

SECURITIES & EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 29, 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 No

The number of outstanding shares of common stock, par value \$1.00 per share, of the registrant as of November 27, 2006 was 55,533,290.

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



Report of Independent Registered Public Accounting Firm

We have reviewed the condensed consolidated balance sheets of Phillips-Van Heusen Corporation as of October 29, 2006 and October 30, 2005, the related condensed consolidated income statements for the thirteen and thirty-nine week periods ended October 29, 2006 and October 30, 2005 and the related condensed consolidated statements of cash flows for the thirty-nine week periods ended October 29, 2006 and October 30, 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
November 20, 2006

Phillips-Van Heusen Corporation
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	October 29, <u>2006</u> <u>UNAUDITED</u>	January 29, <u>2006</u> <u>AUDITED</u>	October 30, <u>2005</u> <u>UNAUDITED</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 358,602	\$ 267,357	\$ 170,265
Accounts receivable, net of allowances for doubtful accounts of \$5,431, \$3,111 and \$3,659	168,742	96,757	189,679
Inventories	280,762	257,719	262,874
Prepaid expenses	10,794	18,122	8,698
Other, including deferred taxes of \$23,435, \$23,435 and \$13,666	<u>23,603</u>	<u>23,693</u>	<u>13,969</u>
Total Current Assets	842,503	663,648	645,485
Property, Plant and Equipment, net	157,689	158,492	155,566
Goodwill	221,068	199,999	193,860
Tradenames	612,966	612,966	612,930
Perpetual License Rights	86,000	86,000	86,000
Other Intangible Assets	375	420	435
Other Assets	<u>24,308</u>	<u>25,914</u>	<u>29,448</u>
Total Assets	<u>\$1,944,909</u>	<u>\$1,747,439</u>	<u>\$1,723,724</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 74,693	\$ 61,596	\$ 57,358
Accrued expenses	156,427	145,269	142,648
Deferred revenue	<u>16,954</u>	<u>17,751</u>	<u>17,164</u>
Total Current Liabilities	248,074	224,616	217,170
Long-Term Debt	399,535	399,525	399,522
Other Liabilities, including deferred taxes of \$265,704, \$232,484 and \$233,141	393,916	350,710	381,665
Series B convertible preferred stock, par value \$100 per share; 6,116 shares authorized, issued and outstanding as of January 29, 2006 and October 30, 2005	-	161,926	161,926
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; 25,000; 18,884 and 18,884 shares undesignated); no Series A or undesignated shares issued	-	-	-
Common stock, par value \$1 per share; 240,000,000 shares authorized; shares issued and outstanding 55,500,599; 43,236,485 and 42,230,640	55,501	43,236	42,231
Additional capital	517,971	346,061	317,664
Retained earnings	363,877	255,360	235,671
Accumulated other comprehensive loss	<u>(33,965)</u>	<u>(33,995)</u>	<u>(32,125)</u>
Total Stockholders' Equity	<u>903,384</u>	<u>610,662</u>	<u>563,441</u>
Total Liabilities and Stockholders' Equity	<u>\$1,944,909</u>	<u>\$1,747,439</u>	<u>\$1,723,724</u>

See accompanying notes.

Phillips-Van Heusen Corporation
Condensed Consolidated Income Statements
Unaudited
(In thousands, except per share data)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	October 29, <u>2006</u>	October 30, <u>2005</u>	October 29, <u>2006</u>	October 30, <u>2005</u>
Net sales	\$500,235	\$471,778	\$1,361,543	\$1,292,451
Royalty revenues	52,037	47,559	130,384	117,059
Advertising and other revenues	<u>15,989</u>	<u>13,844</u>	<u>41,700</u>	<u>39,249</u>
Total revenues	568,261	533,181	1,533,627	1,448,759
Cost of goods sold	<u>287,880</u>	<u>283,935</u>	<u>783,375</u>	<u>779,963</u>
Gross profit	280,381	249,246	750,252	668,796
Selling, general and administrative expenses	195,738	177,638	564,148	504,437
Gain on sale of investment	<u>-</u>	<u>-</u>	<u>32,043</u>	<u>-</u>
Income before interest and taxes	84,643	71,608	218,147	164,359
Interest expense	8,568	8,600	25,699	25,772
Interest income	<u>4,645</u>	<u>1,351</u>	<u>11,798</u>	<u>3,217</u>
Income before taxes	80,720	64,359	204,246	141,804
Income tax expense	<u>29,947</u>	<u>24,070</u>	<u>75,775</u>	<u>53,035</u>
Net income	50,773	40,289	128,471	88,769
Preferred stock dividends on convertible stock	-	3,229	-	9,688
Preferred stock dividends on converted stock	-	-	3,230	2,051
Inducement payments and offering costs	<u>-</u>	<u>-</u>	<u>10,948</u>	<u>14,205</u>
Net income available to common stockholders	<u>\$ 50,773</u>	<u>\$ 37,060</u>	<u>\$ 114,293</u>	<u>\$ 62,825</u>
Basic net income per common share	<u>\$ 0.92</u>	<u>\$ 0.88</u>	<u>\$ 2.24</u>	<u>\$ 1.71</u>
Diluted net income per common share	<u>\$ 0.89</u>	<u>\$ 0.73</u>	<u>\$ 2.19</u>	<u>\$ 1.44</u>
Dividends declared per common share	<u>\$ 0.0375</u>	<u>\$ 0.075</u>	<u>\$ 0.1125</u>	<u>\$ 0.15</u>

See accompanying notes.

Phillips-Van Heusen Corporation
Condensed Consolidated Statements of Cash Flows
Unaudited
(In thousands)

	<u>Thirty-Nine Weeks Ended</u>	
	October 29, <u>2006</u>	October 30, <u>2005</u>
OPERATING ACTIVITIES:		
Net income	\$128,471	\$ 88,769
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	23,923	23,143
Amortization	3,430	2,851
Deferred taxes	36,366	45,942
Stock-based compensation	5,707	-
Impairment of long-lived assets	3,418	-
Gain on sale of investment, net	(32,043)	-
Changes in operating assets and liabilities:		
Accounts receivable	(71,985)	(96,232)
Inventories	(23,043)	(19,989)
Accounts payable, accrued expenses and deferred revenue	23,458	8,677
Prepaid expenses	7,328	10,277
Other, net	<u>7,411</u>	<u>18,776</u>
Net Cash Provided By Operating Activities	<u>112,441</u>	<u>82,214</u>
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(26,380)	(24,648)
Contingent purchase price payments to Mr. Calvin Klein	(21,069)	(19,342)
Proceeds from sale of investment, net	<u>32,811</u>	<u>-</u>
Net Cash Used By Investing Activities	<u>(14,638)</u>	<u>(43,990)</u>
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	10,277	39,601
Excess tax benefits from exercise of stock options	3,119	-
Acquisition of treasury shares	-	(69)
Common stock dividends	(5,776)	(5,661)
Convertible preferred stock dividends	-	(9,688)
Converted preferred stock dividends	(3,230)	(2,051)
Inducement payment and offering costs	<u>(10,948)</u>	<u>(14,205)</u>
Net Cash (Used) Provided By Financing Activities	<u>(6,558)</u>	<u>7,927</u>
Increase in cash	91,245	46,151
Cash at beginning of period	<u>267,357</u>	<u>124,114</u>
Cash at end of period	<u>\$358,602</u>	<u>\$170,265</u>

See accompanying notes.

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 as amended 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 materially from the estimates.

The results of operations for the thirteen and thirty-nine weeks ended October 29, 2006 and October 30, 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.

References to the brand names *Calvin Klein Collection*, *ck Calvin Klein*, *Calvin Klein*, *Van Heusen*, *IZOD*, *Arrow*, *Bass*, *Eagle*, *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*, *JOE Joseph Abboud* and *MICHAEL Michael Kors*, and to other brand names in these Notes are to registered trademarks owned by the Company or licensed to the Company by third parties and are identified by italicizing the brand name.

2. INVENTORIES

Inventories related to the Company's wholesale operations, comprised principally of finished goods, are stated at the lower of cost or market. Inventories related to the Company's retail operations, comprised entirely of finished goods, are stated at the lower of average cost or market using the retail inventory method. Under the retail inventory method, the valuation of inventories at cost is calculated by applying a cost-to-retail ratio to the retail value of inventories. Permanent and point of sale markdowns, when recorded, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. Cost for certain apparel and accessory 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 October 29, 2006, January 29, 2006 and October 30, 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 October 29, 2006, by segment, were as follows:

	Wholesale Dress Shirt	Wholesale Sportswear and Related Products	Calvin Klein Licensing	Total
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>21,069</u>	<u>21,069</u>
Balance as of October 29, 2006	<u>\$9,946</u>	<u>\$82,133</u>	<u>\$128,989</u>	<u>\$221,068</u>

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

In connection with the Company's acquisition of Calvin Klein, Inc. and certain affiliated companies ("Calvin Klein") 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 related to the Company's pension plans was recognized as follows:

	<u>Pension Plans</u>			
	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
Service cost, including plan expenses	\$1,738	\$ 1,554	\$ 5,215	\$ 4,661
Interest cost	3,468	3,276	10,404	9,829
Amortization of net loss	1,332	2,114	3,998	6,341
Expected return on plan assets	(3,881)	(3,289)	(11,632)	(9,866)
Amortization of prior service cost	83	392	248	1,175
Settlement loss	-	-	2,247	-
Special termination benefits	<u>-</u>	<u>-</u>	<u>723</u>	<u>-</u>
Total	<u>\$2,740</u>	<u>\$ 4,047</u>	<u>\$ 11,203</u>	<u>\$12,140</u>

The settlement loss related to the pension plans for the thirty-nine weeks ended October 29, 2006 resulted from the departure of Mark Weber, the Company's former Chief Executive Officer.

The special termination benefits related to the pension plans for the thirty-nine weeks ended October 29, 2006 resulted from the closure of the Company's manufacturing facility located in Ozark, Alabama.

The Company currently expects to make a voluntary contribution to its qualified pension plans of approximately \$15,000 in the fourth quarter of 2006.

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

	<u>Postretirement Plan</u>			
	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
Interest cost	\$ 330	\$ 425	\$1,049	\$1,274
Amortization of net loss	108	100	316	300
Amortization of prior service cost	(237)	(111)	(613)	(333)
Special termination benefits	-	-	242	-
Total	<u>\$ 201</u>	<u>\$ 414</u>	<u>\$ 994</u>	<u>\$1,241</u>

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. In certain quarters, the Company elected not to pay a cash dividend and the Series B convertible preferred stock was treated as if an in-kind dividend was paid. As such, the liquidation preference of the originally issued Series B convertible preferred stock increased to \$264,746.

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. During the second quarter of 2006, the holders of the Series B convertible preferred stock converted all of the remaining \$161,926 of Series B convertible preferred stock into 11,566 shares of common stock. Please see Note 10, "Net Income per Common Share," for a discussion of the details of the transactions and their impact on the Company's net income per common share calculations.

6. COMPREHENSIVE INCOME

Comprehensive income was as follows:

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
Net income	\$50,773	\$40,289	\$128,471	\$88,769
Foreign currency translation adjustments, net of taxes	-	1	30	(101)
Comprehensive income	<u>\$50,773</u>	<u>\$40,290</u>	<u>\$128,501</u>	<u>\$88,668</u>

The income tax effect related to foreign currency translation adjustments was an expense of \$1 for the thirteen weeks ended October 30, 2005. The income tax effect related to foreign currency translation adjustments was an expense of \$19 and a benefit of \$62 for the thirty-nine weeks ended October 29, 2006 and October 30, 2005, respectively.

