

PHILLIPS VAN HEUSEN CORP /DE/  
Form 10-Q/A  
August 11, 2006

SECURITIES & EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q/A**

**Amendment No. 1**

(Mark One)

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

For the quarterly period ended April 30, 2006 \_\_\_\_\_

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-07572

PHILLIPS-VAN HEUSEN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

13-1166910

(IRS Employer  
Identification No.)

200 Madison Avenue New York, New York 10016

(Address of principal executive offices)

Registrant's telephone number (212) 381-3500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of outstanding shares of common stock, par value \$1.00 per share, of the registrant as of May 30, 2006 was 55,249,012.

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PHILLIPS-VAN HEUSEN CORPORATION

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EXPLANATORY NOTE: This Amendment No. 1 to our Quarterly Report on Form 10-Q for the thirteen weeks ended April 30, 2006 is being filed to provide revised segment reporting footnote disclosure. In the first quarter of our fiscal year 2006, the United States Securities and Exchange Commission requested certain information from us in connection with an ordinary course review of our Annual Report on Form 10-K for our fiscal year ended January 30, 2005, including how we aggregated segment data. In connection therewith, we have re-evaluated how we aggregate our operating divisions into our reportable segments under Financial Accounting Standards Board Statement No. 131,

Disclosures about Segments of an Enterprise and Related Information. As a result, we are revising certain of the Notes to Condensed Consolidated Financial Statements for the periods presented to disaggregate our Wholesale segment into the Wholesale Dress Shirt segment and the Wholesale Sportswear and Related Products segment.

This change in our segment reporting affects only Note 3, Goodwill, Note 8, Activity Exit Costs and Other Charges and Note 11, Segment Data in Item 1 in Part 1 of the quarterly report. No other notes have been revised and no financial statement information in Item 1 in Part 1 has been updated for any subsequent events. In addition, Item 4 in Part 1 has been amended to report that our disclosure controls and procedures were re-evaluated in connection with the issuance of this report, and pursuant to the rules of the SEC, Item 6 in Part 2 has been amended to contain currently dated certifications from our Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The aforementioned changes to the Notes to Condensed Consolidated Financial Statements had no effect on our financial position as of April 30, 2006, January 29, 2006 and May 1, 2005 or our results of operations and cash flows for the thirteen weeks ended April 30, 2006 and May 1, 2005.

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Forward-looking statements in this Quarterly Report on Form 10-Q/A including, without limitation, statements relating to our future revenues and earnings, 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 and footwear 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 safeguards (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, whether as a result of the receipt of new information, future events or otherwise.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

**Report of Independent Registered Public Accounting Firm**

We have reviewed the condensed consolidated balance sheets of Phillips-Van Heusen Corporation as of April 30, 2006 and May 1, 2005 and the related condensed consolidated income statements and statements of cash flows for the thirteen week periods ended April 30, 2006 and May 1, 2005. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Phillips-Van Heusen Corporation as of January 29, 2006, and the related consolidated income statement, statement of changes in stockholders' equity, and statement of cash flows for the year then ended (not presented herein) and in our report dated March 20, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 29, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

New York, New York

May 23, 2006



## Phillips-Van Heusen Corporation

## Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	April 30, <u>2006</u>	January 29, <u>2006</u>	May 1, <u>2005</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>	<u>UNAUDITED</u>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 305,154	\$ 267,357	\$ 126,884
Accounts receivable, net of allowances for doubtful accounts of \$3,878, \$3,111 and \$3,632	140,630	96,757	128,345
Inventories	233,471	257,719	234,203
Prepaid expenses	14,639	18,122	10,605
Other, including deferred taxes of \$23,435, \$23,435 and \$13,666	<u>23,691</u>	<u>23,693</u>	<u>13,947</u>
Total Current Assets	717,585	663,648	513,984
Property, Plant and Equipment, net	154,966	158,492	153,780
Goodwill	206,736	199,999	181,264
Tradenames	612,966	612,966	612,931
Perpetual License Rights	86,000	86,000	86,000
Other Intangible Assets	405	420	465
Other Assets	<u>25,214</u>	<u>25,914</u>	<u>28,233</u>
	<u>\$1,803,872</u>	<u>\$1,747,439</u>	<u>\$1,576,657</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current Liabilities:			
Accounts payable	\$ 47,943	\$ 61,596	\$ 47,497
Accrued expenses	135,958	145,269	109,626
Deferred revenue	<u>19,103</u>	<u>17,751</u>	<u>16,509</u>
Total Current Liabilities	203,004	224,616	173,632
Long-Term Debt	399,528	399,525	399,515
Other Liabilities, including deferred taxes of \$253,738, \$232,484 and \$202,451	374,885	350,710	338,071

