow, City of London, Ferrell Reed, Bugatti, BCBG Max Azria, BCBG Attitude, Chaps, Sean John, Donald J. Trump Signature Collection, JOE Joseph Abboud, Kenneth Cole New York, Kenneth Cole Reaction, unlisted, A Kenneth Cole Production, MICHAEL Michael Kors, Michael Kors Collection, DKNY, Tommy Hilfiger, Nautica, Perry Ellis Portfolio, Ted Baker, Ike Behar, Original Penguin, Jones New York, Hart Schaffner Marx, Valentino, Alara, Axist, John Henry, Zylos by George Machado, Gianfranco Ruffini, Studio by Fumagalli s* and *Timberland* and to other brand names in this report are to registered trademarks owned by us or licensed to us by third parties and are identified by italicizing the brand name.

References to our acquisition of Superba refer to our January 2007 acquisition of substantially all of the assets of Superba, Inc., a privately-held 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

We are one of the largest apparel companies in the world, with a heritage dating back over 125 years. Our portfolio of brands includes our owned brands, *Calvin Klein Collection, ck Calvin Klein, Calvin Klein, Van Heusen*, *IZOD, Arrow, G.H. Bass & Co., Bass* and *Eagle* and our licensed brands*, Geoffrey Beene*, *BCBG Max Azria, BCBG Attitude, Chaps, Sean John, Donald J. Trump Signature Collection, Kenneth Cole New York, Kenneth Cole Reaction, unlisted, A Kenneth Cole Production* (beginning in 2006), *MICHAEL Michael Kors* and *JOE Joseph Abboud* (beginning in the second quarter of 2006). Our portfolio of owned brands was expanded to include *City of London, Ferrell Reed* and *Bugatti* and our portfolio of licensed brands was expanded to include *DKNY, Michael Kors Collection, Tommy Hilfiger, Nautica, Perry Ellis Portfolio, Ted Baker, Ike Behar, Original Penguin, Jones New York, Hart Schaffner Marx, Valentino, Alara, Axist, John Henry, Zylos by George Machado, Gianfranco Ruffini* and *Studio by Fumagalli s,* as well as various private label brands, late in the fourth quarter of 2006 in connection with our acquisition of Superba. We design and market nationally recognized branded dress shirts, sportswear and, to a lesser extent, footwear and other related products. We also design, manufacture and market nationally recognized branded neckwear as a result of the acquisition of Superba late in the fourth quarter of 2006. Additionally, we license our owned brands over a broad range of products. We market our brands at multiple price points and across multiple channels of distribution, allowing us to provide products to a broad range of consumers, while minimizing competition among our brands and reducing our reliance on any one demographic group, merchandise preference or distribution channel. Our licensing activities, principally our Calvin Klein business, diversify our business model by providing us with a sizeable base of profitable licensing revenues.

We believe *Calvin Klein* is one of the best known designer names in the world and that the *Calvin Klein* brands *Calvin Klein Collection*, *ck Calvin Klein* and *Calvin Klein* provide us with the opportunity to market products both domestically and internationally at higher price points, in higher-end distribution channels and to different consumer groups than our other product offerings. Products sold under these brands are sold primarily under licenses and other arrangements. Since our acquisition of Calvin Klein in February 2003, we have used our core competencies to expand the product offerings under the *Calvin Klein* brands and to bring these new product offerings into additional channels of distribution. Calvin Klein designs and/or controls all design operations and product development for most of its licensees and oversees a worldwide marketing, advertising and promotion program for the *Calvin Klein* brands. We believe that maintaining control over design and advertising through Calvin Klein s dedicated in-house teams plays a key role in the continued strength of the brands. Worldwide retail sales of products sold under the *Calvin Klein* brands were approximately $4.5 billion in 2006.

Our heritage business encompasses the design, sourcing and marketing of a varied selection of branded label dress shirts, sportswear and footwear under our portfolio of brands, as well as the licensing of our owned brands (other than the *Calvin Klein* brands), for an assortment of products. We design, source and market substantially all of these products on a brand-by-brand basis, targeting distinct consumer demographics and lifestyles in an effort to minimize competition among our brands. Currently, our products are distributed at wholesale through more than 15,000 doors in national and regional department, mid-tier department, mass market, specialty and independent stores in the United States. Our wholesale business represents our core business and we believe that it is the basis for our brand equity. As a complement to our wholesale business, we also market our products directly to consumers through our *Van Heusen, IZOD, Geoffrey Beene, Bass* and *Calvin Klein* retail stores, primarily located in outlet malls throughout the United States. We also leverage our apparel design and sourcing expertise by offering private label dress shirt programs to retailers.

We acquired Superba in January 2007. This acquisition allows us to add a business that is complementary to our heritage business in dress shirts and that has followed the same multiple brand, multiple channel and multiple price point strategy that we have followed. We believe by coupling neckwear with our dress shirt business, we will create additional opportunities to grow and enhance the performance of both businesses.

Company Information

We were incorporated in the State of Delaware in 1976 as the successor to a business begun in 1881. Our footwear business is the successor to G.H. Bass & Co., a business begun in 1876, our Arrow business is the successor to the original Cluett, Peabody & Co., a business begun in 1851, and our neckwear business is the successor to a business begun in 1873. Our principal executive offices are located at 200 Madison Avenue, New York, New York 10016; our telephone number is (212) 381-3500.

We make available, at no cost, on our corporate website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with the Securities and Exchange Commission. We also make available, at no cost, on our corporate website, our Code of Business Conduct and Ethics. Our corporate website address is *www.pvh.com*.

Our Business Strategy

We intend to capitalize on the significant opportunities presented by our acquisition of Calvin Klein, as well as increase sales and profitability of our heritage business, through the execution of the following strategies:

Calvin Klein

We acquired Calvin Klein because of the significant growth opportunities presented by the *Calvin Klein* brands. The brand pyramid we created for the *Calvin Klein* brands established a focused, consistent approach to global brand growth and development, with each of the *Calvin Klein* brands occupying a distinct marketing identity and position. Calvin Klein has over 55 licensing arrangements across multiple product categories.

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Calvin Klein Collection. Under our halo brand, the principal growth opportunity is to broaden the current distribution through the continued opening of freestanding stores throughout the world by our partners. Beginning with the Spring 2006 season, the production of men s and women s high-end collection apparel and accessories was transferred to a new licensee, Confezioni Moda International S.r.L. (CMI).

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ck Calvin Klein. We believe our bridge brand provides significant growth opportunities, particularly in Europe and Asia, where apparel and accessories are more traditionally sold in this upper-moderate to upper price range. We have entered into several licenses since we acquired Calvin Klein, adding to the pre-existing licensed apparel and accessories lines in Japan. Specific growth opportunities include:

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Broadening distribution, including through continued expansion in Southeast Asia and China, where our licensee has opened 25 *ck Calvin Klein* stores since 2004.

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Broadening distribution of apparel and accessories in Europe and parts of the Middle East (including through the recent opening of three stores in Europe and the planned opening by the licensee of 50 freestanding *ck Calvin Klein* stores by 2010).

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Continued expansion of the women s sportswear line in the United States.

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Expansion of jewelry and watches, as well as the development of other apparel and accessory lines worldwide.

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Development of the *ck Calvin Klein Beauty* line of color cosmetics and skin care products which is to be launched for Fall 2007 and men s and women s footwear in Japan which were launched in Spring 2006.

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Calvin Klein. We believe that the *Calvin Klein* brand presents the largest growth opportunity, particularly in the United States. Growth opportunities for this brand include:

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Continued development of our men s sportswear business, which was first launched for Fall 2004 in the United States.

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Continued development of the licensed lines of women s sportswear, women s swimwear, men s and women s footwear, handbags, men s outerwear and the newly launched line of women s suits.

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Women s dresses, which launched in North America in the fourth quarter of 2006.

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New product offerings and brand extensions in fragrances, such as *euphoria* men s*, ck one summer, Eternity Summer, euphoria blossom* and *ck one holiday.*

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Brand extensions in existing product lines, such as the *365, Pro Fit, XT, Pro Mesh* and *Pro Stretch* underwear lines, as well as the women s *Perfectly Fit* foundation line.

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Pursuit of additional licensing opportunities for new product lines, which may include various home furnishing products.

Heritage Business

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Continue to grow sportswear. We have a leading position in the United States in men s sportswear and have continued to penetrate the sportswear market with additional products and product lines. We have built *IZOD* into a year-round lifestyle brand from its traditional knit sport shirt origins by adding new product offerings, such as pants, sweaters and outerwear, and new lines of apparel, including golf and jeanswear. As a result, *IZOD* has become a leader on the main floor of department stores in the United States. *Arrow* sportswear has performed well in the mid-tier channel, and we believe it has additional growth opportunities through brand extensions along with opportunities to benefit from the door growth of key retailers in the mid-tier channel. In 2007, we will expand our wholesale sportswear offerings through our assumption of control of the previously licensed *IZOD* women s sportswear business and by launching *G.H. Bass Earth* sportswear, our first wholesale sportswear business under our heritage *Bass* brand.

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Continue to strengthen the competitive position and image of our current brand portfolio. We intend for each of our brands to be a leader in its respective market segment, with strong consumer awareness and loyalty. We believe that our brands are successful because we have strategically positioned each one to target distinct consumer demographics and tastes. We will continue to design and market our branded products to complement each other, satisfy lifestyle needs, emphasize product features important to our target consumers and increase consumer loyalty. We will seek to increase our market share in our businesses by expanding our presence through product extensions and increased floor space.

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Continue to build brand portfolio through acquisition and licensing opportunities. While we believe we have an attractive and diverse portfolio of brands with growth potential, we will also continue to explore acquisitions of companies or trademarks and licensing opportunities that we believe are attractive to our overall business. New license opportunities allow us to fill new product and brand portfolio needs. We take a disciplined approach to acquisitions, seeking brands with broad consumer recognition that we can grow profitably and expand by leveraging our infrastructure and core competencies and, where appropriate, by extending the brand through licensing. For example, we licensed *Arrow* in 2000, as we saw it as an opportunity to penetrate the mid-tier department store channel of distribution and acquired the brand in 2004, because we believe that by controlling the brand, we can continue to increase revenue and expand product offerings. In the fourth quarter of 2006, we acquired Superba, a leading neckwear company, which adds a business that we believe is complementary to our dress shirt business and expands our portfolio of licensed brands. Additionally, we recently announced our licensing agreement with The Timberland Company, under which we will design, source and market sportswear under the *Timberland* brand, with our assumption of the men s line for Fall 2008 and women s sportswear to be launched for Spring 2009.

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Pursue international growth. We intend to expand our brands through international distribution channels. We believe that our strong brand portfolio and broad product offerings enable us to seek additional growth opportunities in geographic areas where we believe we are underpenetrated, such as Europe and Asia. These opportunities may include the licensing of our brand names to companies that we believe have superior international distribution channel access or expertise. We believe that our acquisition of Arrow, which included numerous licenses for parts of Europe, Asia and Latin America, establishes a platform to leverage other brand opportunities. Further, *Van Heusen* has a heritage of international distribution, particularly in Latin America, the United Kingdom and Australia.

Our Business

We manage our business through our operating divisions, which consist of five reportable segments: (i) Calvin Klein Licensing; (ii) Wholesale Dress Furnishings; (iii) Wholesale Sportswear and Related Products; (iv) Retail Apparel and Related Products; and (v) Retail Footwear and Related Products. Note 17, Segment Data, in the Notes to Consolidated Financial Statements included in Item 8 of this report contains information with respect to revenues, operating income and assets related to each segment, as well as information regarding the geographic areas in which our segments operate.