7. STOCK-BASED COMPENSATION

At the Company's Annual Meeting of Stockholders held on June 13, 2006, the Company's 2006 Stock Incentive Plan (the "2006 Plan") was approved. The 2006 Plan replaced the Company's existing 1997, 2000 and 2003 Stock Option Plans as the source of the Company's equity incentive compensation. The 1997, 2000 and 2003 Stock Option Plans terminated on the date of such approval, other than with respect to outstanding options under those plans, which will continue to be governed by the respective plan under which they were granted. Shares issued as a result of stock option exercises are primarily funded with the issuance of new shares of the Company's common stock.

2006 Stock Incentive Plan

Under the 2006 Plan, the Company may grant the following types of incentive awards: (i) non-qualified stock options ("NQs"); (ii) incentive stock options ("ISOs"); (iii) stock appreciation rights; (iv) restricted stock; (v) restricted stock units; (vi) performance shares; and (vii) other stock-based awards. Each award granted under the 2006 Plan is evidenced by an award agreement that specifies, as applicable, the exercise price, the term of the award,

the periods of restriction, the number of shares to which the award pertains, applicable performance period(s) and performance measure(s), and such other terms and conditions as the plan committee determines.

To date, the Company has granted only NQs under the 2006 plan. The per share exercise price of NQs granted under the 2006 Plan cannot be less than the market price of the common stock on the date of grant. The NQs provide for accelerated vesting upon the optionee's retirement (as defined in the 2006 Plan). The maximum duration of an NQ granted under the 2006 Plan is ten years.

1997, 2000 and 2003 Stock Option Plans

Under its 1997, 2000 and 2003 Stock Option Plans, the Company currently has service-based NQs and ISOs outstanding. Options were granted with an exercise price equal to the market price of the common stock on the date of grant. NQs and ISOs granted have a ten-year duration. 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 optionee's retirement (as defined in the 1997, 2000 and 2003 Stock Option Plans).

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 thirty-nine weeks ended October 29, 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 thirty-nine weeks ended October 29, 2006, based on the fair value estimated in accordance with the provisions of FASB Statement No. 123R. Prior periods have not been restated.

Net income for the thirteen weeks ended October 29, 2006 included \$1,686 of pre-tax compensation expense related to stock options (\$1,129 net of tax), which resulted in a \$0.02 decrease in basic and diluted net income per common share. Net income for the thirty-nine weeks ended October 29, 2006 included \$5,707 of pre-tax compensation expense related to stock options (\$3,759 net of tax), which resulted in a \$0.07 decrease in basic and diluted net income per common share. Net income for the thirteen and thirty-nine weeks ended October 30, 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>10/30/05</u>	Thirty-Nine Weeks Ended <u>10/30/05</u>
Net income - as reported	\$40,289	\$88,769
Deduct: Stock-based compensation expense determined under fair value method, net of related tax effects	<u>813</u>	<u>5,048</u>
Net income - as adjusted	<u>\$39,476</u>	<u>\$83,721</u>
Net income per common share:		
Basic - as reported	<u>\$ 0.88</u>	<u>\$ 1.71</u>
Diluted - as reported	<u>\$ 0.73</u>	<u>\$ 1.44</u>
Basic - as adjusted	<u>\$ 0.86</u>	<u>\$ 1.57</u>
Diluted - as adjusted	<u>\$ 0.71</u>	<u>\$ 1.34</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 October 29, 2006, there was \$10,521 of unrecognized pre-tax compensation expense related to unvested stock options, which is expected to be recognized over a weighted average period of 2.9 years.

The following summarizes the assumptions used to estimate the fair value of stock options granted during the thirty-nine weeks ended October 29, 2006 and October 30, 2005, respectively:

	<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>
Weighted average risk-free interest rate	4.73%	4.00%
Weighted average expected option life	6.2 Years	6.0 Years
Weighted average expected volatility	33.3%	26.5%
Expected annual dividends per share	\$0.15	\$0.15
Weighted average estimated fair value per share of options granted	\$15.41	\$8.74

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 the 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 common stock dividend policy at the date of grant.

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 thirty-nine weeks ended October 29, 2006 was \$6,265, of which \$3,119 was reported as excess tax benefits from stock option exercises in financing cash flows, with no comparable amount in 2005. Excess tax benefits arise when the actual tax benefit resulting from a stock option exercise exceeds the tax benefit associated with the grant date fair value of the related stock option.

Stock option activity for the thirty-nine weeks ended October 29, 2006 was as follows:

	<u>Options</u>	<u>Weighted Average Price Per Option</u>
Outstanding at January 29, 2006	4,384	\$21.31
Granted	486	38.38
Exercised	698	14.72
Cancelled	<u>88</u>	<u>23.75</u>
Outstanding at October 29, 2006	<u>4,084</u>	<u>\$24.41</u>
Exercisable at October 29, 2006	<u>1,879</u>	<u>\$18.32</u>

At October 29, 2006, the aggregate intrinsic value of options issued and outstanding was \$86,867, and the aggregate intrinsic value of options exercisable was \$51,423. The aggregate intrinsic value of options exercised during the thirty-nine weeks ended October 29, 2006 was \$15,940.

The aggregate grant date fair value of options that vested during the thirty-nine weeks ended October 29, 2006 was \$8,140.

The weighted average remaining contractual life of options outstanding and options exercisable at October 29, 2006 was 7.5 and 6.1 years, respectively.

Total stock options available for grant at October 29, 2006 amounted to 3,864 shares.

8. ACTIVITY EXIT COSTS, ASSET IMPAIRMENTS 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 were completed in the second quarter of 2006. Costs associated with closing the facility were as follows:

	Total Expected to be <u>Incurred</u>	Incurred During Thirty-Nine Weeks <u>Ended 10/29/06</u>	Liability <u>at 10/29/06</u>
Severance and termination benefits	\$ 8,767	\$ 8,767	\$3,658
Long-lived asset impairments	988	988	-
Facility closing and other costs	<u>1,539</u>	<u>1,539</u>	<u>-</u>
Total	<u>\$11,294</u>	<u>\$11,294</u>	<u>\$3,658</u>

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

Asset Impairments

In 2006, during the Company's annual budget process for determining new outlet retail store locations, the level of profitability in certain of the Company's existing outlet retail stores, principally in the Midwestern section of the United States, was an impairment indicator which caused the Company to evaluate whether the net book value of the long-lived assets in such stores was recoverable. Based on these evaluations, the Company determined that the long-lived assets in certain of these stores were not recoverable and recorded an impairment of \$2,314, of which \$396 was recorded in the third quarter of 2006. This determination was made by comparing each store's expected undiscounted future cash flows to the carrying amount of the long-lived assets. Since the long-lived assets in certain stores were deemed not recoverable, the net book value of the long-lived assets in excess of the fair value was written off. Fair value was estimated based on the net present value of the future cash flows expected from these stores. This amount relates to, and is included in selling, general and administrative expenses of the Retail Apparel and Related Products segment.

During 2005, Federated Department Stores, Inc. ("Federated") acquired The May Department Stores Company. In connection with the acquisition, Federated has closed certain of its locations. Since the Company had identifiable long-lived assets consisting of shops within stores (fixtures located in third party customer locations) in certain of the locations being closed, this was an impairment indicator which caused the Company to evaluate whether the net book value of these long-lived assets was recoverable. In the first nine months of 2006, the Company determined that the long-lived assets in these locations were not recoverable and recorded an impairment of \$116. Since the long-lived assets related to locations to be closed, there were deemed to be no future cash flows associated with these locations, and therefore a fair value of zero was determined to apply to the long-lived assets in these locations. As such, the impairment recorded was equal to the net book value of the long-lived assets in these locations. This amount relates to, and is included in selling, general and administrative expenses of the Wholesale Sportswear and Related Products segment.

Other Charges

On February 27, 2006, the Company announced that its Board of Directors had named Emanuel Chirico as 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. ("Warnaco") acquired 100% of the shares of the companies that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. 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 \$32,811 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 adjustments based upon the determination of actual working capital as of the closing date. The Company's share of the cash proceeds being held in escrow totaled \$5,000 as of October 29, 2006, and represents security for indemnification of certain potential losses incurred by Warnaco, as well as other adjustments to the purchase price. The sale resulted in a pre-tax gain of \$32,043, which is net of related fees, amounts held in escrow and the carrying value of the investment. The Company will be entitled to receive distributions of a portion of any amounts remaining in escrow 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. NET INCOME PER COMMON SHARE

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

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
Net income	\$50,773	\$40,289	\$128,471	\$88,769
Less:				
Preferred stock dividends on convertible stock	-	3,229	-	9,688
Preferred stock dividends on converted stock	-	-	3,230	2,051
Inducement payments and offering costs	<u>-</u>	<u>-</u>	<u>10,948</u>	<u>14,205</u>
Net income available to common stockholders for				
basic net income per common share	50,773	37,060	114,293	62,825
Add back preferred stock dividends on convertible stock	<u>-</u>	<u>3,229</u>	<u>-</u>	<u>9,688</u>
Net income available to common stockholders for				
diluted net income per common share	<u>\$50,773</u>	<u>\$40,289</u>	<u>\$114,293</u>	<u>\$72,513</u>
Weighted average common shares outstanding for				
basic net income per common share	55,430	42,063	50,921	36,845
Impact of dilutive stock options	1,284	1,741	1,204	1,905
Impact of dilutive warrant	99	36	83	23
Impact of assumed convertible preferred stock conversion	<u>-</u>	<u>11,566</u>	<u>-</u>	<u>11,566</u>
Total shares for diluted net income per common share	<u>56,813</u>	<u>55,406</u>	<u>52,208</u>	<u>50,339</u>
Basic net income per common share	<u>\$ 0.92</u>	<u>\$ 0.88</u>	<u>\$ 2.24</u>	<u>\$ 1.71</u>
Diluted net income per common share	<u>\$ 0.89</u>	<u>\$ 0.73</u>	<u>\$ 2.19</u>	<u>\$ 1.44</u>

During the second quarter of 2005, the holders of the Company's Series B convertible preferred stock completed a voluntary conversion of a portion of such stock into 7,344 shares of the Company's common stock. Such shares of common stock were subsequently sold in a registered offering by the holders. In connection with these transactions, the Company made an inducement payment to the preferred stockholders of \$1.75 for each share of common stock sold, or an aggregate of \$12,853. The inducement payment was based on the net present value of the dividends that the Company would have been obligated to pay the preferred stockholders through the earliest date on which it was estimated that the Company would have had the right to convert the Series B convertible preferred stock, net of the net 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 certain costs, totaling \$1,352, specifically related to the registered common stock offering.

During the second quarter of 2006, the holders of the Series B convertible preferred stock completed a voluntary conversion of all of the remaining outstanding shares of Series B convertible preferred stock into 11,566 shares of common stock. The holders sold 10,057 of such shares in a registered common stock offering. In connection with the conversion, the Company made an inducement payment to the preferred stockholders of \$0.88 for each share of common stock received upon conversion, or an aggregate of \$10,178. The inducement payment was based on the net present value of the dividends that the Company would have been obligated to pay the preferred stockholders through the earliest date on which it was estimated that the Company would have had the right to convert the Series B convertible preferred stock, net of the net 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 certain costs, totaling \$770, specifically related to the registered common stock offering.

As set forth in Emerging Issues Task Force ("EITF") Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock," when convertible preferred stock is converted pursuant to an inducement offer, the excess of the fair value of consideration transferred in the transaction to the holders of the convertible preferred stock over the fair value of the securities issuable pursuant to the original conversion terms should be subtracted from net income to arrive at net income available to common stockholders in the calculation of net income per common share. As such, the inducement payments and offering costs paid by the Company in connection with the conversions and subsequent registered common stock offerings resulted in reductions of net income available to common stockholders for the thirty-nine weeks ended October 29, 2006 and October 30, 2005.