Series B convertible preferred stock, par value \$100 per share;

6,116; 6,116 and 10,000 shares authorized, issued and outstanding	161,926	161,926	264,746
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Stockholders Equity:

Preferred stock, par value \$100 per share; 150,000 total shares

authorized, including Series B convertible (125,000 shares designated as Series A; 18,884; 18,884 and 15,000 shares undesignated); no Series A or undesignated shares issued	-	-	-
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Common stock, par value \$1 per share; 100,000,000 shares authorized; shares issued 43,634,731; 43,236,485 and 33,562,033	43,635	43,236	33,562
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Additional capital	357,688	346,061	204,099
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Retained earnings	297,174	255,360	195,722
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Accumulated other comprehensive loss	<u>(33,968)</u>	<u>(33,995)</u>	<u>(32,042)</u>
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	664,529	610,662	401,341
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Less: 42,301 shares of common stock held in treasury as of

May 1, 2005 - at cost	<u>-</u>	<u>-</u>	<u>(648)</u>
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Total Stockholders Equity	<u>664,529</u>	<u>610,662</u>	<u>400,693</u>
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	<u>\$1,803,872</u>	<u>\$1,747,439</u>	<u>\$1,576,657</u>
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See accompanying notes.

Phillips-Van Heusen Corporation

Condensed Consolidated Income Statements

Unaudited

(In thousands, except per share data)

	<u>Thirteen Weeks Ended</u>	
	April 30, <u>2006</u>	May 1, <u>2005</u>
Net sales	\$454,188	\$423,115
Royalty and other revenues	<u>52,250</u>	<u>48,994</u>
Total revenues	506,438	472,109
Cost of goods sold	<u>263,714</u>	<u>262,715</u>
Gross profit	242,724	209,394
Selling, general and administrative expenses	191,029	161,765
Gain on sale of investment	<u>31,368</u>	<u>-</u>
Income before interest and taxes	83,063	47,629
Interest expense	8,538	8,580
Interest income	<u>2,970</u>	<u>602</u>
Income before taxes	77,495	39,651
Income tax expense	<u>28,750</u>	<u>14,671</u>
Net income	48,745	24,980
Preferred stock dividends	<u>3,230</u>	<u>5,281</u>
Net income available to common stockholders	<u>\$ 45,515</u>	<u>\$ 19,699</u>
Basic net income per common share	<u>\$ 1.05</u>	<u>\$ 0.60</u>

Diluted net income per common share	\$ <u>0.87</u>	\$ <u>0.46</u>
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Dividends declared per common share	\$ <u>0.075</u>	\$ <u>0.075</u>
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See accompanying notes.

## Phillips-Van Heusen Corporation

## Condensed Consolidated Statements of Cash Flows

Unaudited

(In thousands)

	<u>Thirteen Weeks Ended</u>	
	April 30, <u>2006</u>	May 1, <u>2005</u>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 48,745	\$ 24,980
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	8,169	7,638
Amortization	1,123	954
Deferred taxes	24,009	15,252
Stock-based compensation	1,608	-
Impairment of long-lived assets	549	-
Gain on sale of investment, net	(31,368)	-
Changes in operating assets and liabilities:		
Accounts receivable	(43,873)	(34,898)
Inventories	24,248	8,682
Accounts payable, accrued expenses and deferred revenue	(21,612)	(34,861)
Prepaid expenses	3,483	8,370
Other, net	<u>2,501</u>	<u>8,394</u>
Net Cash Provided By Operating Activities	<u>17,582</u>	<u>4,511</u>
<b>INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(5,916)	(6,700)
Contingent purchase price payments to Mr. Calvin Klein	(6,737)	(6,746)
Proceeds from sale of investment, net	<u>32,136</u>	<u>-</u>
Net Cash Provided (Used) By Investing Activities	<u>19,483</u>	<u>(13,446)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	5,741	19,539
Excess tax benefits from exercise of stock options	1,922	-
Acquisition of treasury shares	-	(69)
Cash dividends on common stock	(3,701)	(2,484)

Cash dividends on preferred stock	<u>(3,230)</u>	<u>(5,281)</u>
Net Cash Provided By Financing Activities	<u>732</u>	<u>11,705</u>
Increase in cash	37,797	2,770
Cash at beginning of period	<u>267,357</u>	<u>124,114</u>
Cash at end of period	<u>\$305,154</u>	<u>\$126,884</u>

See accompanying notes.