Calvin Klein

Our Calvin Klein businesses primarily consist of (1) licensing and similar arrangements worldwide of the *Calvin Klein Collection*, *ck Calvin Klein* and *Calvin Klein* brands for a broad array of products, including high-end collection apparel and accessories, sportswear, jeans, underwear, fragrances, eyewear, men s tailored clothing, ties, shoes, hosiery, socks, footwear, swimwear, jewelry, watches, coats, handbags, leather goods, home furnishings and accessories, as well as to operate retail stores (Calvin Klein Licensing segment); (2) the marketing of the *Calvin Klein Collection* brand high-end men s and women s apparel and accessories collections through our *Calvin Klein* flagship store (Retail Apparel and Related Products segment); (3) our *Calvin Klein* dress shirt and men s better sportswear businesses (Wholesale Dress Furnishings and Wholesale Sportswear and Related Products segments, respectively); and (4) our *Calvin Klein* retail stores located in premium outlet malls in the United States (Retail Apparel and Related Products segment).

We acquired Calvin Klein because of the significant growth opportunities presented by the *Calvin Klein* brands. Although *Calvin Klein* was a large global brand with strong consumer recognition across many demographics before we acquired it, there were numerous product areas in which no products, or only a limited number of products, were offered under any of the *Calvin Klein* brands. In order to exploit more efficiently and effectively the opportunities for the development of new offerings, we created a brand pyramid that established a focused, consistent approach to global brand growth and development, with each of the *Calvin Klein* brands occupying a distinct marketing identity and position.

Calvin Klein Collection

is the halo brand at the top of the pyramid and personifies the Calvin Klein aesthetic of modern, contemporary, minimalist style, which is translated to the other *Calvin Klein* brands. We market under this brand, directly and through licensees, high-end collection apparel, eyewear, footwear, accessories and coats. We hold two runway shows annually each for men and women and operate a flagship store in New York City under the *Calvin Klein Collection* brand. These activities support our visibility in the fashion industry and help convey the Calvin Klein aesthetic to the world. In addition, six freestanding *Calvin Klein Collection* stores are operated by licensees in major cities outside of the United States.

The second tier of the pyramid is *ck Calvin Klein*, our bridge brand. The products offered under this brand include apparel, fragrances, accessories, watches, eyewear and jewelry. We believe this brand provides significant growth opportunities, particularly in Europe and Asia, where apparel and accessories are more traditionally sold in the bridge price range. Currently, *ck Calvin Klein* apparel is principally available in Japan and, under recent licenses, in 32 free-standing *ck Calvin Klein* stores in Southeast Asia, China and Europe.

The third tier of the pyramid is the *Calvin Klein* brand, which is targeted to the better price range. There were product gaps in this price range prior to our acquisition in 2003. We introduced the men s better sportswear line and entered into licenses for women s better sportswear, swimwear, men s tailored clothing, outerwear, footwear and handbags and other accessories since that time. These new product categories complement the pre-acquisition offerings, which include fragrances, underwear, jeanswear, soft home goods, accessories and other products.

An important element of this tiered brand strategy is the preservation of the prestige and image of the *Calvin Klein* brands. To this end, we maintain a dedicated in-house marketing, advertising and design division of Calvin Klein that oversees a worldwide marketing, advertising and promotion program of over $250 million, the majority of which is funded by its licensees and other authorized users. Calvin Klein designs and/or controls all design operations and product development for most of its licensees, including the licensee of the *Calvin Klein Collection* high-end collection apparel businesses.

Calvin Klein Licensing Segment

An important source of our revenues is Calvin Klein s business arrangements with licensees and other third parties worldwide that manufacture and distribute globally a broad array of products under the *Calvin Klein* brands. For fiscal 2006, approximately 44% of revenues from Calvin Klein s business partners was generated by its domestic business partners and approximately 56% was generated by its foreign business partners. Calvin Klein combines its design, marketing and imaging skills with the specific manufacturing, distribution and geographic capabilities of its business partners to enter into new product categories and extend existing lines of business. Calvin Klein s largest business partners in terms of royalty, advertising and other revenues earned by Calvin Klein in fiscal 2006 were:

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Warnaco, Inc., accounting for approximately 37%; and

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Coty, Inc., accounting for approximately 18%.

Calvin Klein has over 55 licensing arrangements. The products offered by Calvin Klein s business partners include:

Business Partner	**Product Category**
CK Watch and Jewelry Co., Ltd. (Swatch SA)	Men s and women s watches (worldwide) and women s jewelry (worldwide, excluding Japan)
CK21 Holdings Pte, Ltd.	Men s and women s bridge apparel, shoes and accessories (Asia, excluding Japan)
Coty, Inc.	Men s and women s fragrance and bath products (worldwide)
DWI Holdings, Inc.	Soft home furnishings (United States, Canada & Mexico)
G-III Apparel Group, Ltd.	Men s and women s coats; women s suits and dresses (United States, Canada & Mexico)
Jimlar Corporation	Men s and women s better shoes (United States & Canada)
Kellwood Company	Women s better and bridge sportswear (United States, Canada & Mexico)
Marchon Eyewear, Inc.	Men s and women s optical frames and sunglasses (worldwide, excluding Japan)
McGregor Industries, Inc. / American Essentials, Inc.	Men s and women s socks and women s tights (United States, Canada, Mexico & Europe)
Onward Kashiyama Co. Ltd.	Men s and women s bridge apparel and certain casual attire and women s coats and accessories (Japan)
Peerless Delaware, Inc.	Men s tailored clothing (United States, Canada & Mexico)
Warnaco, Inc.	Men s, women s and children s jeanswear (worldwide); men s and children s underwear and sleepwear (worldwide); women s intimate apparel and sleepwear (worldwide); women s swimwear

(worldwide); men s swimwear (Europe); men s and women s bridge apparel and accessories (Europe)

During 2006, we entered into new licensing agreements for, among other things, women s dresses, bridge shoes and accessories in Asia (excluding Japan), bridge apparel and accessories in India, jeanswear in India and fabrics. In addition, the women s bridge license for North America transferred to Kellwood Company. Beginning with the Spring 2006 season, the production of men s and women s high-end collection apparel and accessories under the *Calvin Klein Collection* label was transferred to CMI.

On January 31, 2006, through its acquisition of Fingen SPA, a holding company controlled by the Fratini family of Italy, Warnaco acquired CK Jeanswear N.V. and affiliated companies, which are the companies that operate the licenses for *Calvin Klein* jeans and accessories in Europe and Asia and the *Calvin Klein* bridge line of sportswear and accessories in Europe. Further, as part of this transaction, beginning in 2008 and continuing through 2013, Warnaco will assume the license for men s and women s *Calvin Klein Collection* apparel and accessories worldwide from CMI, which is controlled by the Fratini family.

With respect to revenues generated from the sale of *Calvin Klein* men s and children s underwear and sleepwear and women s intimate apparel and sleepwear, Warnaco pays us an administration fee based on Warnaco s worldwide sales of underwear, intimate apparel and sleepwear bearing any of the *Calvin Klein* marks under an administration agreement between Calvin Klein and Warnaco. Warnaco controls design and advertising related to the sale of underwear, intimate apparel and sleepwear products bearing the *Calvin Klein* name. See Trademarks.

Heritage Business

Our heritage business encompasses the design, sourcing and marketing of dress shirts, sportswear, footwear and, since January 2007, neckwear, under our portfolio of owned and licensed nationally recognized brands. Our wholesale business represents our core business and we believe that it is the basis for our brand equity. As a complement to our wholesale business, we also market products directly to consumers through our *Van Heusen, IZOD, Geoffrey Beene, Bass* and *Calvin Klein* retail stores, primarily located in outlet malls throughout the United States. We also license our owned heritage brands (*Van Heusen, IZOD, Arrow* and *G.H. Bass & Co.*) to third parties domestically and internationally for an assortment of products.

Wholesale Dress Furnishings Segment

Our Wholesale Dress Furnishings segment includes the design and marketing of dress shirts and, beginning in the fourth quarter of 2006, the design, manufacturing and marketing of neckwear.

We market our dress shirts principally under the *Van Heusen, Arrow, Geoffrey Beene, Calvin Klein, IZOD, Eagle, BCBG Max Azria, BCBG Attitude, Chaps, Sean John, Donald J. Trump Signature Collection, Kenneth Cole New York, Kenneth Cole Reaction, unlisted, A Kenneth Cole Production, JOE Joseph Abboud* and *MICHAEL Michael Kors* brands.

The *Van Heusen* dress shirt has provided a strong foundation for us for most of our history and is the best selling dress shirt brand in the United States. The *Van Heusen* dress shirt targets the updated classical consumer, is marketed at opening to moderate price points and is distributed through more than 3,000 doors, principally in department stores, including Belk, Inc., Federated Department Stores, Inc. and J.C. Penney Company, Inc., and through our *Van Heusen* retail stores.

Arrow

is the second best selling dress shirt brand in the United States. The *Arrow* dress shirt targets the updated classical consumer, is marketed at opening to moderate price points and is distributed through more than 2,200 doors, principally in mid-tier department stores, including Kohl s Corporation and Sears, Roebuck and Co. The *Arrow* dress shirt is positioned as a mid-tier department store complement to *Van Heusen*.

The *Geoffrey Beene* dress shirt is the best selling dress shirt brand in department stores in the United States. The *Geoffrey Beene* dress shirt targets the more style conscious consumer, is marketed at moderate to upper moderate price points and is distributed through more than 2,600 doors, principally in department and specialty stores, including Federated and Casual Male Retail Group, Inc., and through our *Geoffrey Beene* retail stores. We market *Geoffrey Beene* dress shirts under a license agreement with Geoffrey Beene Inc. that expires on December 31, 2008 and which we may extend, subject to certain conditions, through December 31, 2013.

The *Calvin Klein* dress shirt targets the modern classical consumer, is marketed at better price points and is distributed through more than 800 doors, principally in department stores, including Federated, and through our *Calvin Klein* retail stores. We also offer to a more limited distribution, *Calvin Klein Collection* and *ck Calvin Klein* dress shirts, which are distributed in luxury department and specialty stores and free-standing *Calvin Klein Collection* and *ck Calvin Klein* stores.

The *IZOD* dress shirt targets the modern traditional consumer, is marketed at moderate price points and is distributed through more than 1,000 doors, principally in department stores, including Belk, Stage Stores, Inc. and JCPenney.

The *Eagle* dress shirt, a 100% cotton, no-iron shirt, targets the updated traditional consumer, is marketed at better price points and is distributed through more than 350 doors, principally in department stores, including Federated.

The *BCBG Max Azria* dress shirt targets the contemporary consumer and is marketed at better price points. The *BCBG Attitude* dress shirt targets the more youthful contemporary consumer and is also marketed at better price points. We distribute the two *BCBG* brands of dress shirts through more than 250 doors combined, principally in department stores, including Federated and Dillards, Inc., under a license agreement with BCBG Max Azria Group, Inc. that expires on January 31, 2010 and which we may extend, subject to certain conditions, through January 31, 2020.

The *Chaps* dress shirt targets the updated traditional consumer and is marketed at moderate price points. The *Chaps* dress shirt is distributed through more than 950 doors, principally in mid-tier department stores, including Kohl s and Mervyn s LLC. We market *Chaps* dress shirts under a license agreement with PRL USA, Inc. and The Polo/Lauren Company, LP that expires on December 31, 2007 and which we may extend, subject to certain conditions, through December 31, 2013.

The *Sean John* dress shirt targets the updated classical consumer, is marketed at moderate to better price points and is distributed through more than 250 doors, principally in department stores, including Federated. We market *Sean John* dress shirts under a license agreement with Christian Casey, LLC that expires on December 31, 2007 and which we may extend, subject to certain conditions, through December 31, 2013.

The *Donald J. Trump Signature Collection* dress shirt, which we launched in Spring 2005, targets the modern classical consumer, is marketed at better price points and is distributed through more than 300 doors, principally at Federated. We market *Donald J. Trump Signature Collection* dress shirts under a license agreement with Donald J. Trump that expires on December 31, 2009 and which we may extend, subject to certain conditions, through December 31, 2012.