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

	<u>Thirteen Weeks Ended</u>		<u>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
Antidilutive stock options and warrants	<u>11</u>	<u>83</u>	<u>174</u>	<u>208</u>

In addition, conversion of the Series B convertible preferred stock that was converted into 4,321 weighted average common shares outstanding for the thirty-nine weeks ended October 29, 2006 was not assumed because the resulting impact on the calculation of diluted net income per common share would have been antidilutive.

As set forth in EITF Topic D-53, "Computation of Earnings per Share for a Period That Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock," when a company effects an induced conversion of only a portion of a class of the company's then-outstanding preferred stock, any excess consideration should be attributed to the converted shares, and the converted shares should be considered separately from the shares that were not converted for purposes of applying the "if-converted" method from the beginning of the period. As such, for purposes of the Company's computation of diluted net income per common share for the thirty-nine weeks ended October 30, 2005, the portion of the Series B convertible preferred stock that was converted was considered separately from the portion of the Series B convertible preferred stock that was not converted. The inducement payment and offering costs paid by the Company in connection with the conversion and subsequent registered common stock offering were attributed to the portion of the Series B convertible preferred stock that was converted. As a result, conversion of the portion of the Series B convertible preferred stock that was converted into 4,463 weighted average common shares outstanding for the thirty-nine weeks ended October 30, 2005 was not assumed because the resulting impact on the calculation of diluted net income per common share would have been antidilutive.

11. NONCASH INVESTING AND FINANCING TRANSACTIONS

Omitted from the Financing Activities section of the Condensed Consolidated Statement of Cash Flows for the thirty-nine weeks ended October 30, 2005 was a decrease in the Company's Series B convertible preferred stock of \$102,820, an increase in common stock of \$7,302, an increase in additional capital of \$94,870 and a decrease in treasury stock of \$648 associated with the conversion of a portion of the Series B convertible preferred stock. Please see Note 5, "Series B Convertible Preferred Stock."

Omitted from the Financing Activities section of the Condensed Consolidated Statement of Cash Flows for the thirty-nine weeks ended October 29, 2006 was a decrease in Series B convertible preferred stock of \$161,926, an increase in common stock of \$11,566 and an increase in additional capital of \$150,360 associated with the conversion of all of the remaining outstanding shares of the Series B convertible preferred stock. Please see Note 5, "Series B Convertible Preferred Stock."

12. 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*, *Donald J. Trump Signature Collection* and, beginning in the second quarter of 2006, *JOE Joseph Abboud* 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 outlet retail 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 store located in New York City. In 2005, this division also included the sales of the Company's *Calvin Klein Collection* stores located in Dallas and Paris, which the Company closed at the end 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; and (ii) Apparel and Related Products. 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 communications with the SEC, the Company re-evaluated the way it

aggregated its operating divisions into its reportable segments under FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Apparel and Related Products segment was 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>Thirty-Nine Weeks Ended</u>	
	<u>10/29/06</u>	<u>10/30/05</u>	<u>10/29/06</u>	<u>10/30/05</u>
<u>Revenues - Wholesale Dress Shirt</u>				
Net sales	\$ 97,662	\$111,084	\$ 277,477	\$ 318,943
Royalty revenues	1,841	1,714	4,983	4,719
Advertising and other revenues	<u>613</u>	<u>318</u>	<u>1,423</u>	<u>869</u>
Total	100,116	113,116	283,883	324,531
<u>Revenues - Wholesale Sportswear and Related Products</u>				
Net sales	162,281	153,084	426,934	387,097
Royalty revenues	3,046	2,963	8,565	7,993
Advertising and other revenues	<u>1,026</u>	<u>1,162</u>	<u>3,554</u>	<u>3,017</u>
Total	166,353	157,209	439,053	398,107
<u>Revenues - Retail Apparel and Related Products</u>				
Net sales	163,305	140,508	452,105	399,909
Royalty revenues	<u>2,050</u>	<u>2,153</u>	<u>5,789</u>	<u>5,564</u>
Total	165,355	142,661	457,894	405,473
<u>Revenues - Retail Footwear and Related Products</u>				
Net sales	76,987	67,102	205,027	186,502
Royalty revenues	<u>161</u>	<u>124</u>	<u>486</u>	<u>374</u>
Total	77,148	67,226	205,513	186,876
<u>Revenues - Calvin Klein Licensing</u>				
Royalty revenues	44,939	40,605	110,561	98,409
Advertising and other revenues	<u>14,350</u>	<u>12,364</u>	<u>36,723</u>	<u>35,363</u>
Total	59,289	52,969	147,284	133,772
<u>Total Revenues</u>				
Net sales	500,235	471,778	1,361,543	1,292,451
Royalty revenues	52,037	47,559	130,384	117,059
Advertising and other revenues	<u>15,989</u>	<u>13,844</u>	<u>41,700</u>	<u>39,249</u>
Total	<u>\$568,261</u>	<u>\$533,181</u>	<u>\$1,533,627</u>	<u>\$1,448,759</u>
Operating income - Wholesale Dress Shirt	\$ 16,532	\$ 18,711	\$ 31,648 ⁽¹⁾	\$ 50,938
Operating income - Wholesale Sportswear and Related Products	27,071	26,545	77,658	65,115
Operating income - Retail Apparel and Related Products	17,556	5,632	42,457	16,661
Operating income - Retail Footwear and Related Products	8,794	9,100	13,217	6,103
Operating income - Calvin Klein Licensing	27,690	21,129	100,735 ⁽²⁾	54,131
Corporate expenses ⁽³⁾	<u>13,000</u>	<u>9,509</u>	<u>47,568</u>	<u>28,589</u>
Income before interest and taxes	<u>\$ 84,643</u>	<u>\$ 71,608</u>	<u>\$ 218,147</u>	<u>\$ 164,359</u>

- (1) Operating income for the Wholesale Dress Shirt segment for the thirty-nine weeks ended October 29, 2006 includes \$11,294 of costs associated with closing the Company's manufacturing facility in Ozark, Alabama.
- (2) Operating income for the Calvin Klein Licensing segment for the thirty-nine weeks ended October 29, 2006 includes a gain of \$32,043 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 thirty-nine weeks ended October 29, 2006 include \$10,535 of severance and related costs resulting from the departure of Mark Weber, the Company's former Chief Executive Officer.

13. OTHER COMMENTS

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

The Company has guaranteed the payment of rent and related costs to the Company's former landlord by the tenant currently occupying space previously leased by the Company. The maximum amount guaranteed as of October 29, 2006 is approximately \$4,500, which is subject to exchange rate fluctuation. The Company has the right to seek recourse of approximately \$2,800 as of October 29, 2006, which is subject to exchange rate fluctuation. The guarantee expires on May 19, 2016.

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 October 29, 2006, the fair value of these investments approximated the carrying amount of \$71,867.

14. NEW ACCOUNTING STANDARDS

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 requires that the financial statement effects of a tax position be recognized when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. A tax position that meets the more likely than not recognition threshold shall initially and subsequently be measured as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The Company must adopt FIN 48 as of the beginning of its fiscal year 2007. The Company is currently evaluating the impact, if any, the adoption of FIN 48 is expected to have on its consolidated results of operations and financial position.

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements." This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands disclosures about the use of fair value measurements. The Company must adopt FASB Statement No. 157 as of the beginning of its fiscal year 2007. The Company currently does not expect the adoption of FASB Statement No. 157 to have any impact on its consolidated results of operations and financial position.

In September 2006, the FASB issued FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)." This statement requires a company to recognize the overfunded or underfunded status of a defined benefit pension or other postretirement plan as an asset or a liability in its statement of financial position and to recognize gains and losses that have not yet been recognized through net periodic benefit cost in comprehensive income, net of income tax effects. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for the Company as of the end of the current fiscal year. The Company does not expect the adoption of FASB Statement No. 158 to have a material impact on its consolidated results of operations or financial position.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (“SAB 108”), “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.” SAB 108 was issued to address diversity in practice in quantifying financial statement misstatements. For purposes of assessing materiality, SAB 108 requires quantification of misstatements, including both the carryover and reversing effects of prior year misstatements on the current year financial statements and related financial disclosures. Companies will be required to adjust their financial statements if material misstatements exist. The Company must adopt SAB 108 as of the end of the current fiscal year. The Company does not expect the adoption of SAB 108 to have a material impact on its consolidated results of operations or financial position.

15. PENDING ACQUISITION

On October 11, 2006, the Company entered into an agreement with Superba, Inc. (“Superba”), a privately-held manufacturer and distributor of neckwear in the United States and Canada, and A. Mervyn Mandelbaum, the Chief Executive Officer and controlling shareholder of Superba, under which the Company expects to acquire substantially all of Superba’s assets. The purchase price for the assets is \$110,000, subject to adjustment for working capital, plus an earn-out over a three-year period based on the earnings of the acquired business for each of the first three years after the closing, with a maximum value of \$70,000. The closing is expected to be effective on January 1, 2007.

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

References to the brand names *Calvin Klein Collection*, *ck Calvin Klein*, *Calvin Klein*, *Van Heusen*, *IZOD*, *Arrow*, *Bass*, *Eagle*, *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*, *JOE Joseph Abboud* and *MICHAEL Michael Kors*, 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.

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 condensed consolidated financial statements and the accompanying notes, which are included elsewhere in this report.

We are one of the largest apparel companies in the world, with a heritage dating back over 125 years. Our brand portfolio consists of nationally recognized brand names, including *Calvin Klein*, *Van Heusen*, *IZOD*, *Arrow*, *Bass* and *Eagle*, which are owned, and *Geoffrey Beene*, *Kenneth Cole New York*, *Kenneth Cole Reaction*, *BCBG Max Azria*, *BCBG Attitude*, *Sean John*, *Chaps*, *Donald J. Trump Signature Collection* and *MICHAEL Michael Kors*, which are licensed. We launched new licensed lines of dress shirts under the *unlisted*, *A Kenneth Cole Production* brand in the first quarter of 2006 and the *JOE Joseph Abboud* brand in the second quarter of 2006.

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, Inc. and certain affiliated companies ("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, 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. Equally important, we also have broadened the reach of the *Calvin Klein* brands through growth of existing businesses and entry into new businesses, both directly by us and through licensees. This additional diversification, in terms of product, positioning, business model and opportunity has not only enhanced our growth prospects, but has also further moderated our risk to a downturn in any one of our businesses.

On October 11, 2006, we entered into an agreement with Superba, Inc. ("Superba"), a privately-held manufacturer and distributor of neckwear in the United States and Canada, under which we expect to acquire substantially all of Superba's assets. This acquisition is consistent with our strategy of adding brands or product categories that complement our existing businesses, in this case, dress shirts. The purchase price for the assets is \$110 million, subject to adjustment for working capital, plus an earn-out over a three-year period based on the earnings of the acquired business for each of the first three years after the closing, with a maximum value of \$70 million. The acquisition is expected to close effective on January 1, 2007. Our forward-looking results of operations discussed below do not include the impact of this acquisition, which would not be expected to have a material effect on 2006 revenues and earnings.

OPERATIONS OVERVIEW

We generate net sales from (i) the wholesale distribution of men's dress shirts and sportswear, principally under the brand names *Van Heusen*, *Arrow*, *Geoffrey Beene*, *Calvin Klein*, *IZOD*, *BCBG Max Azria*, *BCBG Attitude*, *Chaps*, *Sean John*, *Donald J. Trump Signature Collection*, *Kenneth Cole New York*, *Kenneth Cole Reaction*, *MICHAEL Michael Kors*, *unlisted*, *A Kenneth Cole Production* (beginning in the first quarter of 2006) and *JOE Joseph Abboud* (beginning in the second quarter of 2006), as well as various private labels; 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. Net sales in 2005 include our *Calvin Klein Collection* stores in Dallas and Paris, which we closed at the end of 2005. We will be discontinuing sales of our

licensed line of *MICHAEL Michael Kors* dress shirts during the third quarter of 2007 in connection with the licensor's discontinuance of its other licensed menswear offerings under the brand.