PHILLIPS-VAN HEUSEN CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

1. GENERAL

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not contain all disclosures required by accounting principles generally accepted in the United States for complete financial statements. Reference should be made to the audited consolidated financial statements, including the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2006.

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

The results of operations for the thirteen weeks ended April 30, 2006 and May 1, 2005 are not necessarily indicative of those for a full fiscal year due, in part, to seasonal factors. The data contained in these financial statements are unaudited and are subject to year-end adjustments. However, in the opinion of management, all known adjustments (which consist only of normal recurring accruals) have been made to present fairly the consolidated operating results for the unaudited periods.

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

2. INVENTORIES

Inventories related to the Company's wholesale operations, comprised principally of finished goods, are stated at the lower of cost or market. Inventories related to the Company's retail operations, comprised entirely of finished goods, are stated at the lower of average cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost is calculated by applying a cost-to-retail ratio to the retail value of inventories. Permanent and point of sale markdowns, when recorded, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. Cost for certain apparel inventories is determined using the last-in, first-out method (LIFO). Cost for all other inventories is determined using the first-in, first-out method (FIFO). At April 30, 2006, January 29, 2006 and May 1, 2005, no LIFO reserves were recorded because LIFO cost approximated FIFO cost.

### 3. GOODWILL

The changes in the carrying amount of goodwill for the period ended April 30, 2006, by segment, were as follows:

	Wholesale Dress <u>Shirt</u>	Wholesale Sportswear and Related <u>Products</u>	Calvin Klein <u>Licensing</u>	<u>Total</u>
Balance as of January 29, 2006	\$9,946	\$82,133	\$107,920	\$199,999
Contingent purchase price payments to Mr. Calvin Klein	<u>-</u>	<u>-</u>	<u>6,737</u>	<u>6,737</u>
Balance as of April 30, 2006	<u>\$9,946</u>	<u>\$82,133</u>	<u>\$114,657</u>	<u>\$206,736</u>



As of January 29, 2006 and April 30, 2006, no goodwill was associated with the Retail Apparel and Related Products or the Retail Footwear and Related Products segments.

In connection with the Company's acquisition of Calvin Klein, Inc. and certain affiliated companies in February 2003, the Company is obligated to pay contingent purchase price payments to Mr. Calvin Klein for 15 years based on 1.15% of total worldwide net sales of products bearing any of the *Calvin Klein* brands. Such contingent purchase price payments are recorded as additions to goodwill.

#### 4. RETIREMENT AND BENEFIT PLANS

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

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

Net benefit cost was recognized as follows:

	<u>Pension Plans</u>		<u>Postretirement Plan</u>	
	<u>Thirteen Weeks Ended</u>		<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>	<u>4/30/06</u>	<u>5/1/05</u>
Service cost, including plan expenses	\$ 1,551	\$ 1,486	\$ -	\$ -
Interest cost	3,361	3,230	403	569
Amortization of net loss	1,838	2,075	92	317
Expected return on plan assets	(3,866)	(3,296)	-	-
Amortization of prior service cost	104	392	(111)	(111)

Settlement loss	2,247	-	-	-
Special termination benefits	<u>723</u>	<u>-</u>	<u>242</u>	<u>-</u>
Total	<u>\$ 5,958</u>	<u>\$ 3,887</u>	<u>\$626</u>	<u>\$ 775</u>

The settlement loss for the thirteen weeks ended April 30, 2006 resulted principally from the departure of Mark Weber, the Company's former Chief Executive Officer.

The special termination benefits related to the pension plans for the thirteen weeks ended April 30, 2006 resulted from the closure of the Company's manufacturing facility located in Ozark, Alabama.

#### 5. SERIES B CONVERTIBLE PREFERRED STOCK

In connection with the Company's acquisition of Calvin Klein, the Company issued \$250,000 of Series B convertible preferred stock. The Series B convertible preferred stock had a conversion price of \$14.00 per share and a dividend rate of 8% per annum, payable quarterly in cash.

During the second quarter of 2005, the holders of the Series B convertible preferred stock converted an aggregate of \$102,820 of the Series B convertible preferred stock, or 39% of the liquidation value of the preferred stock prior to conversion, into 7,344 shares of the Company's common stock.

As of April 30, 2006, the liquidation preference of the remaining outstanding Series B convertible preferred stock was \$161,926. In the second quarter of 2006, the holders of the Series B convertible preferred stock converted all of the remaining outstanding shares of the Series B convertible preferred stock into 11,566 shares of the Company's common stock. Please see Note 13, "Subsequent Event," for a further discussion of the conversion.