The *Kenneth Cole New York* and *Kenneth Cole Reaction* dress shirts target the modern consumer, are marketed at bridge and better price points, respectively, and are distributed through more than 900 doors combined, principally in department stores, including Dillards and Federated. The *unlisted, A Kenneth Cole Production* dress shirt, introduced at the beginning of 2006, targets the more youthful, modern consumer, is marketed at upper moderate to better price points and is distributed through more than 500 doors, principally in department stores, including Federated. We market the three *Kenneth Cole* brands of dress shirts under a license agreement with Kenneth Cole Productions (Lic), Inc. that expires on December 31, 2009 and which we may extend, subject to certain conditions, through December 31, 2012.

The *JOE Joseph Abboud* dress shirt, which we launched in the second quarter of 2006, targets the more youthful, classical consumer, is marketed at moderate to better price points and is distributed through more than 150 doors, principally in department stores, including Federated. We market *JOE Joseph Abboud* dress shirts under a license agreement with J.A. Apparel Corp. that expires on December 31, 2009 and which we may extend, subject to certain conditions, through December 31, 2012.

The *MICHAEL Michael Kors* dress shirt, which we launched in Fall 2004, targets the modern consumer and is marketed at moderate to better price points. We market *MICHAEL Michael Kors* dress shirts under a license agreement with Michael Kors, LLC that the parties had agreed to terminate at the end of the Spring/Summer 2006 selling season but subsequently agreed to extend on several occasions. The parties current agreement is for the license to terminate effective February 28, 2008.

We launched our neckwear group in January 2007 in connection with our acquisition of Superba. Our neckwear group distributes neckwear to all channels of distribution, including mass, mid-tier, department, better specialty and better department stores, through the offering of neckwear under nationally recognized brands that we own or license, as well as through private label programs.

Our neckwear division distributes neckwear under our owned brands, *Arrow, Calvin Klein, IZOD* and *Eagle* and licensed brands, *Tommy Hilfiger*, *Nautica*, *DKNY*, *Perry Ellis Portfolio*, *Jones New York*, *JOE Joseph Abboud, MICHAEL Michael Kors*, *Michael Kors Collection*, *Axist* and *John Henry.* Neckwear was previously produced by Superba under all of the brands, other than *Calvin Klein, IZOD* and *Eagle,* which we had licensed to third parties. The *Calvin Klein* and *IZOD* licenses were terminated at the end of 2006 pursuant to an agreement we reached with the licensee and the license for *Eagle* expired on December 31, 2006. The portfolio of brands provides a balanced assortment of traditional, classic, modern and contemporary lifestyles in all price ranges.

Arrow neckwear is targeted to the same updated classical consumer to whom we target our *Arrow* dress shirts. The neckwear is also marketed at opening to moderate price points and is distributed through more than 2,000 doors, principally in mid-tier department stores, including Kohl s, Sears and Mervyn s. *Arrow* neckwear is positioned as a mid-tier department store complement to *Van Heusen*.

Calvin Klein

neckwear is targeted to the same modern classical consumer as are our *Calvin Klein* dress shirts. The neckwear is marketed at better price points and is distributed through more than 800 doors, principally in department stores, including Federated and The Bon-Ton Stores, Inc., and through our *Calvin Klein* retail stores.

IZOD neckwear is targeted to the same modern traditional consumer as are our *IZOD* dress shirts. The neckwear is also marketed at moderate price points and is distributed through more than 1,000 doors, principally in department stores, including Belk, Stage Stores and JCPenney.

Eagle neckwear is targeted to the same updated traditional consumer to whom we target our *Eagle* dress shirts. The neckwear is also marketed at better price points and is distributed through more than 250 doors, principally in department stores, including Federated and Bon-Ton.

Our licensed lines of *Tommy Hilfiger*, *Nautica*, *DKNY*, *Perry Ellis Portfolio, Jones New York, JOE Joseph Abboud, MICHAEL Michael Kors, Michael Kors Collection, Axist* and *John Henry* neckwear are principally marketed at moderate to better price points through mid-tier and department stores, including Federated, Kohl s, Mervyn s and Bon-Ton.

We market *Tommy Hilfiger* neckwear through more than 500 doors under a license agreement with Tommy Hilfiger Licensing, LLC that expires on December 31, 2008 and which we may extend, subject to certain conditions, through December 31, 2011.

We market *Nautica* neckwear through more than 1,000 doors under a license agreement with Nautica Apparel, Inc. that expires on December 31, 2010.

We market *DKNY* neckwear through more than 350 doors under a license agreement with Donna Karan Studio, LLC that expires on December 31, 2009.

We market *Perry Ellis Portfolio* neckwear through more than 550 doors under a license agreement with PEI Licensing, Inc. that expires on December 31, 2010.

We market *Jones New York* neckwear through more than 200 doors under a license agreement with Jones Investment Co., Inc. that expires on December 31, 2009.

We market *JOE Joseph Abboud* neckwear through more than 200 doors under a license agreement with J.A. Apparel Corp. that expires on December 31, 2009, and which we may extend, subject to certain conditions, through December 31, 2012.

We market *MICHAEL Michael Kors* and *Michael Kors Collection* neckwear under a license agreement with Michael Kors, LLC that expires on December 31, 2008.

We market *Axist* neckwear through more than 800 doors under a license agreement with PEI Licensing, Inc. that expires on December 31, 2010.

We market *John Henry* neckwear through more than 150 doors under a license agreement with PEI Licensing, Inc. that expires on December 31, 2010.

Additionally, we market neckwear in the mid-tier and department store channels under the *City of London, Bugatti* and *Ferrell Reed* brands, which we own, and the *Original Penguin, Zylos by George Machado, Gianfranco Ruffini* and *Studio by Fumagalli s* brands, which we license under license agreements that expire on December 31, 2010.

Our neckwear division also distributes hand-made and hand-finished neckwear, predominately produced in our Los Angeles manufacturing facility, to better specialty and department stores under owned brands, including *Ferrell Reed* and *Bugatti*, and licensed brands, including *Ike Behar* and *Ted Baker*. These products are marketed through department and specialty stores, including Federated s Bloomingdale s chain, Lord & Taylor, Neiman Marcus, Nordstrom, Inc. and Saks Incorporated s Saks Fifth Avenue stores and are sold in higher price ranges than the machine-made ties our neckwear division markets.

We market *Ike Behar* neckwear through more than 150 doors under a license agreement with Behar Licensing, Inc. that expires on December 31, 2009.

We market *Ted Baker* neckwear through more than 100 doors under a license agreement with Hartmarx International, Inc. that expires on December 31, 2008 and which we may extend, subject to certain conditions, through December 31, 2011.

Additionally, we market hand-made and hand-finished neckwear under the *Hart Schaffner Marx, Valentino* and *Alara* brands. We market *Hart Schaffner Marx* neckwear under a license agreement with Hart Schaffner & Marx that expires on December 31, 2012. We market *Valentino* neckwear under a distribution agreement with Esse S.P.A. that expires on December 31, 2007. It is currently our intention to renew this agreement. We market *Alara* neckwear under a license agreement with Pera, Inc. that expires on December 31, 2008, and which we may extend, subject to certain conditions, through December 31, 2011.

We also offer private label dress shirt and neckwear programs to retailers. Private label offerings enable a retailer to sell its own line of exclusive merchandise at generally higher margins. These programs present an opportunity for us to leverage our design, sourcing, manufacturing and logistics expertise. Our private label customers work with our designers to develop the styles, sizes and cuts that the customers desire to sell in their stores under their private labels. Private label programs offer the consumer quality product and offer the retailer the opportunity to enjoy product exclusivity at generally higher margins. Private label products, however, generally do not have the same level of consumer recognition as branded products and private label manufacturers do not generally provide retailers with the same breadth of services and in-store sales and promotional support as branded manufacturers. We market private label dress shirts and neckwear to national department and mass market stores. Our private label dress shirt programs include *Puritan* and *George* for Wal-Mart Stores, Inc. and *John Ashford* for Federated, and our private label neckwear programs include *Murano, Daniel Cremieux* and *Roundtree & Yorke* for Dillards, *Club Room* for Federated, *Croft & Barrow* and *Apt. 9* for Kohl s, *John W. Nordstrom* for Nordstrom and *Stafford* for JCPenney.

Wholesale Sportswear And Related Products Segment

We market our sportswear, including men s knit and woven sport shirts, sweaters, bottoms, swimwear, boxers and outerwear, at wholesale, principally under the *IZOD, Van Heusen*, *Arrow, Geoffrey Beene* and *Calvin Klein* brands.

IZOD

is the best selling knit sport shirt brand in the United States. *IZOD* men s sportswear consists of six related separate concepts under the classic *IZOD* blue label, the *IZOD* black label (golf/resort lifestyle sportswear), the *IZOD* red label (*IZOD LX,* a higher-priced line of sportswear), *IZOD Jeans*, *IZOD PerformX* and *IZOD XFG* (*X-treme Function Golf*) sub-brands. *IZOD* apparel consists of a range of men s sportswear, including sweaters, knit and woven sports shirts, slacks, jeans, fleecewear and outerwear. *IZOD* sportswear is targeted to the active consumer, is marketed at moderate to upper moderate price points and is distributed through more than 3,100 doors, principally in department stores, including, Federated, Belk, Stage Stores, and JCPenney, and through our *IZOD* retail stores.

Van Heusen

is the best selling woven sport shirt brand in the United States. *Van Heusen* sportswear also includes knit sport shirts, chinos and sweaters. Like *Van Heusen* dress shirts, *Van Heusen* sport shirts, chinos and sweaters target the updated classical consumer, are marketed at opening to moderate price points and are distributed through more than 3,900 doors, principally in department stores, including Belk, Federated, Stage Stores, and JCPenney, and through our *Van Heusen* retail stores.

Arrow

sportswear targets the updated classical consumer, is marketed at moderate price points and is distributed through more than 3,200 doors, principally in mid-tier department stores, including Kohl s and Sears. *Arrow* sportswear consists of men s knit and woven tops, sweaters and bottoms.

Geoffrey Beene

sportswear targets a more style conscious consumer than *IZOD, Van Heusen* and *Arrow* and is positioned as a designer label for men s woven and knit sport shirts on the main floor of department stores. *Geoffrey Beene* sportswear is marketed at upper moderate price points and is distributed through more than 1,600 doors, principally in department stores, including Federated, and through our *Geoffrey Beene* retail stores. We market *Geoffrey Beene* men s sportswear at wholesale under the same license agreement as *Geoffrey Beene* dress shirts.

Calvin Klein

men s sportswear targets the modern classical consumer and is marketed at better price points and is distributed through more than 550 doors, principally in better fashion department and specialty stores, including Federated and Dillards, and through our *Calvin Klein* retail stores.

We also offer sportswear and golf apparel under the *Donald J. Trump Signature Collection* brand. The line is marketed at better price points and is distributed through more than 100 doors, principally in Federated, as well as country clubs operated by The Trump Organization. We launched the line for Spring 2006 and will discontinue it no later than when the license agreement expires on December 31, 2007.

We have stated that our growth strategies include growing our sportswear business and continuing to build our brand portfolio, including through licensing opportunities. We announced recently three initiatives that would build upon these strategies, each of which we believe provides us with the opportunity to fill product and brand portfolio needs. The first initiative is the launch of *G.H. Bass Earth*, an outdoor lifestyle brand that is targeted to mid-tier and specialty stores and will feature packaging and products that use recycled materials. This extension of our *Bass* brand will be shipping for the Spring 2007 season. The second initiative is our assumption of the wholesale *IZOD* women s sportswear collection. *IZOD* women s sportswear was previously a licensed business and we have decided with the licensee to take over the development and sale of the line upon the expiration of the license in mid 2007. The design, merchandising, price positioning and distribution for the women s sportswear line will mirror that of our *IZOD* men s product. Our third initiative, announced in early 2007, is a licensing arrangement with The Timberland Company to design, source and market men s and women s casual sportswear under the *Timberland* brand in North America. We will assume the management of the men s apparel line, which is currently produced by The Timberland Company, for the Fall 2008 season and will launch a women s line for the Spring 2009 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.