We generate royalty, advertising and other revenues from fees for licensing the use of our trademarks. Calvin Klein royalty, advertising and other revenues comprised 86% of total royalty, advertising and other revenues in the first nine months of 2006. Calvin Klein royalty, advertising and other revenues are derived principally under licenses and other arrangements for jeans, underwear, fragrances, eyewear, watches and home furnishings.

In the first nine months of 2006, net sales were 89% and royalty, advertising and other revenues were 11% of our total 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 are the largest component of selling, general and administrative expenses, comprising 47% of such expenses in the first nine months of 2006. Rent and occupancy for offices, warehouses and retail stores is the next largest expense, comprising 20% of selling, general and administrative expenses in the first nine months of 2006.

RESULTS OF OPERATIONS

Thirteen Weeks Ended October 29, 2006 Compared With Thirteen Weeks Ended October 30, 2005

Net Sales

Net sales in the third quarter of 2006 increased 6.0% to \$500.2 million from \$471.8 million in the prior year. This increase included the following: (i) \$32.7 million of net sales attributable to growth in our retail segments, driven by an 11% increase in comparative store sales and the opening of *Calvin Klein* outlet retail stores in premium outlet malls; and (ii) \$9.2 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. These increases were offset, in part, by a \$13.4 million anticipated sales decrease in our Wholesale Dress Shirt segment resulting from the residual impact of door closings associated with the 2005 acquisition by Federated Department Stores, Inc. ("Federated") of The May Department Stores Company ("May").

Royalty, Advertising and Other Revenues

Royalty, advertising and other revenues in the third quarter of 2006 increased 10.8% to \$68.0 million from \$61.4 million in the prior year. Of the \$6.6 million increase, \$6.3 million was attributable to our Calvin Klein Licensing segment due to new licensees and growth exhibited by existing licensees, particularly from fragrances.

Gross Profit on Total Revenues

Gross profit on total revenues in the third quarter of 2006 was \$280.4 million, or 49.3% of total revenues, compared with \$249.2 million, or 46.7% of total revenues in the prior year. The 260 basis point improvement was due principally to strong product sell-throughs, which yielded more full-price selling. Also contributing to the increase was a change in revenue mix, as (i) net sales attributable to our outlet retail businesses, which have higher gross margins than our wholesale businesses, increased as a percentage of our total net sales; and (ii) royalty, advertising and other revenues increased as a percentage of total revenues. Royalty, advertising and other revenues do not carry a cost of sales, and as such, the gross profit percentage of such revenues is 100%.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the third quarter of 2006 were \$195.7 million, or 34.4% of total revenues, and \$177.6 million, or 33.3% of total revenues, in the prior year. The \$18.1 million increase in SG&A expenses in the third quarter of 2006 included \$1.7 million of noncash stock option expense resulting from the requirement to expense stock options beginning in 2006. Please see Note 7, "Stock-Based Compensation," in the Notes to Condensed Consolidated Financial Statements for a further discussion of our stock-based compensation expense and related information. Also contributing to the increase were (i) increased expenses in our Retail Apparel and Related Products, Retail Footwear and Related Products, and Wholesale Sportswear and Related Products segments to support the sales growth previously mentioned, including from operating additional *Calvin Klein* outlet retail stores; (ii) increased advertising expenditures; and (iii) overall higher administrative expenses, including medical expenses due to increased claims in the current year.

Interest Expense, Net

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

Net interest expense in the third quarter of 2006 was \$3.9 million compared with \$7.2 million in the prior year. The net interest expense decrease was due principally to an increase in interest income from our higher cash position and an increase in investment rates of return over the prior year.

Income Taxes

Income taxes for the current year are estimated at a rate of 37.1%, compared with last year's full year rate of 37.3%.

Thirty-Nine Weeks Ended October 29, 2006 Compared With Thirty-Nine Weeks Ended October 30, 2005

Net Sales

Net sales in the first nine months of 2006 increased 5.3% to \$1,361.5 million from \$1,292.5 million in the prior year. This increase included the following: (i) \$70.7 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; and (ii) \$39.8 million of net sales attributable to growth in our Wholesale Sportswear and Related Products segment, particularly from our *Arrow* sportswear line and our *Calvin Klein* men's better sportswear line. These increases were offset, in part, by a \$41.5 million anticipated sales decrease in our Wholesale Dress Shirt segment, resulting principally from door closings associated with the 2005 acquisition by Federated of May, as the combined company has closed certain of its stores.

Net sales for the full year 2006 are expected to increase approximately 8%, due principally to the items noted above and the effect in the fourth quarter of the following: (i) growth in our Wholesale Sportswear and Related Products segment, particularly from our *IZOD* sportswear line and our *Calvin Klein* men's better sportswear line; (ii) increases in comparative store sales for our retail divisions and additional *Calvin Klein* outlet retail stores in premium outlet malls; and (iii) growth in our Wholesale Dress Shirt segment, as the effect of the Federated/May door closings began to impact us in the fourth quarter of last year.

Royalty, Advertising and Other Revenues

Royalty, advertising and other revenues in the first nine months of 2006 increased 10.1% to \$172.1 million from \$156.3 million in the prior year. Of the \$15.8 million increase, \$13.5 million was attributable to our Calvin Klein Licensing segment due to new licensees and growth exhibited by existing licensees, particularly from fragrances.

We currently expect that royalty, advertising and other revenues will increase 10% to 11% for the full year 2006, both as a result of growth in the businesses of existing licensees, as well as royalties generated from new license agreements.

Gross Profit on Total Revenues

Gross profit on total revenues in the first nine months of 2006 was \$750.3 million, or 48.9% of total revenues, compared with \$668.8 million, or 46.2% of total revenues in the prior year. The 270 basis point improvement was due principally to strong product sell-throughs, which yielded more full-price selling. Also contributing to the increase was a change in revenue mix, as (i) net sales attributable to our outlet retail businesses, which have higher gross margins than our wholesale businesses, increased as a percentage of our total net sales; and (ii) royalty, advertising and other revenues increased as a percentage of total revenues. Royalty, advertising and other revenues do not carry a cost of sales, and as such, the gross profit percentage of such revenues is 100%.

We currently expect that the increase in the gross profit on total revenues percentage for the full year 2006 will not be as pronounced as the increase experienced in the first nine months of 2006, due in part to higher forecasted growth in our wholesale businesses during the fourth quarter than in our outlet retail businesses. As a result, we anticipate that the gross profit on total revenues percentage will increase by approximately 200 basis points in 2006 as compared with 2005.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses in the first nine months of 2006 were \$564.1 million, or 36.8% of total revenues, and \$504.4 million, or 34.8% of total revenues, in the prior year. The \$59.7 million increase in SG&A expenses in the first nine months of 2006 included: (i) \$11.3 million in costs associated with the closing of our manufacturing facility in Ozark, Alabama in May 2006; (ii) \$10.5 million in severance and other separation costs associated with the February 2006 departure of Mark Weber, our former Chief Executive Officer; and (iii) \$5.7 million of noncash stock option expense resulting from the requirement to expense stock options beginning in 2006. Please see Note 7, "Stock-Based Compensation," in the Notes to Condensed Consolidated Financial Statements for a further discussion of our stock-based compensation expense and related information. Also contributing to the increase were (i) increased expenses in our Retail Apparel and Related Products, Retail Footwear and Related Products, and Wholesale Sportswear and Related Products segments to support the sales growth previously mentioned, including from operating additional *Calvin Klein* outlet retail stores; (ii) recording a long-lived asset impairment related to certain underperforming outlet retail stores; (iii) increased advertising expenditures; and (iv) overall higher administrative expenses, including medical expenses due to increased claims in the current year.

For the full year, our 2006 SG&A expenses as a percentage of total revenues are currently expected to increase approximately 150 basis points, due in part to an expected increase of \$20.0 million in national advertising expenditures in the fourth quarter of 2006. In addition, impacting 2006 are the costs associated with the closing of our manufacturing facility in Ozark, Alabama in May 2006 and the February 2006 departure of Mark Weber, our former Chief Executive Officer of \$11.3 million and \$10.5 million, respectively. We estimate that noncash stock option expense for the full year 2006 will be approximately \$8.0 million. Partially offsetting these items will be expense savings in 2006 of approximately \$9.0 million due to the closure at the end of 2005 of our *Calvin Klein Collection* stores in Dallas and Paris.

Gain on Sale of Investment

In the first quarter of 2006, we sold minority interests held by one of our subsidiaries in certain entities that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. The sale resulted in a pre-tax gain of \$32.0 million, which is net of related fees, amounts held in escrow and the carrying value of the investment.

Interest Expense, Net

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

Net interest expense in the first nine months of 2006 was \$13.9 million compared with \$22.6 million in the prior year. The net interest expense decrease was due principally to an increase in interest income from our higher cash position and an increase in investment rates of return over the prior year.

Income Taxes

Income taxes for the current year are estimated at a rate of 37.1%, compared with last year's full year rate of 37.3%.

Net Income per Common Share

Our calculation of net income per common share for the thirty-nine weeks ended October 30, 2005 was impacted by the voluntary conversion of a portion of our Series B convertible preferred stock by the holders of such stock into shares of our common stock. Such shares of common stock were subsequently sold in a registered offering by the holders in July 2005. In connection with these transactions, we made an inducement payment to the preferred stockholders of \$1.75 for each share of common stock sold, or an aggregate of \$12.9 million, and incurred certain costs, totaling \$1.3 million, specifically related to the registered common stock offering. The inducement payment was based on the net present value of the dividends that we would have been obligated to pay the preferred stockholders through the earliest date on which it was estimated that we would have had the right to convert the Series B convertible preferred stock, net of the net 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 accordance with accounting principles generally accepted in the United States, the portion of the Series B convertible preferred stock that was converted was considered separately from the portion of the Series B convertible preferred stock that was not converted for purposes of our net income per common share calculation. Further, the aggregate \$14.2 million inducement payment and offering costs was treated as a preferred stock dividend and attributed to the portion of the Series B convertible preferred stock that was converted.

Our calculation of net income per common share for the thirty-nine weeks ended October 29, 2006 was impacted by the voluntary conversion in May 2006 of all of the remaining outstanding shares of the Series B convertible preferred stock by the holders of such stock into shares of common stock. The holders sold the majority of such shares in a registered common stock offering. In connection with the conversion, we made an inducement payment to the preferred stockholders of \$0.88 for each share of common stock received upon conversion, or an aggregate of \$10.2 million, and incurred certain costs, totaling \$0.7 million, specifically related to the registered common stock offering. The inducement payment was based on the net present value of the dividends that we would have been obligated to pay the preferred stockholders through the earliest date on which it was estimated that we would have had the right to convert the Series B convertible preferred stock, net of the net 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 accordance with accounting principles generally accepted in the United States, the aggregate \$10.9 million inducement payment and offering costs was treated as a preferred stock dividend and attributed to the Series B convertible preferred stock for purposes of our net income per common share calculation.

Note 10, "Net Income per Common Share," in the Notes to Condensed Consolidated Financial Statements includes a further explanation and the calculations of basic and diluted net income per common share.

LIQUIDITY AND CAPITAL RESOURCES

Generally, our principal source of cash is from operations, and our principal uses of cash are for capital expenditures, contingent purchase price payments to Mr. Calvin Klein and dividends.

Operations

Cash provided by operating activities was \$112.4 million in the first nine months of 2006 compared with \$82.2 million in the prior year. This increase was due principally to changes in working capital, including a reduction in accounts receivable as a result of strong collections in the third quarter of 2006.