## 6. COMPREHENSIVE INCOME

Comprehensive income was as follows:

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
Net income	\$48,745	\$24,980
Foreign currency translation adjustments, net of taxes	<u>27</u>	<u>(18)</u>
Comprehensive income	<u>\$48,772</u>	<u>\$24,962</u>

The income tax effect related to foreign currency translation adjustments was an expense of \$17 and a benefit of \$11 for the thirteen weeks ended April 30, 2006 and May 1, 2005, respectively.

## 7. STOCK-BASED COMPENSATION

Under its current stock option plans, the Company may grant non-qualified stock options (NQs) and incentive stock options (ISOs) that are service-based. Options are granted with an exercise price equal to the market price of the Company's common stock on the date of grant. NQs and ISOs granted have a ten-year duration. Depending upon which plan options have been granted under, options are cumulatively exercisable in either three installments commencing three years after the date of grant or in four installments commencing one year after the date of grant. The options provide for accelerated vesting upon the holder's retirement (as defined in the plans). Shares issued as a result of stock option exercises are primarily funded with the issuance of new shares of the Company's common stock.

In the first quarter of 2006, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 123R, Share-Based Payment. FASB Statement No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense in the financial statements based on their fair values. Prior to 2006, the Company accounted for its stock options under the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25. Under APB Opinion No. 25, the Company did not recognize compensation expense because the exercise price of the Company's stock options equaled the market price of the Company's common stock on the date of grant.

The Company adopted FASB Statement No. 123R on a modified prospective basis. Under the modified prospective transition method, FASB Statement No. 123R applies to new awards and awards that were outstanding upon adoption that are subsequently modified, repurchased or cancelled. Stock-based compensation expense recognized during the thirteen weeks ended April 30, 2006 includes (i) the expense for all stock options granted prior to, but not yet vested as of January 29, 2006, based on the fair value estimated in accordance with the provisions of FASB Statement No. 123 and (ii) the expense for all stock options granted during the thirteen weeks ended April 30, 2006, based on the fair value estimated in accordance with the provisions of FASB Statement No. 123R. Prior periods have not been restated.

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Net income for the thirteen weeks ended April 30, 2006 included \$1,608 of pre-tax compensation expense related to stock options (\$1,066 net of tax), which resulted in a \$0.02 decrease in basic and diluted net income per common share. Net income for the thirteen weeks ended May 1, 2005 did not include compensation expense related to stock options. The following table illustrates the effect on net income and net income per common share as if the Company had applied the fair value recognition provisions of FASB Statement No. 123 in 2005:

	Thirteen Weeks Ended <u>5/1/05</u>
Net income - as reported	\$24,980
Deduct: Stock-based compensation expense determined under fair value method, net of related tax effects	<u>2,553</u>
Net income - as adjusted	<u>\$22,427</u>
Net income per common share:	
Basic - as reported	<u>\$ 0.60</u>
Diluted - as reported	<u>\$ 0.46</u>
Basic - as adjusted	<u>\$ 0.52</u>
Diluted - as adjusted	<u>\$ 0.42</u>

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes model. The estimated fair value of the options, net of estimated forfeitures, is amortized to expense on a straight-line basis over the options' vesting period. At April 30, 2006, there was \$12,903 of unrecognized pre-tax compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 3.1 years.

The following summarizes the assumptions used to estimate the fair value of stock options granted during the thirteen weeks ended April 30, 2006 and May 1, 2005, respectively:

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
Weighted average risk-free interest rate	4.69%	4.11%
Weighted average expected option life	6.1 Years	6.0 Years
Weighted average expected volatility	33.2%	26.5%
Expected annual dividends per share	\$0.15	\$0.15
Weighted average estimated fair value per share of options granted	\$15.59	\$9.17

The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected option life. The expected option life represents the weighted average period of time that options granted are expected to be outstanding, based on vesting schedules and the contractual term of the options. Expected volatility is based on historical volatility of the Company's common stock over a period of time corresponding to the expected option life. Expected dividends are based on the Company's current dividend policy.

The Company receives a tax deduction for certain stock options when they are exercised. Prior to the adoption of FASB Statement No. 123R, the Company reported tax benefits resulting from the exercise of stock options as operating cash flows in its Condensed Consolidated Statements of Cash Flows. In accordance with FASB Statement No. 123R, the Company now reports excess tax benefits, if any, as financing cash flows. The actual income tax benefit realized from stock option exercises for the thirteen weeks ended April 30, 2006 was \$4,677, of which \$1,922 was reported as excess tax benefits from stock option exercises in financing cash flows, with no comparable amount in 2005.