Retail Segments

We operate approximately 700 retail stores under the *Van Heusen, IZOD, Bass, Geoffrey Beene*, *Calvin Klein* and *Calvin Klein Collection* names. Ranging in size from 1,000 to 12,000 square feet, with an average of approximately 4,700 square feet, our stores are primarily located in outlet malls throughout the United States. We believe our retail stores are an important complement to our wholesale operations because we believe that the stores further enhance consumer awareness of our brands by offering products that are not available in our wholesale lines, while also providing a means for managing excess inventory.

Retail Apparel and Related Products Segment

Our *Van Heusen* outlet stores offer men s dress shirts, neckwear and underwear, men s and women s sportswear, including woven and knit shirts, sweaters, bottoms and outerwear, and men s and women s accessories. These stores are targeted to the value-conscious consumer who looks for classically styled, moderately priced apparel.

Our *IZOD* outlet stores offer men s and women s active-inspired sportswear, including woven and knit shirts, sweaters, bottoms and activewear. These stores focus on golf, travel and resort clothing.

Our *Geoffrey Beene* outlet stores offer men s dress shirts, neckwear and underwear, men s and women s sportswear including woven and knit shirts, sweaters, bottoms and outerwear and men s and women s accessories. These stores are targeted towards a more fashion-conscious, designer-oriented consumer. Our *Geoffrey Beene* stores offer men s furnishings, casual and dress casual sportswear and women s casual and dress casual sportswear, under a license agreement which expires on December 31, 2008, and which we may extend, subject to certain conditions, for one additional three-year period, which would end on December 31, 2011.

Our *Calvin Klein* outlet stores are located in premium outlet centers and offer men s and women s apparel and other *Calvin Klein* products to communicate the *Calvin Klein* lifestyle. We also operate one *Calvin Klein Collection* store, located in New York City, that offers *Calvin Klein* men s and women s high-end collection apparel and accessories and other products under the *Calvin Klein* brands. We previously operated *Calvin Klein Collection* stores in Dallas and Paris that we closed during the fourth quarter of 2005.

Retail Footwear and Related Products Segment

Our *Bass* outlet stores offer casual and dress casual shoes for men, women and children. Most of our stores also carry sportswear for men and women, including tops, bottoms and outerwear, as well as accessories such as handbags, wallets, belts and travel gear.

Licensing

In addition to our Calvin Klein licensing business, we license our heritage brands globally for a broad range of products under approximately 110 agreements. We believe royalty, advertising and other revenues from our licensing partners provide us with a relatively stable flow of revenues and extend and strengthen our brands globally.

We grant licensing partners the right to manufacture and sell at wholesale specified products under one or more of our brands. In addition, certain foreign licensees are granted the right to open retail stores under the licensed brand name and sell only goods under that name in such stores. A substantial portion of the sales by our domestic licensing partners is made to our largest wholesale customers. As compensation under these agreements, each licensing partner pays us royalties based upon its sales of our branded products, subject generally to payment of a minimum royalty. These payments generally range from 4.0% to 8.0% of the licensing partners sales of the licensed products. In addition, licensing partners are generally required to spend and/or contribute to us an amount equal to between 2.0% and 5.0% of their sales of the licensed products for advertising. We provide support to our business partners and seek to preserve the integrity of our brand names by taking an active role in the design, quality control, advertising, marketing and distribution of each licensed product, most of which are subject to our prior approval and continuing oversight.

We license our *Van Heusen, IZOD, IZOD G, Arrow* and *G.H. Bass & Co.* brand names for various products worldwide. We also sublicense to others the *Geoffrey Beene, Donald J. Trump Signature Collection, BCBG Attitude* and *BCBG Max Azria* brand names for certain products. The products offered by our licensing partners under these brands include:

Licensing Partner	**Product Category**
Biflex Intimates Group, LLC	*IZOD* women s intimate apparel
Block Sportswear, Inc.	*Van Heusen* and *IZOD* big and tall sportswear
Clearvision Optical Company, Inc.	*IZOD* eyewear
Collezione S.A. Corp.	*Arrow* men s non-leather and leather outerwear, *IZOD* men s leather outerwear and *Van Heusen* men s and women s non-leather and leather outerwear
Custom Leather Canada Limited	*Van Heusen* belts and small leather goods and *Van Heusen* and *IZOD* accessories
Fishman & Tobin, Inc.	*Van Heusen*, *IZOD* and *Arrow* boys sportswear, *IZOD* girls school uniforms and *Arrow* men s tailored clothing and boys and girls school uniforms
G-III Apparel Group, LTD.	*IZOD* men s and women s non-leather outerwear
Harbor Wholesale, Ltd.	*Bass* wholesale footwear
Humphrey s Accessories LLC/Randa Neckwear Corp. d/b/a Randa Accessories	*IZOD* belts and *Arrow* small leather goods, belts and accessories and *Van Heusen* and *Donald J. Trump Signature Collection* neckwear
International Home Textiles, Inc.	*IZOD* soft home furnishing products
Kellwood Company	*IZOD* women s sportswear (through Spring 2007), swimwear and accessories and *Arrow* men s and boys sleepwear and loungewear
Knothe Corp.	*IZOD* sleepwear and loungewear
Mann & Brothers	*Van Heusen* men s and boys handkerchiefs
Mulberry Thai Silks, Inc.	*BCBG Attitude* and *BCBG Max Azria* men s neckwear
Nouveau Eyewear, Inc.	*Van Heusen* eyewear
Peerless Delaware, Inc.	*Van Heusen* and *IZOD* tailored clothing
PG USA Sportswear, Inc.	*IZOD G* men s and women s golf apparel
Wear Me Apparel Corp. d/b/a Kids Headquarters	*IZOD* childrenswear and outerwear

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 revenues tend to be earned somewhat evenly throughout the year, although the third quarter generally has the highest level of royalty revenue due to higher sales by licensees in advance of the holiday season.

Wholesale Customers

Our wholesale business represents our core business and we believe that it is the basis for our brand equity. Currently, our products are distributed at wholesale in national and regional department, mid-tier department, mass market, specialty and independent stores in the United States. A few of our customers, including Federated, JCPenney, Kohl s, and Wal-Mart account for significant portions of our revenues. Sales to our five largest customers were 30.6% of our revenues in 2006, 34.3% of our revenues in 2005 and 28.8% of our revenues in 2004. Federated acquired The May Department Stores Company, another of our largest customers, during 2005. The combined company accounted for 11.4% of our revenues in 2006 and 13.7% of our revenues in 2005.

We believe we provide our customers with a high level of service. We have nine separate sales forces covering the following products and product categories:

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national brand dress shirts *Van Heusen, Arrow, IZOD, Chaps, Eagle* and *Donald J. Trump Signature Collection*

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designer brand dress shirts *Calvin Klein, Geoffrey Beene, BCBG Max Azria, BCBG Attitude, Sean John, JOE Joseph Abboud, Kenneth Cole New York, Kenneth Cole Reaction* and *unlisted, A Kenneth Cole Production*

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Arrow, Calvin Klein, IZOD, Eagle, City of London, Bugatti, Ferrell Reed, MICHAEL Michael Kors, Michael Kors Collection, Tommy Hilfiger, Nautica, Perry Ellis Portfolio, DKNY, JOE Joseph Abboud, Jones New York, Axist, John Henry, Original Penguin, Zylos by George Machado, Gianfranco Ruffini and *Studio by Fumagalli s* neckwear

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Ike Behar, Ted Baker, Hart Schaffner Marx, Valentino and *Alara* neckwear

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Van Heusen and *Geoffrey Beene* men s sportswear

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IZOD and *Donald J. Trump Signature Collection* men s sportswear

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IZOD women s sportswear

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Arrow men s sportswear

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Calvin Klein men s better sportswear

Each sales force includes a team of sales professionals that works closely with our customers, providing them with a dedicated level of service which includes designing a focused selling strategy for each brand while ensuring that each brand s particular qualities and identities are strategically positioned to target a distinct consumer base.

Our customers offer our dress shirts, neckwear and men s sportswear, other than *Calvin Klein* men s better sportswear, on the main floor of their stores. *Calvin Klein* men s better sportswear is offered in the collection area of our customers stores. In each case, we offer our customers merchandising support with visual display fixtures and in-store marketing, with *Calvin Klein* men s better sportswear generally being offered in fixtured shops we design and build. When a line of our products is displayed in a stand-alone area on the main floor, or, in the case of *Calvin Klein* men s better sportswear, an exclusively dedicated collections area, we are able to further enhance brand recognition to permit more complete merchandising of our lines and to differentiate the presentation of our products. We believe the broad appeal of our products, with multiple well-known brands offering differing styles at different price points, together with our customer, advertising and marketing support and our ability to offer products with innovative qualities, allow us to expand and develop relationships with apparel retailers in the United States.

We believe that our investments in logistics and supply chain management allow us to respond rapidly to changes in sales trends and consumer demands while enhancing inventory management. We believe our customers can better manage their inventories as a result of our continuous analysis of sales trends, our broad array of product availability and our quick response capabilities. Certain of our products can be ordered at any time through our EDI replenishment systems. For customers who reorder these products, we generally ship these products within one to two days of order receipt. As of February 4, 2007 and January 29, 2006, our backlog of open customer orders totaled $152 million and $123 million, respectively.

Design

Our business depends on our ability to stimulate and respond to consumer tastes and demands, as well as on our ability to remain competitive in the areas of quality and price.

A significant factor in the continued strength of our brands is our in-house design teams. We form separate teams of designers and merchandisers for each of our brands, and, with respect to *Calvin Klein*, for each product category, creating a structure that focuses on the special qualities and identity of each brand and product. These designers and merchandisers consider consumer taste and lifestyle and trends when creating a brand or product plan for a particular season. The process from initial design to finished product varies greatly, but generally spans six to ten months prior to each selling season. Our product lines are developed primarily for two major selling seasons, Spring and Fall. However, certain of our product lines offer more frequent introductions of new merchandise.

Calvin Klein has developed a cohesive team of senior design directors who share a vision for the *Calvin Klein* brands and who each lead a separate design team. These teams control all design operations and product development for most licensees and other strategic alliances.

Sourcing and Production

To address the needs of our customers, we are continuing to make investments and develop strategies to enhance our ability to provide our customers with timely product availability and delivery. Our investments in sophisticated systems should allow us to reduce the cycle time between the design of products to the delivery of those products to our customers. We believe the enhancement of our supply chain efficiencies and working capital management through the effective use of our distribution network and overall infrastructure will allow us to better control costs and provide improved service to our customers.

In 2006, over 180 different manufacturers produced our products in approximately 200 factories and 26 countries worldwide. During 2006, in excess of 98% of our products, excluding neckwear, were produced by manufacturers located in foreign countries. On May 15, 2006, we closed our apparel manufacturing facility in Ozark, Alabama. As a result, with the exception of neckwear, 100% of our products will be produced by independent third parties, principally located in foreign countries. We produce approximately 40% of our neckwear in our domestic manufacturing facility, and the remaining 60% of our neckwear is produced by independent third parties, principally located in foreign countries. We source finished products and raw materials. Raw materials include fabric, buttons, thread, labels and similar materials. Raw materials and production commitments are generally made two to six months prior to production, and quantities are finalized at that time. We believe we are one of the largest procurers of shirting fabric in the world. Finished products consist of manufactured and fully assembled products ready for shipment to our customers and our stores. Most of our dress shirts and all of our sportswear are sourced and manufactured to our specifications by independent manufacturers in the Far East, the Indian subcontinent, the Middle East, the Caribbean and Central America who meet quality, cost and human rights criteria we have established. Our footwear is sourced and manufactured to our specifications by manufacturers who meet our quality, cost and human rights requirements, principally located in the Far East, Europe, South America and the Caribbean. Our neckwear fabric is sourced primarily from Europe and the Far East. No single supplier is critical to our production needs, and we believe that an ample number of alternative suppliers exist should we need to secure additional or replacement production capacity and raw materials. Given our extensive network of sourcing partners, we believe we are able to obtain goods at low cost and on a timely basis.