We currently expect that our cash provided by operating activities in 2006 will approximate the prior year amount of \$189.4 million. We anticipate that an increase in net income, adjusted for depreciation, amortization, stock-based compensation and the pre-tax gain on the sale of investment will be mostly offset by increases in working capital and income tax payments due to exhausting certain net operating loss tax carryforwards.

Capital Expenditures

Our capital expenditures in the first nine months of 2006 were \$26.4 million. We currently expect that capital expenditures in 2006 will be in a range of \$40 million to \$45 million. Our capital expenditures are generally for information systems, warehouse and office facilities and outlet retail stores. As such, we have no long-term contractual commitments for capital expenditures.

Contingent Purchase Price Payments

In connection with our acquisition of Calvin Klein, we are obligated to pay Mr. Calvin Klein contingent purchase price payments through 2017 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 and totaled \$21.1 million in the first nine months of 2006. We currently expect that such payments will be \$27.0 million to \$29.0 million in 2006.

Sale of Investment

In the first quarter of 2006, we sold minority interests held by one of our subsidiaries in certain entities that operate the licenses and related wholesale and retail businesses of *Calvin Klein* jeans and accessories in Europe and Asia and the *ck Calvin Klein* bridge line of sportswear and accessories in Europe. We received \$32.8 million in cash proceeds from the sale of these entities.

Dividends

Preferred stock dividends totaled \$3.2 million for the first nine months of 2006.

In May 2006, the holders of our Series B convertible preferred stock voluntarily converted all of the remaining outstanding shares of Series B convertible preferred stock into 11.6 million shares of our common stock. In connection with the conversion, we made an inducement payment to the preferred stockholders of \$0.88 for each share of common stock received upon conversion, or an aggregate of \$10.2 million, and incurred certain costs, totaling \$0.7 million, in connection with the registered common stock offering. The inducement payment was based on the net present value of the preferred dividends that we would have been obligated to pay the holders through the earliest date on which it was estimated that we would have had the right to convert the Series B convertible preferred stock, net of the net 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. Under accounting principles generally accepted in the United States, the aggregate \$10.9 million inducement payment and offering costs was treated similar to a preferred stock dividend in the second quarter of 2006.

Our common stock currently pays annual dividends totaling \$0.15 per share. Cash dividends on our common stock in 2006 are expected to approximate \$7.9 million.

Cash Flow Summary

Our net cash flow in the first nine months of 2006 was \$91.2 million. Cash flow in 2006 will be impacted by various other factors in addition to those noted above. The exercise of stock options provided \$52.6 million of cash for the full year in 2005. We currently estimate that 2006 will include \$10.0 million to \$15.0 million of cash from the exercise of stock options. In connection with the closing of our manufacturing facility in Ozark, Alabama, we expect cash outflows to approximate \$10.0 million in 2006 for severance, employee termination benefits and facility closing costs. In addition, in connection with the departure of Mark Weber, our former Chief Executive Officer, we expect cash outflows to approximate \$10.0 million in 2006.

Based on our current operations, considering all of the above factors and excluding our anticipated acquisition of Superba effective on January 1, 2007 for \$110.0 million, we currently expect to generate \$135.0 million to \$145.0 million of cash flow in 2006.

Financing Arrangements

Our capital structure as of October 29, 2006 was as follows:

(in millions)

Long-term debt	\$399.5
Stockholders' equity	903.4

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

For near-term liquidity, in addition to our cash balance, we have a \$325.0 million secured revolving credit facility that provides for revolving credit borrowings, as well as the issuance of letters of credit. We may, at our option, borrow and repay amounts up to a maximum of \$325.0 million for revolving credit borrowings and the issuance of letters of credit, with a sublimit of \$30.0 million for standby letters of credit and with no sublimit on trade letters of credit. Based on our working capital projections, we believe that our borrowing capacity under this facility provides us with adequate liquidity for our peak seasonal needs for the foreseeable future. During the first nine months of 2006, we had no revolving credit borrowings under the facility, and the maximum amount of letters of credit outstanding was \$189.2 million. As of October 29, 2006, we had \$118.0 million outstanding letters of credit under this facility. We currently do not expect to have any revolving credit borrowings under the facility in 2006.

Given our capital structure and our projections for future profitability and cash flow, we believe we could obtain additional financing, if necessary, for refinancing our long-term debt, or, if opportunities present themselves, future acquisitions.

SEASONALITY

Our business generally follows a seasonal pattern. Our wholesale dress shirt and sportswear 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. The third quarter has the highest level of royalty income, due to higher sales by licensees in advance of the holiday selling season.

Due to the above factors, our operating results for the thirteen and thirty-nine week periods ended October 29, 2006 are not necessarily indicative of those for a full fiscal year.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments held by us include cash equivalents and long-term debt. Interest rates on our long-term debt are fixed. Therefore, a change in rates generally would not have an effect on our interest expense. Note 7, "Long-Term Debt," in the Notes to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K as amended for the year ended January 29, 2006 outlines the principal amounts, interest rates, fair values and other terms required to evaluate the expected sensitivity of interest rate changes on the fair value of our fixed rate long-term debt. Cash equivalents held by us are affected by short-term interest rates. Therefore, a change in short-term interest rates would have an impact on our interest income. Given our balance of cash and cash equivalents as of October 29, 2006, the effect of a 50 basis point change in short-term interest rates on our interest income would be approximately \$1.8 million a nually.

Principally all of our revenues and expenses are currently denominated in United States dollars. However, certain of our operations and license agreements expose us to fluctuations in foreign currency exchange rates, primarily the rate of exchange of the United States dollar against the Euro, the Yen and the Canadian dollar. Our principal exposure to changes in exchange rates for the United States dollar results from our licensing business. Many of our license agreements require the licensee to report sales to us in the licensee's local currency but to pay us in United States dollars based on the exchange rate as of the last day of the contractual selling period. Thus, while we are not exposed

to exchange rate gains and losses between the end of the selling period and the date we collect payment, we are exposed to exchange rate changes during and up to the last day of the selling period. During times of a strengthening United States dollar, our foreign royalty revenues will be negatively impacted, and during times of a weakening United States dollar, our foreign royalty revenues will be favorably impacted. Our secondary exposure to changes in exchange rates for the United States dollar results from our foreign wholesale operations. During 2006, we expanded our wholesale operations to include sales to department and specialty stores throughout Canada and parts of Europe. Sales for these foreign operations are both generated and collected in foreign currency, which exposes us to foreign exchange gains and losses between the date of the sale and the date we collect payment because the majority of our cash from our foreign wholesale operations is converted to United States dollars after collection. Therefore, the results of these operations will be negatively impacted during times of a strengthening United States dollar and favorably impacted during times of a weakening United States dollar.

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

Also somewhat mitigating our exposure to changes in the exchange rate for the Euro is our Calvin Klein administrative office in Milan, Italy. During times of a strengthening United States dollar against the Euro, our Milan expenses will be favorably impacted, and during times of a weakening United States dollar against the Euro, our Milan expenses will be negatively impacted.

Due to the overall immateriality of our foreign operations, changes in the exchange rate for the United States dollar have not had a material effect on our consolidated results of operations or financial position.

ITEM 4 - CONTROLS AND PROCEDURES

As of October 29, 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 October 29, 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.

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.

ITEM 1A - RISK FACTORS

On May 10, 2006, affiliates of the holders of our Series B convertible preferred stock acquired Tommy Hilfiger Corporation and the holders' sole remaining director resigned from our Board of Directors. On May 12, 2006, the holders of our Series B convertible preferred stock converted all of the remaining outstanding shares of Series B convertible preferred stock into shares of our common stock. A substantial portion of the shares of common stock issued upon conversion was subsequently sold in a registered offering by the holders, the converted shares of Series B convertible preferred stock returned to the status of undesignated shares of our authorized preferred stock and the Investors' Rights Agreement to which we were a party with such holders was terminated. Therefore, the following risk factor, which was included in our Annual Report on Form 10-K for the year ended January 29, 2006, is no longer applicable:

Significant influence by certain stockholders.

In connection with our acquisition of Calvin Klein, affiliates of Apax Managers, Inc. and Apax Partners Europe Managers Limited purchased \$250 million of our Series B convertible preferred stock. During 2005, the Apax affiliates voluntarily converted a portion of such Series B convertible preferred stock, as further discussed in Note 10, "Series B Convertible Preferred Stock," in the Notes to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended January 29, 2006. As of January 29, 2006, the remaining Series B convertible preferred stock held by the Apax affiliates had liquidation preference of \$161.9 million and was convertible by them into 21.1% of our outstanding common stock. If we elect not to pay a cash dividend for any quarter, then the Series B convertible preferred stock will be treated for purposes of the payment of future dividends and upon conversion, redemption or liquidation as if an in-kind dividend has been paid.

Pursuant to the Investors' Rights Agreement we have with the Apax affiliates, the holders of our Series B convertible preferred stock are generally prohibited from initiating a takeover of us. In certain circumstances, the Apax affiliates may be able to participate in a bidding process initiated by a third party. As long as Apax affiliates own at least 50% of the shares of our Series B convertible preferred stock initially sold to the Apax affiliates, they will have the ability to prevent a change of control, or a sale of all or substantially all of our assets. As of January 29, 2006, the Apax affiliates owned approximately 61% of the shares of our Series B convertible preferred stock initially issued to them. Additionally, as long as 50% of our Series B convertible preferred stock remains outstanding, the holders of our Series B convertible preferred stock will have a right to purchase their pro rata share of newly issued securities. The holders of our Series B convertible preferred stock have certain additional rights, including the right to approve the issuance of certain new series of our preferred stock, which could also have the effect of discouraging a third party from pursuing a non-negotiated takeover, and preventing changes in control, of us.

Prior to the conversion of a portion of our Series B convertible preferred stock during 2005, the Apax affiliates had the right to elect separately as a class three directors and to have one of their directors serve on the audit, compensation, nominating and executive committees of our board, subject to applicable law, rule and regulation; current regulation precludes service on the audit committee. In connection with the conversion, the remaining preferred stockholders agreed to reduce their right to elect directors from three directors to two directors and to further reduce this right to one director if they did not have more than one director elected as of December 31, 2005. The remaining preferred stockholders did not elect an additional director as of December 31, 2005 and, as such, only one such director can be and is currently elected. If the Apax affiliates continue to own at least 10% of the Series B convertible preferred stock issued in connection with the acquisition of Calvin Klein they will maintain their right to elect separately as a class one director. However, the right of the Series B convertible preferred stockholders to elect a director will be terminated if the previously announced acquisition of Tommy Hilfiger Corporation by certain affiliates of the Apax affiliates is consummated. As a result of these and other rights related to their ownership of our Series B convertible preferred stock, the Apax affiliates have substantial influence over us.

The interests of the Apax affiliates or the holders of Series B convertible preferred stock may at any time conflict with, or diverge from, those of our other stockholders. The Apax affiliates or such other Series B convertible preferred stockholders, by virtue of their large percentage of voting rights and the terms of the Series B convertible preferred stock, will be able to substantially influence, and may effectively be able to prevent or veto, certain corporate actions, such as the sale of our company, the issuance of a new class or series of our stock in connection with a corporate transaction or other major corporate action.