Stock option activity for the thirteen weeks ended April 30, 2006 was as follows:

	<u>Options</u>	<u>Weighted Average Price Per Option</u>
Outstanding at January 29, 2006	4,384	\$21.31
Granted	368	38.97
Exercised	398	14.42
Cancelled	<u>23</u>	<u>21.69</u>
Outstanding at April 30, 2006	<u>4,331</u>	<u>\$23.44</u>
Exercisable at April 30, 2006	<u>1,969</u>	<u>\$17.17</u>

At April 30, 2006, the aggregate intrinsic value of options issued and outstanding was \$72,590, and the aggregate intrinsic value of options exercisable was \$45,338. The aggregate intrinsic value of options exercised during the thirteen weeks ended April 30, 2006 was \$8,990.

The aggregate fair value of options that vested during the thirteen weeks ended April 30, 2006 was \$6,537.

The weighted average remaining contractual life of options outstanding and options exercisable at April 30, 2006 was 7.7 and 6.1 years, respectively.

Total stock options available for grant at April 30, 2006 amounted to 919 shares.

## 8. ACTIVITY EXIT COSTS AND OTHER CHARGES



Activity Exit Costs

On March 6, 2006, the Company committed to a plan to close its manufacturing facility located in Ozark, Alabama. This decision was based on the competitive environment in the apparel industry in which the Company operates and the expiration of import quotas in 2005. The actions related to the exit plan are expected to be completed in the second quarter of 2006. Costs associated with closing the facility are as follows:

	Total Expected to be <u>Incurred</u>	Incurred in Thirteen Weeks Ended 4/30/06	Liability at 4/30/06
Severance and termination benefits	\$ 8,755	\$8,078	\$8,078
Long-lived asset impairments	549	549	-
Facility closing and other costs	<u>1,496</u>	<u>770</u>	<u>-</u>
Total	<u>\$10,800</u>	<u>\$9,397</u>	<u>\$8,078</u>

The costs associated with closing the facility are included in selling, general and administrative expenses of the Wholesale Dress Shirt segment.

Other Charges

On February 27, 2006, the Company announced that its Board of Directors had named Emanuel Chirico Chief Executive Officer of the Company. Mr. Chirico, who had been the Company's President and Chief Operating Officer, succeeded Mark Weber, who left the Company effective February 27, 2006 by agreement with the Company's Board of Directors. Severance and other separation costs of \$10,535 were recorded in the first quarter of 2006 in connection with the departure of Mr. Weber. These costs are included in Corporate selling, general and administrative expenses.



## 9. SALE OF INVESTMENT

On January 31, 2006, Warnaco, Inc. acquired 100% of the shares of the companies that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. The Company's Calvin Klein, Inc. subsidiary is the licensor of the businesses sold and had minority interests in certain of the entities sold. The Company accounted for the investment in these entities under the cost method and, as such, the investment had a carrying amount of \$768 at the time of the sale. The Company received \$32,136 in cash proceeds from the sale of these entities, net of amounts held in escrow and certain associated fees. The cash proceeds are subject to adjustments, including for working capital. The Company's share of the cash proceeds being held in escrow totaled \$5,000 as of April 30, 2006, and represents security for indemnification of certain potential losses incurred by Warnaco. The sale resulted in a pre-tax gain of \$31,368, which is net of related fees, amounts held in escrow and the carrying value of the investment. The Company will be entitled to receive any amounts remaining in escrow after indemnification payments to Warnaco in installments during 2007 and 2008. The Company will record the release of any escrow amounts as additional gains if and when such amounts are released to the Company.

## 10. EARNINGS PER SHARE

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

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
Net income	\$48,745	\$24,980
Less: Preferred stock dividends	<u>3,230</u>	<u>5,281</u>
Net income available to common stockholders for basic net income per common share	45,515	19,699
Add back preferred stock dividends	<u>3,230</u>	<u>5,281</u>
Net income available to common stockholders for diluted net income per common share	<u>\$48,745</u>	<u>\$24,980</u>

Weighted average common shares outstanding for basic net income per common share	43,434	32,978
Impact of dilutive stock options	1,267	2,033
Impact of dilutive warrant	76	-
Impact of assumed convertible preferred stock conversion	<u>11,566</u>	<u>18,910</u>
Total shares for diluted net income per common share	<u>56,343</u>	<u>53,921</u>
Basic net income per common share	<u>\$ 1.05</u>	<u>\$ 0.60</u>
Diluted net income per common share	<u>\$ 0.87</u>	<u>\$ 0.46</u>

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

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
Antidilutive securities	<u>142</u>	<u>498</u>

## 11. SEGMENT DATA

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

*Wholesale Dress Shirt Segment* - This segment represents the results of the Company's wholesale dress shirt division. This division derives revenues primarily from marketing dress shirts under the brand names *Van Heusen, IZOD, Geoffrey Beene, Arrow, Kenneth Cole New York, Kenneth Cole Reaction, unlisted, A Kenneth Cole Production, Calvin Klein Collection, ck Calvin Klein, Calvin Klein, BCBG Max Azria, BCBG Attitude, MICHAEL Michael Kors, Chaps, Sean John* and *Donald J. Trump Signature Collection* to department, mid-tier department and specialty stores.