Our foreign offices and buying agents enable us to monitor the quality of the goods manufactured by, and the delivery performance of, our suppliers, which includes the enforcement of human rights standards through our ongoing approval and monitoring system. In addition, sales are monitored regularly at both the retail and wholesale levels and modifications in production can be made either to increase or reduce inventories. We continually seek additional suppliers throughout the world for our sourcing needs and place our orders in a manner designed to limit the risk that a disruption of production at any one facility could cause a serious inventory problem. We have not experienced significant production delays or difficulties in importing goods. Our purchases from our suppliers are effected through individual purchase orders specifying the price and quantity of the items to be produced.

Warehousing and Distribution

To facilitate distribution, our products are shipped from manufacturers to our wholesale and retail warehousing and distribution centers for inspection, sorting, packing and shipment. Ranging in size from 112,000 to 575,000 square feet, our centers are located in Arkansas, California, Georgia, North Carolina, Pennsylvania and Tennessee. Each of our centers is generally dedicated to serving either our wholesale customers or our retail stores. Our warehousing and distribution centers are designed to provide responsive service to our customers and our retail stores, as the case may be, on a cost-effective basis. This includes the use of various forms of electronic communications to meet customer needs, including advance shipping notices for all major customers. In addition, we contract with third parties for warehousing and distribution in Canada and Europe to provide responsive service for our foreign wholesale operations.

Advertising and Promotion

We market substantially all of our products on a brand-by-brand basis targeting distinct consumer demographics and lifestyles. Our marketing programs are an integral feature of our product offerings. Advertisements generally portray a lifestyle rather than a specific item. We intend for each of our brands to be a leader in its respective market segment, with strong consumer awareness and consumer loyalty. We believe that our brands are successful in their respective segments because we have strategically positioned each brand to target a distinct consumer demographic. We will continue to design and market our products to complement each other, satisfy lifestyle needs, emphasize product features important to our target consumers and produce consumer loyalty.

We advertise our brands in national print media (including fashion, entertainment/human interest, business, men s, women s and sports magazines, *The New York Times, The Wall Street Journal* and *USA Today*), on television, in movie theaters and through outdoor signage and sports sponsorships. We also participate in cooperative advertising programs with our customers, as we believe that brand awareness and in-store positioning are further strengthened by our contributions to such programs.

With respect to our retail operations, we generally rely upon local outlet mall developers to promote traffic for their centers. Outlet center developers employ multiple formats, including signage (highway billboards, off-highway directional signs, on-site signage and on-site information centers), print advertising (brochures, newspapers and travel magazines), direct marketing (to tour bus companies and travel agents), radio and television and special promotions.

We believe Calvin Klein is one of the most well-known designer names in the world. One of the efforts that has helped to establish and maintain the *Calvin Klein* name and image is its high-profile, often cutting-edge advertising campaigns that stimulate publicity, curiosity and debate among customers and consumers as well as within the fashion industry. Calvin Klein has a dedicated in-house advertising agency, with experienced in-house creative and media teams that develop and execute a substantial portion of the institutional consumer advertising placement for products under the *Calvin Klein* brands. The advertising team works closely with other functional areas within Calvin Klein and its licensing and other business partners to deliver a consistent and unified brand message to the consumer. Calvin Klein oversees a worldwide marketing, advertising and promotional program of over $250 million, most of which is funded by its licensees and authorized users.

Calvin Klein

products are advertised primarily in national print media, through outdoor signage and on television. We believe promotional activities throughout the year further strengthen brand awareness of the *Calvin Klein* brands. The Spring and Fall *Calvin Klein* high-end apparel collections are presented at major fashion shows in New York City and Milan, which typically generate extensive media coverage. Other Calvin Klein promotional efforts include in-store appearances by fashion models, providing wardrobes to celebrities for award ceremonies, product launch events, gift-with-purchase programs, charity events and special corporate-sponsored events.

Trademarks

We own the *Van Heusen*, *Bass, G.H. Bass & Co.*, *IZOD, IZOD G, Arrow* and *Eagle* brands, as well as related trademarks and lesser-known names. We beneficially own the *Calvin Klein Collection*, *ck Calvin Klein* and *Calvin Klein* marks. Calvin Klein and Warnaco are co-owners of the Calvin Klein Trademark Trust, which is the sole and exclusive title owner of substantially all registered *Calvin Klein Collection, ck Calvin Klein* and *Calvin Klein* trademarks. The sole purpose of the trust is to hold these marks. Calvin Klein maintains and protects the marks on behalf of the trust pursuant to a servicing agreement. The Trust exclusively licenses to Warnaco on a perpetual, royalty-free basis the use of the marks on men s and children s underwear and sleepwear and women s intimate apparel and sleepwear, and to Calvin Klein on a perpetual, royalty-free basis the use of the marks on all other products.

Warnaco pays us a fee based on Warnaco s worldwide sales of underwear, intimate apparel and sleepwear products bearing any of the *Calvin Klein* marks under an administration agreement between Calvin Klein and Warnaco.

With respect to our *Calvin Klein Collection, ck Calvin Klein* and *Calvin Klein* marks, we allow Mr. Calvin Klein to retain the right to use his name, on a non-competitive basis, with respect to his right of publicity, unless those rights are already being used in the Calvin Klein business. We also grant Mr. Klein a royalty-free worldwide right to use the *Calvin Klein* mark with respect to certain personal businesses and activities, such as motion picture, television and video businesses, a book business, writing, speaking and/or teaching engagements, non-commercial photography, charitable activities and architectural and industrial design projects, subject to certain limitations designed to protect the image and prestige of the *Calvin Klein* brands and to avoid competitive conflicts.

Our trademarks are the subject of registrations and pending applications throughout the world for use on a variety of apparel, footwear and related products, and we continue to expand our worldwide usage and registration of new and related trademarks. In general, trademarks remain valid and enforceable as long as the marks continue to be used in connection with the products and services with which they are identified and, as to registered tradenames, the required registration renewals are filed. In markets outside of the United States, particularly those where products bearing any of our brands are not sold by us or any of our licensees or other authorized users, our rights to the use of trademarks may not be clearly established.

We regard the license to use our trademarks and our other intellectual property rights in the trademarks as valuable assets in marketing our products and, on a worldwide basis, vigorously seek to protect them against infringement. We are susceptible to others imitating our products and infringing on our intellectual property rights. This is especially the case with respect to the *Calvin Klein* brands, as the *Calvin Klein* brands enjoy significant worldwide consumer recognition and their generally higher pricing provides significant opportunity and incentive for counterfeiters and infringers. Calvin Klein has a broad, proactive enforcement program, which we believe has been generally effective in controlling the sale of counterfeit products in the United States and in major markets abroad. We have taken enforcement action with respect to our other marks on an as-needed basis.

Contingent Purchase Price Payments

Prior to our acquisition of Calvin Klein, Calvin Klein was obligated to pay Mr. Calvin Klein and his heirs in perpetuity a percentage of sales of certain products bearing any of the *Calvin Klein* brands under a design services letter agreement. In connection with our acquisition of Calvin Klein, we bought all of Mr. Klein s rights under that agreement in consideration of a warrant to purchase our common stock and for granting him the right to receive from us contingent purchase price payments for a period of 15 years based on a percentage of total worldwide net sales of products bearing any of the *Calvin Klein* brands. In addition, Mr. Klein was released from all of his obligations under that agreement, including his obligation to render design services to Calvin Klein, and the design services letter agreement was terminated. Our obligation to make contingent purchase price payments to Mr. Klein in connection with our acquisition of Calvin Klein is guaranteed by our Calvin Klein subsidiaries and is secured by a subordinated pledge of all of the equity interests in our Calvin Klein subsidiaries and a subordinated lien on substantially all of our domestic Calvin Klein subsidiaries assets. Events of default under the agreements governing the collateral for our contingent payment obligations to Mr. Klein, include, but are not limited to (1) our failure to make payments to Mr. Klein when due, (2) covenant defaults, (3) cross-defaults to other indebtedness in excess of an agreed amount, (4) events of bankruptcy, (5) monetary judgment defaults and (6) a change of control, including the sale of any portion of the equity interests in our Calvin Klein subsidiaries. An event of default under those agreements would permit Mr. Klein to foreclose on his security interest in the collateral. In addition, if we fail to pay Mr. Klein a contingent purchase price payment when due and such failure to pay continues for 60 days or more after a final judgment by a court is rendered relating to our failure to pay, Mr. Klein will no longer be restricted from competing with us as he otherwise would be under the non-competition provisions contained in the purchase agreement relating to our acquisition of Calvin Klein, although he would still not be able to use any of the *Calvin Klein* brands or any similar trademark in any competing business.

We are obligated under the Superba acquisition agreement to pay to Superba contingent purchase price payments if the earnings of the acquired business exceed certain targets in 2007, 2008 and 2009. The maximum payout that Superba can receive is $15 million, $25 million and $30 million with respect to earnings in 2007, 2008 and 2009, respectively. Any such contingent purchase price payments would be payable 90 days after the applicable fiscal year end.

Competition

The apparel and footwear industries are competitive as a result of their fashion orientation, mix of large and small producers, the flow of domestic and imported merchandise and the wide diversity of retailing methods. Some of our larger branded apparel and footwear competitors include Polo Ralph Lauren, Tommy Hilfiger Corporation, Nautica Enterprises, Inc., Perry Ellis International, The Timberland Company and Rockport. As a result of our acquisition of Calvin Klein, we believe The Donna Karan Company LLC, Polo Ralph Lauren s Purple Label, Giorgio Armani SPA, Gucci Group N.V. and Prada SPA Group also are our competitors. In addition, we face significant competition from retailers, including our own wholesale customers, through their private label programs.

We compete primarily on the basis of style, quality and service. Our business depends on our ability to stimulate consumer tastes and demands, as well as on our ability to remain competitive in the areas of quality, service and price. We believe we are particularly well-positioned to compete in the apparel and footwear industries. Our diversified portfolio of apparel brands and apparel and footwear products and our use of multiple channels of distribution have allowed us to develop a business that produces results which are not dependent on any one demographic group, merchandise preference or distribution channel. We have developed a portfolio of brands that appeal to a broad spectrum of consumers. Our owned brands have long histories and enjoy high recognition within their respective consumer segments. We develop our owned and licensed brands to complement each other and to generate strong consumer loyalty. The *Calvin Klein* brands generally provide us with the opportunity to develop businesses that target different consumer groups at higher price points and in higher-end distribution channels than our other brands, as well as with significant global opportunities due to the worldwide recognition of the brands.

Imports and Import Restrictions

A substantial portion of our products is manufactured by contractors located outside the United States. These products are imported and are subject to United States customs laws, which impose tariffs, as well as quota restrictions, for non-WTO countries. Under the provisions of the WTO agreement governing international trade in textiles, known as the WTO Agreement on Textiles and Clothing, effective as of January 1, 2005, the United States and other WTO member countries have eliminated quotas on textiles and apparel-related products from WTO member countries. As a result, quota restrictions no longer affect our business in most countries; however, the removal of quotas resulted in an import surge from China. Accordingly, the United

States, pursuant to the U.S.-China Accession Agreement to join the WTO, has imposed safeguard quotas on certain categories of products imported from China. The imposition of these safeguard quotas has not had any adverse impact on us, as the quotas that were established were significantly larger than quotas China had in place prior to 2005. Furthermore, we closely monitor our imports and are aware of the quantities that will be shipped on a month-by-month basis. This enables us to ensure that there are no supply chain disruptions as a result of the usage of the quota. The safeguard restrictions imposed will expire December 31, 2008. Presently, a portion of our imported products is eligible for certain duty-advantaged programs, including CAFTA.