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).
- +10.1 Phillips-Van Heusen Corporation 2006 Stock Incentive Plan, effective as of April 27, 2006, as amended through September 21, 2006.
- +10.2 Phillips-Van Heusen Corporation 1997 Stock Option Plan, effective as of April 29, 1997, as amended through September 21, 2006.
- +10.3 Phillips-Van Heusen Corporation 2000 Stock Option Plan, effective as of April 27, 2000, as amended through September 21, 2006.
- +10.4 Phillips-Van Heusen Corporation 2003 Stock Option Plan, effective as of May 1, 2003, as amended through September 21, 2006.
- 10.5 Asset Purchase Agreement, dated October 11, 2006, among Phillips-Van Heusen Corporation, Superba, Inc. and A. Mervyn Mandelbaum (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A, filed on October 13, 2006).
- +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: December 7, 2006

/s/ Bruce Goldstein

Bruce Goldstein

Vice President and Controller

(Chief Accounting Officer)

PHILLIPS-VAN HEUSEN CORPORATION
2006 STOCK INCENTIVE PLAN
(As Amended Through September 21, 2006)

1. Establishment, Objectives and Duration.

(a) Establishment of the Plan. Phillips-Van Heusen Corporation established this incentive compensation plan to be known as the "Phillips-Van Heusen Corporation 2006 Stock Incentive Plan." The Plan permits the granting of Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares and Other Stock-Based Awards. The Plan became effective on April 27, 2006 (the "Effective Date"). Definitions of capitalized terms used in the Plan are contained in the attached glossary, which is an integral part of the Plan.

(b) Purposes of the Plan. The purposes of the Plan are to induce certain individuals to remain in the employ, or to continue to serve as directors of, or consultants or advisors to, the Company and its present and future Subsidiaries, to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board believes that the granting of Awards under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success.

(c) Duration of the Plan. No Award may be granted under the Plan after the day immediately preceding the tenth (10th) anniversary of the Effective Date, or such earlier date as the Board shall determine. The Plan will remain in effect with respect to outstanding Awards until no Awards remain outstanding.

2. Administration of the Plan.

(a) The Committee. Except as otherwise provided in Section 2(d), the Plan shall be administered by the "Committee." The Committee shall consist of two or more members of the Board. It is intended that all of the members of the Committee shall be "non-employee directors" within the meaning of Rule 16b-3(b)(3) promulgated under the Exchange Act, and "outside directors" within the contemplation of Section 162(m)(4)(C)(i) of the Code. The Committee shall be appointed annually by the Board, which may at any time and from time to time remove any members of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except that the Committee may delegate to any one of its members the authority of the Committee with respect to the grant of Awards to any person who (i) shall not be an officer and/or director of the Company and (ii) is not, and in the judgment of the Committee may not be reasonably expected

to become, a "covered employee" within the meaning of Section 162(m)(3) of the Code. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee (or by the member(s) of the Committee to whom authority has been delegated) shall be fully as effective as if it had been made at a meeting duly called and held.

(b) Authority of the Committee. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Committee hereunder), and except as otherwise provided by the Board, the Committee shall have full and final authority in its discretion to take all actions determined by the Committee to be necessary in the administration of the Plan, including, without limitation, discretion to:

- (i) select the Employees, Directors and Consultants to whom Awards may from time to time be granted hereunder;
- (ii) determine whether and to what extent Awards are granted hereunder;
- (iii) determine the size and types of Awards granted hereunder;
- (iv) approve forms of Award Agreement for use under the Plan;
- (v) determine the terms and conditions of any Award granted hereunder;
- (vi) establish performance goals for any Performance Period and determine whether such goals were satisfied;
- (vii) amend the terms of any outstanding Award granted under the Plan; provided that, except as otherwise provided in Section 16, no such amendment shall reduce the Exercise Price of outstanding Options or the grant price of outstanding SARs without the approval of the stockholders of the Company;
- (viii) construe and interpret the terms of the Plan and any Award Agreement entered into under the Plan, and to decide all questions of fact arising in its application; and
- (ix) take such other action, not inconsistent with the terms of the Plan, as the Committee deems appropriate.

(c) Effect of Committee's Decision. All decisions, determinations and interpretations of the Committee shall be final, binding and conclusive on all persons, including the Company, its Subsidiaries, its stockholders, Employees, Directors, Consultants and their estates and beneficiaries.

(d) Delegation. As permitted by Applicable Laws, the Committee may delegate its authority as identified herein, including the power and authority to make Awards to Participants who are not "insiders" subject to Section 16(b) of the Exchange Act or expected to be "covered employees" within the meaning of Section 162(m) of the Code, pursuant to such conditions and limitations as the Committee may establish.

3. **Shares Subject to the Plan; Effect of Grants; Individual Limits.**

(a) Number of Shares Available for Grants. Subject to adjustment as provided in Section 18 hereof, the maximum number of Shares which may be issued pursuant to Awards under the Plan shall be 3,000,000, plus any Shares remaining available for issuance under the Prior Plans as of the Effective Date, plus the number of Shares subject to outstanding awards under the Prior Plans at the Effective Date that are deemed not delivered under the Prior Plans pursuant to paragraph (i) or (ii), of this Section 3(a).

(i) Shares that are potentially deliverable under an Award granted under the Plan or an option granted under a Prior Plan that expires or is canceled, forfeited, settled in cash or otherwise settled without the delivery of Shares shall not be treated as having been issued under the Plan or a Prior Plan.

(ii) Shares that are issued pursuant to awards that are assumed, converted or substituted in connection with a merger, acquisition, reorganization or similar transaction shall not be treated as having been issued under the Plan; provided, however, that the Shares referred to in this paragraph (ii) shall not be considered for purposes of determining the number of Shares available for grant as Incentive Stock Options.

Notwithstanding any other provisions herein: (i) shares tendered in payment of the exercise price of an Award shall not be added to the maximum share limitations described above, (ii) shares withheld by the Company to satisfy the tax withholding obligation shall not be added to the maximum share limitations described above and (iii) all shares covered by a Stock Appreciation Right, to the extent that it is exercised and whether or not shares of Common Stock are actually issued upon exercise of the right, shall be considered issued or transferred pursuant to the Plan.

The Shares to be issued pursuant to Awards may be authorized but unissued Shares or treasury Shares.

(b) Individual Limits. Subject to adjustment as provided in Section 16 hereof, the maximum aggregate number of Shares with respect to which Awards may be granted in any calendar year to any one Participant shall be 500,000 Shares.

(c) Share Counting. A Stock Option or Stock Appreciation Right shall be counted as one share for purposes of the limits set forth in Sections 3(a) and 3(b). A combination of Stock Appreciation Right and Stock Option, where the exercise of the Stock Appreciation Right or Stock Option results in the cancellation of the other, shall be counted as one share for purposes of the limits set forth in Sections 3(a) and 3(b). A Restricted Stock Grant, Restricted Stock Unit, Performance Share or Stock Award shall be counted as three shares for purposes of the limits set forth in Sections 3(a) and 3(b).

4. **Eligibility and Participation.**

(a) Eligibility. Persons eligible to participate in the Plan include all Employees, Directors and Consultants.

(b) Actual Participation. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, Directors and Consultants, those to whom Awards shall be granted and shall determine the nature and amount of each Award. The Committee may establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Participants favorable treatment under such laws; *provided, however*, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan.

5. **Types of Awards.**

(a) Type of Awards. Awards under the Plan may be in the form of Options (both Nonqualified Stock Options and/or Incentive Stock Options), SARs, Restricted Stock, Restricted Stock Units, Performance Shares and Other Stock-Based Awards.

(b) Designation of Award. Each Award shall be designated in the Award Agreement.

6. **Options.**

(a) Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Award Agreement. Each Option grant shall be evidenced by an Award Agreement that shall specify the Exercise Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine including, but not limited to, the Option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, and payment contingencies; *provided, however* that the Agreement Award shall provide for full vesting upon a Participant's Retirement. The Award Agreement also shall specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option. Options that are intended to be Incentive Stock Options shall be subject to the limitations set forth in Section 422 of the Code. Options granted pursuant to the Plan shall not provide Participants with the right to receive Dividends or Dividend Equivalents.

(c) Exercise Price. Except for Options adjusted pursuant to Section 18 herein, and replacement Options granted in connection with a merger, acquisition, reorganization or similar transaction, the Exercise Price for each grant of an Option shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted. However, in the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any Subsidiary, the Exercise Price for each grant of an Option shall not be less than 110% of the Fair Market Value of a Share on the date the Option is granted.

(d) Term of Options. The term of an Option granted under the Plan shall be determined by the Committee, in its sole discretion; *provided, however*, that such term shall not exceed 10 years. However, in the case of an Incentive Stock Option granted to a Participant who, at the time the Option is granted, owns stock representing more than 10% of the voting

power of all classes of stock of the Company or any Subsidiary, the term of the Incentive Stock Option shall be five years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(e) Exercise of Options. Options granted under this Section 6 shall be exercisable at such times and be subject to such restrictions and conditions as set forth in the Award Agreement and as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant.

(f) Payments. Options granted under this Section 6 shall be exercised by the delivery of a written notice to the Company setting forth the number of Shares with respect to which the Option is to be exercised and payment of the Exercise Price. The Exercise Price of an Option shall be payable to the Company: (i) in cash or its equivalent, (ii) by tendering (either actually or constructively by attestation) Shares having an aggregate Fair Market Value at the time of exercise equal to the Exercise Price, (iii) in any other manner then permitted by the Committee, or (iv) by a combination of any of the permitted methods of payment. The Committee may limit any method of payment, other than that specified under (i), for administrative convenience, to comply with Applicable Laws or otherwise.

(g) Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Section 6 as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

(h) Termination of Employment or Service. Each Participant's Option Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options, and may reflect distinctions based on the reasons for termination of employment or service.

7. **Stock Appreciation Rights.**

(a) Grant of SARs. Subject to the terms and provisions of the Plan, SARs may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Award Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Committee shall determine. SARs granted pursuant to the Plan shall not provide Participants with the right to receive Dividends or Dividend Equivalents.

(c) Grant Price. The grant price of a Freestanding SAR shall not be less than 100% of the Fair Market Value of a Share on the date of grant of the SAR; *provided, however*, that these limitations shall not apply to Awards that are adjusted pursuant to Section 18 herein.

(d) Term of SARs. The term of a SAR granted under the Plan shall be determined by the Committee, in its sole discretion; *provided, however*, that such term shall not exceed 10 years.

(e) Exercise of SARs. SARs may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them and sets forth in the Award Agreement.

(f) Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (i) the difference between the Fair Market Value of a Share on the date of exercise over the grant price; by
- (ii) the number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

(g) Termination of Employment or Service. Each SAR Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all SARs, and may reflect distinctions based on the reasons for termination of employment or service.

8. **Restricted Stock.**

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, Restricted Stock may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Award Agreement. Each Restricted Stock grant shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares of Restricted Stock granted, and such other provisions as the Committee shall determine.

(c) Period of Restriction and Other Restrictions. Except as otherwise provided in a Participant's Award Agreement, upon a termination of employment or, pursuant to Section 19, in the event of a Change in Control or Subsidiary Disposition, an Award of Restricted Stock shall have a minimum Period of Restriction of three years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis (as specified in an Award Agreement). The Committee shall impose such other conditions and/or restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock, a requirement that the issuance of Shares of Restricted Stock be delayed, restrictions based upon the achievement of specific performance goals, additional time-based restrictions, and/or restrictions under Applicable Laws, or holding requirements or sale restrictions placed on the Shares by the Company upon vesting of such Restricted Stock. As soon as practicable following the grant of Restricted Stock, the Shares of Restricted Stock shall be

registered in the Participant's name in certificate or book-entry form. If a certificate is issued, it shall bear an appropriate legend referring to the restrictions and it shall be held by the Company, or its agent, on behalf of the Participant until the Period of Restriction has lapsed or otherwise been satisfied. If the Shares are registered in book-entry form, the restrictions shall be placed on the book-entry registration.

(d) Removal of Restrictions. Subject to Applicable Laws, Restricted Stock shall become freely transferable by the Participant after the last day of the Period of Restriction applicable thereto. Once Restricted Stock is released from the restrictions, the Participant shall be entitled to receive a certificate evidencing the Shares.