*Wholesale Sportswear and Related Products Segment* - The Company aggregates its wholesale sportswear divisions into the Wholesale Sportswear and Related Products segment. This segment derives revenues primarily from marketing sportswear under the brand names *Van Heusen, IZOD, Geoffrey Beene, Arrow, Calvin Klein* and, beginning in 2006, *Donald J. Trump Signature Collection* to department, mid-tier department and specialty stores.

*Retail Apparel and Related Products Segment* - The Company aggregates its Van Heusen, Izod, Geoffrey Beene and Calvin Klein retail outlet divisions into the Retail Apparel and Related Products segment. This segment derives revenues principally from operating retail stores in the outlet channel of distribution which sell apparel and accessories under the brand names *Van Heusen, IZOD, Geoffrey Beene* and *Calvin Klein*. In addition, the Company aggregates the results of its Calvin Klein Collection Retail division into the Retail Apparel and Related Products segment. This division sells *Calvin Klein Collection* branded high-end collection apparel and accessories through the Company's own full price retail stores, which were located in New York City, Dallas and Paris. The stores in Dallas and Paris were closed in the fourth quarter of 2005.

*Retail Footwear and Related Products Segment* - This segment represents the results of the Company's Bass Retail division. This division derives revenues principally from operating retail stores, primarily in the outlet channel of distribution, which sell footwear, apparel and accessories under the *Bass* brand name.

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

Prior to the end of its fiscal 2005 year, the Company aggregated its divisions into two segments: (i) Calvin Klein Licensing segment and (ii) Apparel and Related Products segment. In the first quarter of 2006, the United States

Securities and Exchange Commission (SEC) requested certain information from the Company in connection with an ordinary course review of the Company's Annual Report on Form 10-K for fiscal 2004, including how the Company aggregated segment data.

As a result of the communication with the SEC, the Company re-evaluated the way it aggregated its operating divisions into its reportable segments under FASB Statement No. 131. Therefore, the Apparel and Related Products segment has been disaggregated into the Wholesale Dress Shirt, Wholesale Sportswear and Related Products, Retail Apparel and Related Products, and Retail Footwear and Related Products segments described above. Prior year segment data has been reclassified for this change.

The following table presents summarized information by segment:

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
<u>Revenues - Wholesale Dress Shirt</u>		
Net sales	\$100,059	\$115,382
Royalty and other revenues	<u>2,125</u>	<u>1,817</u>
Total	102,184	117,199
 <u>Revenues - Wholesale Sportswear and Related Products</u>		
Net sales	163,252	135,854
Royalty and other revenues	<u>4,242</u>	<u>3,516</u>
Total	167,494	139,370
 <u>Revenues - Retail Apparel and Related Products</u>		
Net sales	133,884	117,587
Royalty and other revenues	<u>1,937</u>	<u>1,773</u>
Total	135,821	119,360
 <u>Revenues - Retail Footwear and Related Products</u>		
Net sales	56,993	54,292
Royalty and other revenues	<u>163</u>	<u>125</u>
Total	57,156	54,417

Revenues - Calvin Klein Licensing

Royalty and other revenues	43,783	41,763
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Total Revenues

Net sales	454,188	423,115
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Royalty and other revenues	<u>52,250</u>	<u>48,994</u>
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Total	<u>\$506,438</u>	<u>\$472,109</u>
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Operating income - Wholesale Dress Shirt	\$ 6,779 <sup>(1)</sup>	\$ 20,687
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Operating income - Wholesale Sportswear and Related Products	35,405	23,615
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Operating income - Retail Apparel and Related Products	11,581	127
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Operating income (loss) - Retail Footwear and Related Products	541	(5,086)
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Operating income - Calvin Klein Licensing	49,961 <sup>(2)</sup>	16,955
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Corporate expenses <sup>(3)</sup>	<u>21,204</u>	<u>8,669</u>
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Income before interest and taxes	<u>\$ 83,063</u>	<u>\$ 47,629</u>
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(1)

Operating income for the Wholesale Dress Shirt segment for the thirteen weeks ended April 30, 2006 includes \$9,397 of costs associated with closing the Company's manufacturing facility in Ozark, Alabama.