Environmental Matters

Our facilities and operations are subject to various environmental, health and safety laws and regulations, including the proper maintenance of asbestos-containing materials. In addition, we may incur liability under environmental statutes and regulations with respect to the contamination of sites that we own or operate or previously owned or operated (including contamination caused by prior owners and operators of such sites, abutters or other persons) and the off-site disposal of hazardous materials. We believe our operations are in compliance with terms of all applicable laws and regulations.

Employees

As of February 4, 2007, we employed approximately 5,600 persons on a full-time basis and approximately 5,300 persons on a part-time basis. Approximately 5% of our employees were represented for the purpose of collective bargaining by five different unions. Additional persons, some represented by these five unions, are employed from time to time based upon our manufacturing schedules and retailing seasonal needs. Our collective bargaining agreements generally are for three-year terms. We believe that our relations with our employees are satisfactory.

Executive Officers of the Registrant

The following table sets forth the name, age and position of each of our executive officers:

Name	Age	Position
Emanuel Chirico	49	Chief Executive Officer; Director

Allen E. Sirkin	64	President and Chief Operating Officer
Michael A. Shaffer	44	Executive Vice President and Chief Financial Officer
Francis K. Duane	50	Vice Chairman, Wholesale
Michael Zaccaro	61	Vice Chairman, Retail
Paul Thomas Murry	56	President and Chief Operating Officer, Calvin Klein

Mr. Emanuel Chirico joined us as Vice President and Controller in 1993. Mr. Chirico was named Executive Vice President and Chief Financial Officer in 1999, President and Chief Operating Officer in 2005 and Chief Executive Officer in February 2006.

Mr. Allen E. Sirkin has been employed by us since 1985. He served as Chairman of our Apparel Group from 1990 until 1995, was named Vice Chairman, Dress Shirts in 1995 and President and Chief Operating Officer in March 2006.

Mr. Michael A. Shaffer has been employed by us since 1990. He most recently served as Senior Vice President, Retail Operations before being named Executive Vice President, Finance in 2005 and Chief Financial Officer in March 2006.

Mr. Francis K. Duane served as President of our Izod division from 1998 until 2001, was named Vice Chairman, Sportswear in 2001 and Vice Chairman, Wholesale in March 2006.

Mr. Michael Zaccaro served as President, Izod Retail from 1999 until 2001, was named Group President, Van Heusen and Izod Retail in 2001 and Vice Chairman, Retail in April 2002.

Mr. Paul Thomas Murry has been employed by Calvin Klein since 1996. Mr. Murry retained his position as President and Chief Operating Officer, Calvin Klein upon our acquisition of Calvin Klein in 2003.

Item 1A. Risk Factors

Our substantial level of debt could impair our financial condition.

We had approximately $400 million of long-term debt, $120 million of outstanding letters of credit and $205 million of additional amounts available for borrowing as of February 4, 2007. Our significant level of debt could have important consequences to investors, including:

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requiring a substantial portion of our cash flows from operations be used for the payment of interest on our debt, thereby reducing the funds available to us for our operations or other capital needs;

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limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate because our available cash flow after paying principal and interest on our debt may not be sufficient to make the capital and other expenditures necessary to address these changes;

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increasing our vulnerability to general adverse economic and industry conditions because, during periods in which we experience lower earnings and cash flow, we will be required to devote a proportionally greater amount of our cash flow to paying principal and interest on our debt;

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limiting our ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;

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placing us at a competitive disadvantage to other relatively less leveraged competitors that have more cash flow available to fund working capital, capital expenditures and general corporate requirements; and

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any borrowings we make at variable interest rates, including our revolving credit facility, leave us vulnerable to increases in interest rates generally.

We may not be able to continue to realize revenue growth from Calvin Klein.

A significant portion of our business strategy involves growing our Calvin Klein business. Our realization of revenue growth from Calvin Klein will depend largely upon our ability to:

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continue to maintain and enhance the distinctive brand identity of *Calvin Klein;*

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continue to maintain good working relationships with Calvin Klein s licensees;

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continue to enter into new licensing agreements for the *Calvin Klein* brands, both domestically and internationally;

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successfully design and market the *Calvin Klein* men s better sportswear line over time; and

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continue to open *Calvin Klein* outlet retail stores in premium outlet malls and successfully operate over time a chain of such stores.

We cannot assure you that we can successfully execute any of these actions or our growth strategy for the *Calvin Klein* brands, nor can we assure you that the launch of any *Calvin Klein* branded products by us or our licensees or that the continued offering of these lines will achieve the degree of consistent success necessary to generate profits or positive cash flow. Our ability to successfully carry out our growth strategy may be affected by, among other things, our ability to enhance our relationships with existing customers to obtain additional selling space and develop new relationships with apparel retailers, economic and competitive conditions, changes in consumer spending patterns and changes in consumer tastes and style trends. If we fail to develop and grow successfully the Calvin Klein business, our financial condition and results of operations may be materially and adversely affected.

The success of Calvin Klein depends on the value of our Calvin Klein brands, and if the value of those brands were to diminish, our business could be adversely affected.

Our success depends on our brands and their value. The *Calvin Klein* name is integral to the existing Calvin Klein business, as well as to our strategies for continuing to grow and expand Calvin Klein. The *Calvin Klein* brands could be adversely affected if Mr. Klein s public image or reputation were to be tarnished.

A substantial portion of our revenues and gross profit is derived from a small number of large customers and the loss of any of these customers could substantially reduce our revenues.

A few of our customers, including Federated Department Stores, Inc., J. C. Penney Company, Inc., Kohl s Corporation and Wal-Mart Stores, Inc., account for significant portions of our revenues. Sales to our five largest customers were 30.6% of our revenues in 2006, 34.3% of our revenues in 2005 and 28.8% of our revenues in 2004. Federated, our largest customer, accounted for 11.4% of our revenues in 2006 and 13.7% of our revenues in 2005. We do not have long-term agreements with any of our customers and purchases generally occur on an order-by-order basis. A decision by any of our major customers, whether motivated by marketing strategy, competitive conditions, financial difficulties or otherwise, to decrease significantly the amount of merchandise purchased from us or our licensing or other business partners, or to change their manner of doing business with us or our licensing or other business partners, could substantially reduce our revenues and materially adversely affect our profitability. The retail industry has recently experienced a great deal of consolidation and other ownership changes and we expect such changes to be ongoing. For example, in August 2005, Federated acquired The May Department Stores Company and has closed approximately 80 stores. Store closings will decrease the number of stores carrying our apparel products, while the remaining stores may purchase a smaller amount of our products and may reduce the retail floor space designated for our brands. Federated may also close additional stores, which could further reduce our revenues. In the future, retailers may further consolidate, undergo restructurings or reorganizations, realign their affiliations or reposition their stores target markets. Any of these types of actions could decrease the number of stores that carry our products or increase the ownership concentration within the retail industry. These changes could decrease our opportunities in the market, increase our reliance on a smaller number of large customers and decrease our negotiating strength with our customers. These factors could have a material adverse effect on our financial condition and results of operations.

Our business could be adversely affected by financial instability experienced by our customers.

During the past several years, various retailers have experienced significant financial difficulties, which have resulted in bankruptcies, liquidations and store closings. We sell our products primarily to national and regional department, mid-tier department and mass market stores in the United States on credit and evaluate each customer s financial condition on a regular basis in order to determine the credit risk we take in selling goods to them. The financial difficulties of a customer could cause us to curtail business with that customer and we may be unable to shift sales to another viable customer. We may also assume more credit risk relating to receivables of a customer experiencing financial instability. Should these circumstances arise with respect to our customers, our inability to shift sales or to collect on our trade accounts receivable from any one of our customers could substantially reduce our revenues and have a material adverse effect on our financial condition and results of operations.

We primarily use foreign suppliers for our products and raw materials, which poses risks to our business operations.

During 2006, in excess of 98% of our apparel products, excluding neckwear, were produced by and purchased or procured from independent manufacturers located in countries in the Far East, the Indian subcontinent, the Middle East, the Caribbean and Central America. On May 15, 2006, we closed our apparel manufacturing facility in Ozark, Alabama. As a result, with the exception of neckwear, 100% of our products will be produced by independent third parties, principally located in foreign countries. Approximately 60% of our neckwear is produced by independent third parties, principally located in foreign countries. We believe that we are one of the largest procurers of shirting fabric in the world. Additionally, our footwear products and the raw materials therefor were produced by and purchased or procured from manufacturers located principally in countries in the Far East, Europe, South America and the Caribbean and our neckwear fabric was produced by or procured from manufacturers in Europe and the Far East. Although no single supplier and no one country is critical to our production needs, any of the following could materially and adversely affect our ability to produce or deliver our products and, as a result, have a material adverse effect on our business, financial condition and results of operations:

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political or labor instability in countries where contractors and suppliers are located;

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political or military conflict involving the United States, which could cause a delay in the transportation of our products and raw materials to us and an increase in transportation costs;

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heightened terrorism security concerns, which could subject imported or exported goods to additional, more frequent or more thorough inspections, leading to delays in deliveries or impoundment of goods for extended periods or could result in decreased scrutiny by customs officials for counterfeit goods, leading to lost sales, increased costs for our anti-counterfeiting measures and damage to the reputation of our brands;

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a significant decrease in availability or increase in cost of raw materials, particularly petroleum-based synthetic fabrics, which are currently in high demand;

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disease epidemics and health-related concerns, such as the SARS outbreak and the mad cow and hoof-and-mouth disease outbreaks in recent years and current concerns over an avian flu pandemic, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas;

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the migration and development of manufacturers, which could affect where our products are or are planned to be produced;

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imposition of regulations, quotas and safeguards relating to imports and our ability to adjust timely to changes in trade regulations, which, among other things, could limit our ability to produce products in cost-effective countries that have the labor and expertise needed;

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imposition of duties, taxes and other charges on imports;

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significant fluctuation of the value of the dollar against foreign currencies; and

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restrictions on transfers of funds out of countries where our foreign licensees are located.

If our manufacturers fail to use acceptable ethical business practices, our business could suffer.

We require our manufacturers to operate in compliance with applicable laws, rules and regulations regarding working conditions, employment practices and environmental compliance. Additionally, we impose upon our business partners operating guidelines that require additional obligations in those areas in order to promote ethical business practices, and our staff and third parties we retain for such purposes periodically visit and monitor the operations of our independent manufacturers to determine compliance. However, we do not control our independent manufacturers or their labor and other business practices. If one of our manufacturers violates labor or other laws or implements labor or other business practices that are generally regarded as unethical in the United States, the shipment of finished products to us could be interrupted, orders could be cancelled, relationships could be terminated and our reputation could be damaged. Any of these events could have a material adverse effect on our revenues and, consequently, our results of operations.

Our reliance on independent manufacturers could cause delay and damage customer relationships.

In 2006, we relied upon independent third parties for the manufacture of more than 98% of our apparel products and 100% of our footwear products. On May 15, 2006, we closed our apparel manufacturing facility in Ozark, Alabama. As a result, 100% of our products, with the exception of neckwear, will be produced by independent third parties. We produce approximately 40% of our neckwear in our domestic manufacturing facility, and the remaining 60% of our neckwear is produced by independent third parties. We do not have long-term contracts with any of our suppliers. A manufacturer s failure to ship products to us in a timely manner or to meet required quality standards could cause us to miss the delivery date requirements of our customers for those products. As a result, customers could cancel their orders, refuse to accept deliveries or demand reduced prices. Any of these actions taken by our customers could have a material adverse effect on our revenues and, consequently, our results of operations.

We are dependent on a limited number of distribution and neckwear manufacturing facilities. If one becomes inoperable, our business, financial condition and operating results could be negatively impacted.