(e) Voting Rights. Unless otherwise determined by the Committee and set forth in a Participant's Award Agreement, to the extent permitted or required by Applicable Laws. Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares during the Period of Restriction.

(f) Dividends and Other Distributions. Except as otherwise provided in a Participant's Award Agreement, during the Period of Restriction, Participants holding Shares of Restricted Stock shall receive all regular cash Dividends paid with respect to all Shares while they are so held, and, except as otherwise determined by the Committee, all other distributions paid with respect to such Restricted Stock shall be credited to Participants subject to the same restrictions on transferability and forfeitability as the Restricted Stock with respect to which they were paid and paid at such time following full vesting as are paid the Shares of Restricted Stock with respect to which such distributions were made.

(g) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain unvested Restricted Stock following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Awards of Restricted Stock, and may reflect distinctions based on the reasons for termination of employment or service.

9. **Restricted Stock Units.**

(a) Grant of Restricted Stock Units. Subject to the terms and provisions of the Plan, Restricted Stock Units may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Award Agreement. Each grant of Restricted Stock Units shall be evidenced by an Award Agreement that shall specify the applicable Period of Restriction, the number of Restricted Stock Units granted, and such other provisions as the Committee shall determine.

(c) Value of Restricted Stock Units. The initial value of a Restricted Stock Unit shall equal the Fair Market Value of a Share on the date of grant; *provided, however*, that this restriction shall not apply to Awards that are adjusted pursuant to Section 16.

(d) Period of Restriction. Except as otherwise provided in a Participant's Award Agreement, upon a termination of employment or, pursuant to Section 17, in the event of a Change in Control or Subsidiary Disposition, an Award of Restricted Stock Units shall have a minimum Period of Restriction of three (3) years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis.

(e) Form and Timing of Payment. Except as otherwise provided in Section 17 or a Participant's Award Agreement, payment of Restricted Stock Units shall be made at a specified settlement date that shall not be earlier than the last day of the Period of Restriction. The Committee, in its sole discretion, may pay earned Restricted Stock Units by delivery of Shares or by payment in cash of an amount equal to the Fair Market Value of such Shares (or a combination thereof). The Committee may provide that settlement of Restricted Stock Units shall be deferred, on a mandatory basis or at the election of the Participant.

(f) Voting Rights. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

(g) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive a payout respecting an Award of Restricted Stock Units following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Restricted Stock Units, and may reflect distinctions based on the reasons for termination of employment or service.

(h) At the discretion of the Committee, Restricted Stock Units granted pursuant to the Plan may provide Participants with the right to receive Dividend Equivalents, which may be paid currently or credited to an account for the Participants, and may be settled in cash and/or Shares, as determined by the Committee in its sole discretion, subject in each case to such terms and conditions as the Committee shall establish.

10. **Performance Shares.**

(a) Grant of Performance Shares. Subject to the terms and provisions of the Plan, Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Award Agreement. Each grant of Performance Shares shall be evidenced by an Award Agreement that shall specify the applicable Performance Period and Performance Measure(s), the number of Performance Shares granted, and such other provisions as the Committee shall determine.

(c) Value of Performance Shares. The initial value of a Performance Share shall equal the Fair Market Value of a Share on the date of grant; *provided, however*, that this restriction shall not apply to Awards that are adjusted pursuant to Section 16.

(d) Form and Timing of Payment. Except as otherwise provided in Section 17 or a Participant's Award Agreement, payment of Performance Shares shall be made at a specified

settlement date that shall not be earlier than the last day of the Performance Period. The Committee, in its sole discretion, may pay earned Performance Shares by delivery of Shares or by payment in cash of an amount equal to the Fair Market Value of such Shares (or a combination thereof). The Committee may provide that settlement of Performance Shares shall be deferred, on a mandatory basis or at the election of the Participant.

(e) Voting Rights. A Participant shall have no voting rights with respect to any Performance Shares granted hereunder.

(f) Termination of Employment or Service. Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive a payout respecting an Award of Performance Shares following termination of the Participant's employment or, if the Participant is a Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Participants, and may reflect distinctions based on the reasons for termination of employment or service

11. **Other Stock-Based Awards.**

(a) Grant. The Committee shall have the right to grant other Awards that may include, without limitation, the grant of Shares based on attainment of performance goals established by the Committee, the payment of Shares as a bonus or in lieu of cash based on attainment of performance goals established by the Committee, and the payment of Shares in lieu of cash under other Company incentive or bonus programs.

(b) Period of Restriction. Except as otherwise provided in a Participant's Award Agreement, upon a termination of employment or, pursuant to Section 17, in the event of a Change in Control or Subsidiary Disposition, Awards granted pursuant to this Section 12 shall have a minimum Period of Restriction of three years, which period may, at the discretion of the Committee, lapse on a pro-rated, graded, or cliff basis (as specified in an Award Agreement). Notwithstanding the above, the payment of Shares in lieu of cash under other Company incentive or bonus programs shall not be subject to the minimum Period of Restriction limitations described above.

(c) Payment of Other Stock-Based Awards. Subject to Section 11(b) hereof, payment under or settlement of any such Awards shall be made in such manner and at such times as the Committee may determine. The Committee may provide that settlement of Other Stock-Based Awards shall be deferred, on a mandatory basis or at the election of the Participant.

(d) Termination of Employment or Service. The Committee shall determine the extent to which the Participant shall have the right to receive Other Stock-Based Awards following termination of the Participant's employment or, if the Participant is a Director or Consultant, service with the Company and its Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, such provisions may be included in an agreement entered into with each Participant, but need not be uniform among all Other Stock-Based Awards, and may reflect distinctions based on the reasons for termination of employment or service.

12. **Performance-Based Exception.**

(a) The Committee may specify that the attainment of one or more of the Performance Measures set forth in this Section 12 shall determine the degree of granting, vesting and/or payout with respect to Awards that the Committee intends will qualify for the Performance-Based Exception. The performance goals to be used for such Awards shall be chosen from among the following performance measures (the "Performance Measures"): earnings, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, earnings per share, economic value created, market share, net income (before or after taxes), operating income, adjusted net income after capital charge, return on assets, return on capital (based on earnings or cash flow), return on equity, return on investment, revenue, cash flow, operating margin, share price, total stockholder return, total market value, and strategic business criteria, consisting of one or more objectives based on meeting specified market penetration goals, productivity measures, geographic business expansion goals, cost targets, customer satisfaction or employee satisfaction goals, goals relating to merger synergies, management of employment practices and employee benefits, or supervision of litigation or information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates or joint ventures. The targeted level or levels of performance with respect to such Performance Measures may be established at such levels and on such terms as the Committee may determine, in its discretion, on a corporate-wide basis or with respect to one or more business units, divisions, subsidiaries, business segments or functions, and in either absolute terms or relative to the performance of one or more comparable companies or an index covering multiple companies. Awards that are not intended to qualify for the Performance-Based Exception may be based on these or such other performance measures as the Committee may determine.

(b) Unless otherwise determined by the Committee, measurement of performance goals with respect to the Performance Measures above shall exclude the impact of charges for restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring items, as well as the cumulative effects of tax or accounting changes, each as determined in accordance with generally accepted accounting principles or identified in the Company's financial statements, notes to the financial statements, management's discussion and analysis or other filings with the SEC, as well as any other items determined in accordance with Section 18(b).

(c) Performance goals may differ for Awards granted to any one Participant or to different Participants.

(d) Achievement of performance goals in respect of Awards intended to qualify under the Performance-Based Exception shall be measured over a Performance Period specified in the Award Agreement, and the goals shall be established not later than 90 days after the beginning of the Performance Period or, if less than 90 days, the number of days which is equal to 25% of the relevant Performance Period applicable to the Award.

(e) The Committee shall have the discretion to adjust the determinations of the degree of attainment of the pre-established performance goals; *provided, however*, that Awards that are

designed to qualify for the Performance-Based Exception may not be adjusted upward (the Committee may, in its discretion, adjust such Awards downward).

13. **Transferability of Awards.** Incentive Stock Options may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and shall be exercisable during a Participant's lifetime only by such Participant. Other Awards shall be transferable to members of the Participant's Immediate Family to the extent provided in the Award Agreement, except that no Award may be transferred for consideration.

14. **Taxes.** The Company shall have the power and right, prior to the delivery of Shares pursuant to an Award, to deduct or withhold, or require a participant to remit to the Company (or a Subsidiary), an amount (in cash or Shares) sufficient to satisfy any applicable tax withholding requirements applicable to an Award. Whenever under the Plan payments are to be made in cash, such payments shall be net of an amount sufficient to satisfy any applicable tax withholding requirements. Subject to such restrictions as the Committee may prescribe, in the event that an Award of Restricted Stock shall become taxable to a Participant during any Company-imposed blackout period, a Participant may satisfy all or a portion of any tax withholding requirements by electing to have the Company withhold Shares having a Fair Market Value equal to the amount to be withheld up to the minimum statutory tax withholding rate (or such other rate that will not result in a negative accounting impact).

15. **Conditions Upon Issuance of Shares.**

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

16. **Adjustments Upon Changes in Capitalization.** In the event of any equity restructuring (within the meaning of Financial Accounting Standards No. 123R), such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend the Committee shall cause there to be an equitable adjustment in the number and kind of Shares that may be delivered under the Plan, the individual limits set forth in Section 3(b), and, with respect to outstanding Awards, in the number and kind of Shares subject to outstanding Awards, the Exercise Price, grant price or other price of Shares subject to outstanding Awards, any performance conditions relating to Shares, the market price of Shares, or per-Share results, and other terms and conditions of outstanding Awards, to prevent dilution or enlargement of rights. In the event of any other change in corporate capitalization, such as a merger, consolidation, or liquidation, the Committee may, in its sole discretion, cause there to be such equitable adjustment as described in the foregoing sentence, to prevent dilution or enlargement

of rights; *provided, however*, that, unless otherwise determined by the Committee, the number of Shares subject to any Award shall always be rounded down to a whole number. Adjustments made by the Committee pursuant to this Section 16 shall be final, binding, and conclusive.

17. Change in Control, Cash-Out and Termination of Underwater Options/SARs, and Subsidiary Disposition.

(a) Change in Control. Except as otherwise provided in a Participant's Award Agreement or pursuant to Section 17(b), upon the occurrence of a Change in Control, unless otherwise specifically prohibited under Applicable Laws:

(i) any and all outstanding Options and SARs granted hereunder shall become immediately exercisable;

(ii) any Period of Restriction or other restriction imposed on Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards shall lapse; and

(iii) any and all Performance Shares and other Awards (if performance-based) shall vest on a pro-rata monthly basis, including full credit for partial months elapsed, and will be paid (A) based on the level of performance achieved as of the date of the Change in Control, if determinable, or (B) at the target level, if not determinable. The amount of the vested Award may be computed under the following formula: total Award number of Shares times (number of full months elapsed in shortest possible vesting period divided by number of full months in shortest possible vesting period) times percent performance level achieved immediately prior to the specified effective date of the Change in Control.

(b) Cash-Out and Termination of Underwater Options/SARs. The Committee may, in its sole discretion, provide that (i) all outstanding Options and SARs shall be terminated upon the occurrence of a Change in Control and that each Participant shall receive, with respect to each Share subject to such Options or SARs, an amount in cash equal to the excess of the Fair Market Value of a Share immediately prior to the occurrence of the Change in Control over the Option Exercise Price or the SAR grant price; and (ii) Options and SARs outstanding as of the date of the Change in Control may be cancelled and terminated without payment therefore if the Fair Market Value of a Share as of the date of the Change in Control is less than the Option Exercise Price or the SAR grant price.