(2)

Operating income for the Calvin Klein Licensing segment for the thirteen weeks ended April 30, 2006 includes a gain of \$31,368 associated with the sale by a subsidiary of the Company of minority interests in certain entities that operate various *Calvin Klein* jeans and sportswear businesses in Europe and Asia.

(3)

Corporate expenses represent overhead operating expenses that the Company does not allocate to its segments and include expenses for senior corporate management, corporate finance and information technology related to corporate infrastructure. Additionally, beginning in 2006, the Company includes all stock-based compensation expenses in Corporate expenses. Corporate expenses for the thirteen weeks ended April 30, 2006 include \$10,535 of costs resulting from the departure of Mark Weber, the Company's former Chief Executive Officer.

Revenues for the Wholesale Dress Shirt, Wholesale Sportswear and Related Products, Retail Apparel and Related Products, and Retail Footwear and Related Products segments occurred principally in the United States. Revenues for the Calvin Klein Licensing segment occurred as follows:

	<u>Thirteen Weeks Ended</u>	
	<u>4/30/06</u>	<u>5/1/05</u>
Domestic	\$20,556	\$18,067
Foreign	<u>23,227</u>	<u>23,696</u>
Total	<u>\$43,783</u>	<u>\$41,763</u>

## 12. OTHER COMMENTS

The Company has guaranteed the payment of certain purchases made by one of the Company's suppliers from a raw material vendor. The maximum amount guaranteed under the contract is \$500. The guarantee expires on January 31, 2007.

The Company has certain investments in commercial paper with maturities of two months or less from the time of purchase. These investments are reported as cash and cash equivalents. At April 30, 2006, the fair value of these

investments approximated the carrying amount of \$50,183.

### 13. SUBSEQUENT EVENT

On May 12, 2006, the holders of the Company's Series B convertible preferred stock converted all of the remaining outstanding shares of Series B convertible preferred stock into 11,566 shares of the Company's common stock. The holders sold 10,057 of such shares on May 15, 2006 in a registered common stock offering. In connection with the conversion, the Company made an inducement payment to the holders in the amount of \$0.88 per share of common stock received upon conversion, or an aggregate of \$10,178. The inducement payment was based on the present value of the preferred dividends that the Company would have been obligated to pay the holders through the earliest date on which it is estimated that the Company would have had the right to convert the Series B convertible preferred stock, net of the present value of the dividends payable over the same period on the shares of common stock into which the Series B convertible preferred stock was convertible. In addition, the Company incurred approximately \$1,200 of costs specifically related to the registered common stock offering.

### ITEM 4 CONTROLS AND PROCEDURES

As of April 30, 2006, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures over financial reporting were effective as of April 30, 2006. Disclosure controls and procedures over financial reporting are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In the first quarter of our fiscal year 2006, the United States Securities and Exchange Commission requested certain information from us in connection with an ordinary course review of our Annual Report on Form 10-K for our fiscal year ended January 30, 2005, including how we aggregated segment data. In connection therewith, we have re-

evaluated how we aggregate our operating divisions into our reportable segments under Financial Accounting Standards Board Statement No. 131, Disclosures about Segments of an Enterprise and Related Information. As a result, we revised certain of the Notes to Consolidated Financial Statements for all periods presented to disaggregate our Wholesale segment into the Wholesale Dress Shirt segment and the Wholesale Sportswear and Related Products segment.

In accordance with Exchange Act Rules 13a-15 and 15d-15, we have re-evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures over financial reporting as of the end of the period covered by this report. Based on that re-evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures over financial reporting are effective.

As part of their re-evaluation, our Chief Executive Officer and Chief Financial Officer determined that our segment data as originally disclosed was based on a fundamentally sound application of Statement No. 131. Previously, we aggregated our wholesale dress shirt and wholesale sportswear divisions into our Wholesale segment. Such aggregation was based on a detailed analysis of the aggregation criteria of Statement No. 131, including an analysis of the similarity our wholesale divisions shared with respect to customer base, production process, nature of products, distribution methods and economic characteristics. In particular, economic similarity was deemed to exist for our wholesale dress shirt and sportswear divisions based on their historical and projected sales growth rates, gross margins and operating earnings margins. The subsequent disaggregation of the Wholesale segment into the Wholesale Dress Shirt and Wholesale Sportswear and Related Products segments resulted from determining that while there is significant similarity in economic characteristics between our dress shirt and sportswear divisions, the degree to which they are similar may not be at the level required for aggregation. We believe the resulting disaggregation is based on a qualitative assessment of a number of factors including certain quantitative measures. As such, while the resulting disaggregation represents a change in judgment as to the disclosure of additional segment data, our Chief Executive Officer and Chief Financial Officer determined that our segment data as originally determined and disclosed was based on an appropriate application of Statement No. 131, and that the design and operation of our disclosure controls and procedures over financial reporting were, and continue to be, effective.