We operate a limited number of distribution facilities, and approximately 40% of our neckwear is produced in only one facility that we lease. Our ability to meet the needs of our retail customers and of our own retail stores depends on the proper operation of our primary facilities. If any of our primary facilities were to shut down or otherwise become inoperable or inaccessible for any reason, we could have a substantial loss of inventory and/or disruptions of deliveries to our customers and our stores, and/or incur significantly higher costs and longer lead times associated with the distribution of our products during the time it takes to reopen or replace the facility. This could adversely affect our business, financial condition and operating results.

A significant portion of our revenues is dependent on royalties and licensing.

In 2006, $241.5 million, or 11.6%, of our revenues were derived from licensing royalties, advertising and other revenues, principally in our Calvin Klein Licensing segment. Royalty, advertising and other revenues from Calvin Klein s two largest business partners accounted for approximately 55% of its royalty, advertising and other revenues in 2006. We also derive licensing revenues from our *Van Heusen, IZOD, IZOD G, G.H. Bass & Co.* and *Arrow* brand names, as well as from the sublicensing of *Geoffrey Beene, BCBG Max Azria, BCBG Attitude* and *Donald J. Trump Signature Collection.* Our three largest licensing partners accounted for approximately 34% of royalty, advertising and other revenues for these brand names as a group in 2006. The operating profit associated with our royalty, advertising and other revenues is significant because the operating expenses directly associated with administering and monitoring an individual licensing or similar agreement are minimal. Therefore, the loss of a significant business partner, whether due to the termination or expiration of the relationship, the cessation of the business partner s operations or otherwise (including as a result of financial difficulties of the partner), without an equivalent replacement, could materially affect our profitability.

While we generally have significant control over our business partners products and advertising, we rely on our business partners for, among other things, operational and financial controls over their businesses. Our business partners failure to successfully market licensed products or our inability to replace our existing business partners could materially and adversely affect our revenues both directly from reduced royalty and other revenues received and indirectly from reduced sales of our other products. Risks are also associated with a business partner s ability to:

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obtain capital;

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execute its business plans, including timely delivery of quality products;

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manage its labor relations;

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maintain relationships with its suppliers;

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manage its credit risk effectively; and

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maintain relationships with its customers.

In addition, we rely on our business partners to preserve the value of our brands. Although we make every attempt to protect our brands through, among other things, approval rights over design, production quality, packaging, merchandising, distribution, advertising and promotion of our products, we cannot assure you that we can control the use by our business partners of each of our licensed brands. The misuse of our brands by a business partner could have a material adverse effect on our business, financial condition and results of operations. For example, Calvin Klein in the past has been involved in legal proceedings with Warnaco with respect to certain quality and distribution issues. As a result of our acquisition of Calvin Klein in 2003, Warnaco is entitled to control design and advertising related to the sale of underwear, intimate apparel and sleepwear products bearing the *Calvin Klein* brands, although to date, it has only exercised this right with respect to design. We cannot assure you that Warnaco will continue to maintain the same standards of design and, if it assumes control, advertising previously maintained by Calvin Klein, although we believe they are generally obligated to do so.

Our retail stores are heavily dependent on the ability and desire of consumers to travel and shop.

Our retail stores are located principally in outlet malls, which are typically located in or near vacation destinations or away from large population centers where department stores and other traditional retailers are concentrated. As a result, fuel shortages, increased fuel prices, travel restrictions, travel concerns and other circumstances, including as a result of war, terrorist attacks or the perceived threat of war or terrorist attacks, which would lead to decreased travel, could have a material adverse affect on us. Other factors which could affect the success of our stores include:

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the location of the mall or the location of a particular store within the mall;

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the other tenants occupying space at the mall;

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increased competition in areas where the outlet malls are located;

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a downturn in the economy generally or in a particular area where an outlet mall is located; and

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the amount of advertising and promotional dollars spent on attracting consumers to the malls.

We may be unable to protect our trademarks and other intellectual property rights.

Our trademarks and other intellectual property rights are important to our success and our competitive position. We are susceptible to others imitating our products and infringing on our intellectual property rights. Since our acquisition of Calvin Klein, we are more susceptible to infringement of our intellectual property rights, as the *Calvin Klein* brands enjoy significant worldwide consumer recognition, and the generally higher pricing of *Calvin Klein* branded products creates additional incentive for counterfeiters and infringers. Imitation or counterfeiting of our products or infringement of our intellectual property rights could diminish the value of our brands or otherwise adversely affect our revenues. We cannot assure you that the actions we have taken to establish and protect our trademarks and other intellectual property rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to invalidate our trademarks or block sales of our products as a violation of the trademarks and intellectual property rights of others. In addition, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other intellectual property rights of ours or in marks that are similar to ours or marks that we license and/or market or that we will be able to successfully resolve these types of conflicts to our satisfaction. In some cases, there may be trademark owners who have prior rights to our marks because the laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of the United States. In other cases, there may be holders who have prior rights to similar marks. For example, we were involved in a proceeding relating to a company s claim of prior rights to the *IZOD* mark in Mexico, and Calvin Klein was involved in a proceeding relating to a company s claim of prior rights to the *Calvin Klein* mark in Chile. We are currently involved in opposition and cancellation proceedings with respect to marks similar to some of our brands, both domestically and internationally.

Our success is dependent on the strategies and reputation of our licensors.

Our business strategy is to offer our products on a multiple brand, multiple channel and multiple price point basis. This strategy is designed to provide stability should market trends shift. As part of this strategy we license the names and brands of recognized designers and celebrities, including Kenneth Cole, Max Azria, Sean Diddy Combs *(Sean John)*, Donald J. Trump, Michael Kors, Joseph Abboud, Donna Karan *(DKNY)*, Tommy Hilfiger and Ike Behar. In entering into these license agreements, we plan our products to be targeted towards certain market segments based on consumer demographics, design, suggested pricing and channel of distribution in order to minimize competition between our own products and maximize profitability. If any of our licensors determines to reposition a brand we license from them, introduce similar products under similar brand names or otherwise change the parameters of design, pricing, distribution, target market or competitive set, we could experience a significant downturn in that brand s business, adversely affecting our sales and profitability. In addition, as products may be personally associated with these designers and celebrities, our sales of those products could be materially and adversely affected if any of those individual s images, reputations or popularity were to be negatively impacted.

Our revenues and profits are cyclical and sensitive to general economic conditions, consumer confidence and spending patterns.

The apparel industry has historically been subject to substantial cyclical variations and is particularly affected by adverse trends in the general economy, with consumer spending tending to decline during recessionary periods. The success of our operations depends on consumer spending. Consumer spending is impacted by a number of factors, including actual and perceived economic conditions affecting disposable consumer income (such as unemployment, wages and salaries), business conditions, interest rates, availability of credit and tax rates in the general economy and in the international, regional and local markets where our products are sold. Any significant deterioration in general economic conditions or increases in interest rates could reduce the level of consumer spending and inhibit consumers use of credit. In addition, war, terrorist activity or the threat of war and terrorist activity could adversely affect consumer spending, and thereby have a material adverse effect on our financial condition and results of operations.

We face intense competition in the apparel industry.

Competition is strong in the apparel industry. We compete with numerous domestic and foreign designers, brands, manufacturers and retailers of apparel, accessories and footwear, some of which are significantly larger or more diversified or have greater resources than we do. In addition, through their use of private label programs, we compete directly with our wholesale customers. We compete within the apparel industry primarily on the basis of:

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anticipating and responding to changing consumer tastes and demands in a timely manner and developing attractive, quality products;

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maintaining favorable brand recognition;

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appropriately pricing products and creating an acceptable value proposition for customers;

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providing strong and effective marketing support;

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ensuring product availability and optimizing supply chain efficiencies with third party manufacturers and retailers; and

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obtaining sufficient retail floor space and effective presentation of our products at retail.

The failure to compete effectively or to keep pace with rapidly changing markets could have a material adverse effect on our business, financial condition and results of operations. In addition, if we misjudge the market for our products, we could be faced with significant excess inventories for some products and missed opportunities with others.

The loss of members of our executive management and other key employees could have a material adverse effect on our business.

We depend on the services and management experience of our executive officers who have substantial experience and expertise in our business. We also depend on other key employees involved in our licensing, design and advertising operations. Competition for qualified personnel in the apparel industry is intense, and competitors may use aggressive tactics to recruit our key employees. The unexpected loss of services of one or more of these individuals could materially adversely affect us.

Acquisitions may not be successful in achieving intended benefits and synergies.

One component of our growth strategy contemplates our making select acquisitions if appropriate opportunities arise. Prior to completing any acquisition, our management team identifies expected synergies, cost savings and growth opportunities. However, these benefits may not be realized due to, among other things:

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delays or difficulties in completing the integration of acquired companies or assets;

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higher than expected costs or a need to allocate resources to manage unexpected operating difficulties;

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diversion of the attention and resources of management;

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consumers   failure to accept product offerings by us or our licensees;

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inability to retain key employees in acquired companies; and

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assumption of liabilities unrecognized in due diligence.

We cannot assure you that any acquisition will not have a material adverse impact on our financial condition and results of operations.

Provisions in our certificate of incorporation and our by-laws and Delaware General Corporate Law could make it more difficult to acquire us and may reduce the market price of our common stock.

Our certificate of incorporation and by-laws contain certain provisions, including provisions requiring supermajority voting (80% of the outstanding voting power) to approve certain business combinations with beneficial owners of 5% or more of our outstanding stock entitled to vote for election of directors, permitting the board of directors to fill vacancies on the board and authorizing the board of directors to issue additional shares of preferred stock without approval of our stockholders. These provisions could also have the effect of deterring changes of control.

In addition, Section 203 of the Delaware General Corporate Law imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our common stock. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The general location, use, ownership status and approximate size of the principal properties which we currently occupy are set forth below:

Location	Use	Ownership Status	Approximate Area in Square Feet
New York, New York	Corporate, apparel and footwear administrative offices and showrooms	Leased	197,000
New York, New York	Calvin Klein administrative offices and showrooms	Leased	143,000
Bridgewater, New Jersey	Corporate, apparel and footwear administrative offices	Leased	234,000
Breinigsville, Pennsylvania	Warehouse and distribution center	Leased	220,000
Los Angeles, California	Warehouse and neckwear manufacturing facility	Leased	200,000
Jonesville, North Carolina	Warehouse and distribution center	Owned	575,000
Chattanooga, Tennessee	Warehouse and distribution center	Owned	451,000
Austell, Georgia	Warehouse and distribution center	Leased	421,000

Reading, Pennsylvania			
	Warehouse and distribution center	Owned	410,000
Schuylkill Haven, Pennsylvania			
	Warehouse and distribution center	Owned	251,000
Brinkley, Arkansas			
	Warehouse and distribution center	Owned	112,000

In addition, we lease certain other administrative/support offices and showrooms in various domestic and international locations. We also currently lease and operate approximately 700 retail stores in the United States.

Information with respect to minimum annual rental commitments under leases in which we are a lessee is included in Note 13, Leases, in the Notes to Consolidated Financial Statements included in Item 8 of this report.

Item 3. Legal Proceedings

We are a party to certain litigation which, in management s judgment based in part on the opinions of legal counsel, will not have a material adverse effect on our financial position.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2006, no matters were submitted to a vote of our security holders.

PART II

Item 5. Market for Registrant s Common Stock, Related Security Holder Matters and Issuer Purchases of Equity Securities

Certain information with respect to the market for our common stock, which is listed on the New York Stock Exchange, and related security holder matters appear in the Notes to Consolidated Financial Statements included in Item 8 of this report under Note 18, Other Comments, on page F-29, Selected Quarterly Financial Data, on page F-31 and Ten Year Financial Summary, on pages F-35 and F-36. As of March 20, 2007, there were 851 stockholders of record of our common stock. The closing price of our common stock on March 20, 2007 was $57.58.

ISSUER PURCHASES OF EQUITY SECURITIES [1]

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 30, 2006 - November 26, 2006	-	$ -	-	-
November 27, 2006 - December 31, 2006	1,000	50.40	-	-
January 1, 2007 - February 4, 2007	-	-	-	-
Total	1,000	$50.40	-	-

[1] Our Stock Option Plans generally provide participants with the right to deliver previously owned stock to pay the exercise price of stock options. All shares shown in the table were delivered in payment of the exercise price for stock

options that permitted such delivery.

The performance graph and return to stockholders information shown below are provided pursuant to Item 201(e) of Regulation S-K promulgated under the Exchange Act. The graph and information are not deemed to be filed under the Exchange Act or otherwise subject to liabilities thereunder, nor are they to be deemed to be incorporated by reference in any filing under the Securities Act or Exchange Act unless we specifically incorporate them by reference.

Value of $100.00 invested after 5 years:

Our Common Stock	$498.88
Russell 2000 Index	$179.31
S&P Apparel, Accessories and Luxury Goods Index	$180.31

Item 6. Selected Financial Data

Selected Financial Data appears under the heading Ten Year Financial Summary on pages F-35 and F-36.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

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, MICHAEL Michael Kors* and *Donald J. Trump Signature Collection,* which are licensed. We launched a new licensed line of dress shirts under the *unlisted, A Kenneth Cole Production* brand in the beginning of 2006 and a new licensed line of dress shirts under the *JOE Joseph Abboud* brand in the second quarter of 2006. In the fourth quarter of 2006, we acquired substantially all of the net assets of Superba, Inc., a manufacturer and distributor of neckwear, which enabled us to add the *DKNY*, *Tommy Hilfiger, Nautica, Perry Ellis Portfolio, Ike Behar* and *Jones New York* names, as well as various private label names, to our portfolio of licensed brands.

The positive trends and strong earnings growth we experienced in 2004 and 2005 continued in 2006. 2006 was a year in which we grew revenue, achieved double-digit growth in earnings per share and significantly improved our overall financial condition and liquidity.

We believe our achievements in 2006 were largely attributable to our business strategy. Our historical strategy has been to manage and market a portfolio of nationally recognized brands across multiple product categories, through multiple channels of distribution and at multiple price points. This strategy was enhanced by our acquisition of Calvin Klein, in February 2003, which provided us with one of the most famous designer names in the world and an additional platform for growth in revenues and profitability. Through that transaction, and to a lesser extent, our acquisition of Arrow in December 2004, we were able to diversify our business model by providing growth opportunities from strong and highly profitable licensing streams which do not require capital investments. Our acquisition of Superba s established neckwear business complements our heritage business in dress shirts and presents us with opportunities to grow and enhance the performance of both businesses.

We announced recently three initiatives that are intended to build upon our business strategy, each of which we believe provides us with the opportunity to fill product and brand portfolio needs. The first initiative is the launch of *G.H. Bass Earth*, an outdoor lifestyle sportswear brand that is targeted to mid-tier and specialty stores and will feature packaging and products that use recycled materials. This extension of our *Bass* brand will be shipping for the Spring 2007 season. The second initiative is our assumption of the wholesale *IZOD* women s sportswear collection. *IZOD* women s sportswear was previously a licensed business and we have decided with the licensee to take over the development and sale of the line for Fall 2007. Our third initiative, announced in early 2007, is a licensing arrangement with The Timberland Company to design, source and market men s and women s casual sportswear under the *Timberland* brand in North America. We will assume the management of the men s apparel line, which is currently produced by The Timberland Company, for the Fall 2008 season and will launch a women s line for the Spring 2009 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.

The continued strength of our *Calvin Klein* businesses was a significant contributor to our 2006 success through both the growth of existing businesses and entry into new businesses, both directly by us and through licensees in the U.S. and overseas. Additionally, the performance of our heritage businesses fueled revenue and earnings improvements in 2006. Our wholesale dress shirt and sportswear businesses benefited from strong product sell-throughs, which led to increased gross margins, and strong comparative store sales increases in our outlet retail businesses further drove earnings improvements.

We generated approximately $100 million of cash flow in 2006, which is after our cash outlay of over $110 million in connection with the acquisition of Superba. In May 2006, our Series B preferred stockholders voluntarily converted all of their remaining outstanding preferred stock into 11.6 million shares of our common stock. This transaction further strengthened our balance sheet, eliminated the most expensive component of our capital structure and enhanced the liquidity of our common stock.

RESULTS OF OPERATIONS

Operations Overview

We generate net sales from (i) the wholesale distribution of men s dress shirts, sportswear and, beginning in January 2007, neckwear; and (ii) the sale, through approximately 700 company-operated retail stores, of apparel, footwear and accessories under the brand names *Van Heusen*, *IZOD*, *Geoffrey Beene*, *Bass* and *Calvin Klein*. Our stores principally operate in an outlet format. We also operate a *Calvin Klein Collection* store located in New York City, in which we principally sell men s and women s high-end collection apparel and accessories, soft home furnishings and tableware.

We generate royalty, advertising and other revenues from fees for licensing the use of our trademarks. Calvin Klein royalty, advertising and other revenues, which comprised 86% of total royalty, advertising and other revenues in 2006, are derived under licenses and other arrangements for a broad array of products, including jeans, underwear, fragrances, eyewear, watches and home furnishings. In December 2004, we acquired the companies that own and license *Arrow*, which has generated additional royalty, advertising and other revenues.

Gross profit on total revenues is total revenues less cost of goods sold. We include as cost of goods sold, 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. Since there is no cost of goods sold associated with royalty, advertising and other revenues, 100% of such revenues are included in gross profit. Due to the above factors, our gross profit may not be comparable to that of other entities.

Selling, general and administrative expenses include all other expenses, excluding interest and income taxes. Salaries and related fringe benefits is the largest component of selling, general and administrative expenses, comprising 49% of such expenses in 2006. Rent and occupancy for offices, warehouses and retail stores is the next largest expense, comprising 19% of selling, general and administrative expenses in 2006.

The following table summarizes our results of operations in 2006, 2005 and 2004:

(in millions, except per share amounts and percentages)	2006	2005	2004
Net sales	$1,849.2	$1,697.3	$1,460.2
Royalty revenues	182.3	158.8	136.2
Advertising and other revenues	59.1	52.8	45.0
Total revenues	2,090.6	1,908.8	1,641.4
Gross profit	1,029.9	891.1	751.0
% of total revenues	*49.3%*	*46.7%*	*45.8%*
Selling, general and administrative expenses	796.6	684.2	621.9
% of total revenues	*38.1%*	*35.8%*	*37.9%*
Gain on sale of investments	32.0	-	0.7

Income before interest and taxes	265.3	206.8	129.9
Interest expense	34.3	34.4	44.6
Interest income	17.4	5.8	1.8
Income before taxes	248.4	178.3	87.0
Income tax expense	93.2	66.6	28.4
Net income	$ 155.2	$ 111.7	$ 58.6
Diluted net income per common share	$ 2.64	$ 1.85	$ 1.14

Net Sales

Our net sales in 2006 increased to $1,849.2 million from $1,697.3 million in 2005 and $1,460.2 million in 2004. Our 2006 net sales increase of $151.9 million over 2005 net sales was due principally to the net effect of the items described below.

Net sales *increases* in 2006 included:

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The addition of $111.6 million of net sales attributable to growth in our retail segments, driven by an 8% increase in comparative store sales and the opening of *Calvin Klein* outlet retail stores in premium outlet malls. The calculation of the comparative store sales percentage is based on comparable weeks, and therefore, excludes an extra week in 2006. Included in our net sales increase was approximately $10 million in additional revenues from an extra week, as the 2006 fiscal year included 53 weeks of operations.

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The addition of $63.5 million of net sales attributable to growth in our Wholesale Sportswear and Related Products segment, driven by increases across all of our wholesale sportswear divisions, particularly *Calvin Klein* men s better sportswear.

Net sales *decreases* in 2006 included:

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A $23.2 million sales decrease in our Wholesale Dress Furnishings segment, resulting principally from door closings associated with the 2005 acquisition by Federated of May.

Our 2005 net sales increase of $237.1 million over 2004 net sales was due principally to the net effect of the items described below.

Net sales *increases* in 2005 included:

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The addition of $100.5 million of net sales attributable to our *Calvin Klein* men s better sportswear line, which was launched for the Fall 2004 season, as well as the continued opening of *Calvin Klein* outlet retail stores in premium outlet malls.

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The addition of $79.2 million of net sales attributable to growth in our *IZOD*, *Arrow* and *Van Heusen* wholesale sportswear businesses.

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The addition of $75.7 million of net sales attributable to growth in our wholesale dress shirt business, particularly from the *BCBG Max Azria, BCBG Attitude, Sean John* and *Chaps* lines, which were launched in the second half of 2004, and the *Donald J. Trump Signature Collection* line, which was launched in the first quarter of 2005, as well as growth in our core brands, *Van Heusen, Arrow, Geoffrey Beene, IZOD, Eagle* and *Calvin Klein*.

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The addition of net sales attributable to a 6% sales increase in comparative store sales in our *Van Heusen, IZOD, Geoffrey Beene* and *Bass* outlet retail stores, offset, in part, by a reduction in the overall number of stores in these divisions.

Net sales *decreases* in 2005 included:

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A $15.5 million net sales decline due to the elimination of our private label wholesale sportswear business and the discontinuation in 2004 of our sales of a licensed line of *DKNY* dress shirts.

Our net sales in 2007 are expected to increase approximately 15% due principally to growth in our existing businesses, as well as additional sales from our recently-formed Neckwear Group and *IZOD* women s sportswear, which we will assume for Fall 2007 and the introduction of a wholesale line of sportswear under the *G.H. Bass Earth* brand, which will launch for Spring 2007.

Royalty, Advertising and Other Revenues

Royalty, advertising and other revenue increases over the prior year were $29.9 million and $30.4 million in 2006 and 2005, respectively. These increases were primarily attributable to increases of $28.9 million and $19.2 million in 2006 and 2005, respectively, in our Calvin Klein Licensing segment due to new licensees and growth exhibited by existing licensees. Approximately 85% of the growth in Calvin Klein royalty, advertising and other revenues in 2006 was attributable to growth from existing licenses, with the remaining 15% stemming from new licenses. In particular, our existing licenses for underwear and fragrances generated significant increases, with the growth in the fragrance business being driven by the success of women s *euphoria* and the recent launch of men s *euphoria*. Royalty, advertising and other revenues for our other segments increased an aggregate of $1.0 million and $11.2 million in 2006 and 2005, respectively. The $11.2 million increase in 2005 was due principally to the royalties generated by the *Arrow* brand license agreements acquired as part of our acquisition of Arrow in December 2004.

We currently expect that royalty, advertising and other revenues will increase approximately 10% in our Calvin Klein Licensing segment in 2007, both as a result of growth in the businesses of existing licensees, as well as royalties generated from new license agreements. Royalty, advertising and other revenues in our other segments are expected to decrease an aggregate of 3% in 2007 as a result of the loss of royalties associated with *Arrow* neckwear, which had been licensed to Superba and the loss of royalties associated with *IZOD* neckwear and *IZOD* women s sportswear, which had been licensed but will now be produced by us as a result of the termination or expiration of those licenses. *Arrow* and *IZOD* neckwear will be marketed by our recently-formed Neckwear Group and *IZOD* women s sportswear will be marketed by our Sportswear Group. Royalty, advertising and other revenues are expected to increase 8% in total for 2007.

Gross Profit on Total Revenues

The following table shows our revenue mix between net sales and royalty, advertising and other revenues, as well as our gross profit as a percentage of total revenues for 2006, 2005 and 2004:

	2006	2005	2004
Net sales	88.4%	88.9%	89.0%
Royalty, advertising and other revenues	11.6%	11.1%	11.0%
Gross profit as a % of total revenues	49.3%	46.7%	45.8%

The 260 basis point improvement in the 2006 gross profit on total revenues percentage compared with 2005 was due principally to strong product sell-throughs, which yielded more full-price selling. Also co