Our disclosures in Management's Discussion and Analysis of Results of Operations and Financial Condition have historically included disclosure regarding performance of various aspects of our business as applicable to the respective period's results. While the revised footnote disclosure provides additional segment information, it does not represent a material change in the information provided regarding our performance.

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



PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS

The following exhibits are included herein:

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

- 3.9 By-laws of Phillips-Van Heusen Corporation, as amended through March 3, 2005 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on March 8, 2005).
- 4.1 Specimen of Common Stock certificate (incorporated by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1981).
- 4.2 Preferred Stock Purchase Rights Agreement (the "Rights Agreement"), dated as of June 10, 1986, between Phillips-Van Heusen Corporation and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 1986).
- 4.3 Amendment to the Rights Agreement, dated as of March 31, 1987, between Phillips-Van Heusen Corporation and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 4(c) to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1987).
- 4.4 Supplemental Rights Agreement and Second Amendment to the Rights Agreement, dated as of July 30, 1987, between Phillips-Van Heusen Corporation and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit (c)(4) to the Company's Schedule 13E-4, Issuer Tender Offer Statement, dated July 31, 1987).
- 4.5 Third Amendment to the Rights Agreement, dated as of June 30, 1992, among Phillips-Van Heusen Corporation, The Chase Manhattan Bank, N.A. and The Bank of New York (incorporated by reference to Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2000).

- 4.6 Notice of extension of the Rights Agreement, dated as of June 5, 1996, between Phillips-Van Heusen Corporation and The Bank of New York (incorporated by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the period ended April 28, 1996).
- 4.7 Fourth Amendment to the Rights Agreement, dated as of April 25, 2000, between Phillips-Van Heusen Corporation and The Bank of New York (incorporated by reference to Exhibit 4.7 to the Company's Quarterly Report on Form 10-Q for the period ended April 30, 2000).
- 4.8 Supplemental Rights Agreement and Fifth Amendment to the Rights Agreement, dated as of February 12, 2003, between Phillips-Van Heusen Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on February 26, 2003).
- 4.9 Indenture, dated as of November 1, 1993, between Phillips-Van Heusen Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.01 to the Company's Registration Statement on Form S-3 (Reg. No. 33-50751) filed on October 26, 1993).
- 4.10 First Supplemental Indenture, dated as of October 17, 2002, to Indenture, dated as of November 1, 1993, between Phillips-Van Heusen Corporation and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.15 to the Company's Quarterly Report on Form 10-Q for the period ended November 3, 2002).
- 4.11 Second Supplemental Indenture, dated as of February 12, 2002, to Indenture, dated as of November 1, 1993, between Phillips-Van Heusen Corporation and the Bank of New York, as Trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on February 26, 2003).
- 4.12 Indenture, dated as of May 5, 2003, between Phillips-Van Heusen Corporation and SunTrust Bank, as Trustee (incorporated by reference to Exhibit 4.13 to the Company's Quarterly Report on Form 10-Q for the period ended May 4, 2003).
- 4.13 Indenture, dated as of February 18, 2004, between Phillips-Van Heusen Corporation and SunTrust Bank, as Trustee (incorporated by reference to Exhibit 4.14 to the Company's Annual Report on



Form 10-K for the fiscal year ended February 1, 2004).

- + 15. Acknowledgement of Independent Registered Public Accounting Firm.
- + 31.1 Certification of Emanuel Chirico, Chief Executive Officer, Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- + 31.2 Certification of Michael Shaffer, Executive Vice President and Chief Financial Officer, Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- + 32.1 Certification of Emanuel Chirico, Chief Executive Officer, Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. Section 1350.
- + 32.2 Certification of Michael Shaffer, Executive Vice President and Chief Financial Officer, Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, 18 U.S.C. Section 1350.
- + Filed herewith.

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILLIPS-VAN HEUSEN CORPORATION

Registrant

Dated: August 10, 2006

/s/ Vincent A. Russo

Vincent A. Russo

Vice President and Controller

(Chief Accounting Officer)