(c) Subsidiary Disposition. The Committee shall have the authority, exercisable either in advance of any actual or anticipated Subsidiary Disposition or at the time of an actual Subsidiary Disposition and either at the time of the grant of an Award or at any time while an Award remains outstanding, to provide for the automatic full vesting and exercisability of one or more outstanding unvested Awards under the Plan and the termination of restrictions on transfer and repurchase or forfeiture rights on such Awards, in connection with a Subsidiary Disposition, but only with respect to those Participants who are at the time engaged primarily in Continuous Service with the Subsidiary involved in such Subsidiary Disposition. The Committee also shall have the authority to condition any such Award vesting and exercisability or release from such limitations upon the subsequent termination of the affected Participant's Continuous Service with that Subsidiary within a specified period following the effective date of the Subsidiary

Disposition. The Committee may provide that any Awards so vested or released from such limitations in connection with a Subsidiary Disposition, shall remain fully exercisable until the expiration or sooner termination of the Award.

18. Amendment, Suspension or Termination of the Plan.

(a) Amendment, Modification and Termination. The Board may at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; *provided, however*, that no amendment that requires stockholder approval in order for the Plan to continue to comply with the New York Stock Exchange listing standards or any rule promulgated by the SEC or any securities exchange on which Shares are listed or any other Applicable Laws shall be effective unless such amendment shall be approved by the requisite vote of stockholders of the Company entitled to vote thereon within the time period required under such applicable listing standard or rule.

(b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 16) affecting the Company or the financial statements of the Company or of changes in Applicable Laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. With respect to any Awards intended to comply with the Performance-Based Exception, unless otherwise determined by the Committee, any such exception shall be specified at such times and in such manner as will not cause such Awards to fail to qualify under the Performance-Based Exception.

(c) Awards Previously Granted. No termination, amendment or modification of the Plan or of any Award shall adversely affect in any material way any Award previously granted under the Plan without the written consent of the participant holding such Award, unless such termination, modification or amendment is required by Applicable Laws and except as otherwise provided herein.

(d) No Repricing. Except for adjustments made pursuant to Section 16, no amendment shall reduce the Exercise Price of outstanding Options or the grant price of outstanding SARs, nor may any outstanding Options or outstanding SARs be surrendered to the Company as consideration for the grant of new Options or SARs with a lower Exercise Price or grant price, without the approval of the stockholders of the Company.

(e) Compliance with the Performance-Based Exception. If it is intended that an Award comply with the requirements of the Performance-Based Exception, the Committee may apply any restrictions it deems appropriate such that the Awards maintain eligibility for the Performance-Based Exception. If changes are made to Code Section 162(m) or regulations promulgated thereunder to permit greater flexibility with respect to any Award or Awards available under the Plan, the Committee may, subject to this Section 18, make any adjustments to the Plan and/or Award Agreements it deems appropriate.

19. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

20. Rights of Participants.

(a) Continued Service. The Plan shall not confer upon any Participant any right with respect to continuation of employment or consulting relationship with the Company, nor shall it interfere in any way with his or her right or the Company's right to terminate his or her employment or consulting relationship at any time, with or without cause.

(b) Participant. No Employee, Director or Consultant shall have the right to be selected to receive an Award under the Plan, or, having been so selected, to be selected to receive future Awards.

21. **Successors.** All obligations of the Company under the Plan and with respect to Awards shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or other event, or a sale or disposition of all or substantially all of the business and/or assets of the Company and references to the "Company" herein and in any Award agreements shall be deemed to refer to such successors.

22. Legal Construction.

(a) Gender, Number and References. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular and the singular shall include the plural. Any reference in the Plan to a Section of the Plan either in the Plan or any Award agreement or to an act or code or to any section thereof or rule or regulation thereunder shall be deemed to refer to such Section of the Plan, act, code, section, rule or regulation, as may be amended from time to time, or to any successor Section of the Plan, act, code, section, rule or regulation.

(b) Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(c) Requirements of Law. The granting of Awards and the issuance of Shares or cash under the Plan shall be subject to all Applicable Laws and to such approvals by any governmental agencies or national securities exchanges as may be required.

(d) Governing Law. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New York, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of this Plan to the substantive law of another jurisdiction.

(e) Non-Exclusive Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable.

(f) Code Section 409A Compliance. To the extent applicable, it is intended that this Plan and any Awards granted hereunder comply with the requirements of Section 409A of the Code and any related regulations or other guidance promulgated with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service ("Section 409A"). Any provision that would cause the Plan or any Award granted hereunder to fail to satisfy Section 409A shall have no force or effect until amended to comply with Section 409A, which amendment may be retroactive to the extent permitted by Section 409A.

GLOSSARY OF DEFINED TERMS

1. Definitions. As used in the Plan, the following definitions shall apply:

"Applicable Laws" means the legal requirements relating to the administration of stock incentive plans, if any, under applicable provisions of federal law, applicable state law, and the rules and regulations of any applicable stock exchange or national market system.

"Award" means, individually or collectively, Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, and Other Stock-Based Awards granted under the Plan.

"Award Agreement" means an agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award.

"Board" means the Board of Directors of the Company.

"Cause" means, with respect to any Participant (i) gross negligence or willful misconduct, as the case may be, in the performance of the material responsibilities of the Participant's office or position; (ii) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or any Subsidiary (other than any such failure resulting from incapacity due to physical or mental illness); (iii) the Participant is convicted of, or pleads guilty or nolo contendere to, a felony within the meaning of U.S. Federal, state or local law (other than a traffic violation); (iv) the Participant having willfully divulged, furnished or made accessible to anyone other than the Company or any Subsidiary, or any of their respective directors, officers, employees, auditors and legal advisors, otherwise than in the ordinary course of business, any confidential or proprietary information of the Company or such Subsidiary; or (v) any act or failure to act by the Participant, which, under the provisions of applicable law, disqualifies the Participant from performing his or her duties or serving in his or her then current capacity with the Company or a Subsidiary; *provided, however*, that with respect to a Participant who has an employment agreement with the Company or any of its Subsidiaries which has a definition of "cause", the definition contained therein shall govern.

"Change in Control" means the first to occur of the following events:

1. Any Person, other than a Person who as of the date the Plan is first approved by the Board is the owner of at least 8% of the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"), becomes (A) a "beneficial owner," as such term is used in Rule 13d-3 of the Exchange Act, of at least one-quarter but less than one-half of the Outstanding Company Voting Securities, unless such acquisition has been approved within 30 days thereafter by at least a majority of the Incumbent Board (as defined in clause (2) below taking into account the provisos), or (B) a "beneficial owner," as such term is used in Rule 13d-3 of the Exchange Act, of at least one-half of the Outstanding Company Voting Securities; *provided, however*, that, for purposes of this definition, the following acquisitions shall not constitute a Change in Control: (I) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was

itself acquired directly from the Company, (II) any acquisition by the Company, (III) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its affiliates, or (IV) any acquisition pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph 3 of this definition; or

2. Individuals who, as of the date hereof, constitute the Board (such Board, and any Board consisting of individuals who hereafter replace such individuals or otherwise join the Board in accordance with the terms of the proviso to this sentence, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; *provided, however*, that any individual becoming a director subsequent to when the Plan is first approved by the Board whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

3. Consummation of a reorganization, merger, consolidation or a sale or other disposition of all or substantially all of the assets of the Company (each, a "Business Combination"), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the outstanding Shares (the "Outstanding Company Common Stock") and the Outstanding Company Voting Securities, immediately prior to such Business Combination, beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and more than 50% of the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (other than the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns directly or indirectly, 20% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Business Combination or the outstanding voting securities of such corporation entitled to vote generally in the election of directors, except to the extent that such ownership existed prior to the Business Combination or to the extent that such Business Combination has been approved within 30 days thereafter by at least a majority of the Incumbent Board, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination, whichever occurs first; or

4. The approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means the Committee, as specified in Section 2(a), appointed by the Board to administer the Plan.

"Company" means Phillips-Van Heusen Corporation, a Delaware corporation, and any successor thereto, as provided in Section 23 herein.

"Consultant" means any consultant or advisor to the Company or a Subsidiary.

"Continuous Service" means that the provision of services to the Company or any Subsidiary in any capacity by an Employee is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, any Subsidiary, or any successor. A leave of absence approved by the Company shall include sick leave, military leave, or any other personal leave approved by an authorized representative of the Company. For purposes of Incentive Stock Options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.

"Director" means any individual who is a member of the Board of Directors of the Company or a Subsidiary who is not an Employee and is not designated or elected to serve as a director by the holders of the Company's Series B convertible preferred stock, or the holders of any other securities of the Company, other than Shares, voting separately as a class.

"Dividend" means the dividends declared and paid on Shares subject to an Award.

"Dividend Equivalent" means, with respect to Shares subject to an Award, a right to be paid an amount equal to the Dividends declared and paid on an equal number of outstanding Shares.

"Employee" means any employee of the Company or a Subsidiary.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to an Option.

"Fair Market Value" means, as of any date, the value of a Share equal to (i) the closing sale price of a Share on the New York Stock Exchange on the date of determination or (ii) if there is no sale of Shares on that date, the closing sale price of a Share on the last trading date on which sales were reported on the New York Stock Exchange.

"Full-Value Award" means Awards other than Options, SARs, or other Awards for which the Participant pays the grant date intrinsic value directly or by forgoing a right to receive a cash payment from the Company.

"Immediate Family" means a Participant's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, former spouse, siblings, nieces, nephews, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships or any person sharing the Participant's household (other than a tenant or employee).

"Incentive Stock Option" or "ISO" means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

"Nonqualified Stock Option" means an Option that is not intended to meet the requirement of Section 422 of the Code.

"Option" means an Incentive Stock Option or a Nonqualified Stock Option granted under the Plan, as described in Section 6.

"Other Stock-Based Award" means a Share-based or Share-related Award granted pursuant to Section 11 herein.

"Participant" means a current or former Employee, Director or Consultant who has rights relating to an outstanding Award.

"Performance-Based Exception" means the performance-based exception from the tax deductibility limitations of Code Section 162(m).

"Performance Measures" shall have the meaning set forth in Section 12(a).

"Performance Period" means the period during which a performance measure must be met.

"Performance Share" means an Award granted to a Participant, as described in Section 10 herein.

"Period of Restriction" means the period Restricted Stock, Restricted Stock Units or Other Stock-Based Awards are subject to a substantial risk of forfeiture and are not transferable, as provided in Sections 8, 9 and 11 herein.

"Person" means person as such term is used in Section 3(a)(9) and 13(d) of the Exchange Act.

"Plan" means the Phillips-Van Heusen Corporation 2006 Stock Incentive Plan.

"Prior Plans" means the Company's 1997 Stock Option Plan, 2000 Stock Option Plan and 2003 Stock Option Plan.

"Restricted Stock" means an Award granted to a Participant, as described in Section 8.

"Restricted Stock Units" means an Award granted to a Participant, as described in Section 9.

"Retirement" means a Participant's termination of employment by the Company and its Subsidiaries at or after age 63 other than for cause (as defined in the Award Agreement).

"SEC" means the United States Securities and Exchange Commission.

"Share" means a share of the common stock, \$1.00 par value, of the Company, subject to adjustment pursuant to Section 16.

"Stock Appreciation Right" or "SAR" means an Award granted to a Participant, either alone or in connection with a related Option, as described in Section 7.

"Subsidiary" has the meaning ascribed to such term in Code Section 424(f).

"Subsidiary Disposition" means the disposition by the Company of its equity holdings in any Subsidiary effected by a merger or consolidation involving that Subsidiary, the sale of all or substantially all of the assets of that Subsidiary or the Company's sale or distribution of substantially all of the outstanding capital stock of such Subsidiary.

"Voting Securities" means voting securities of the Company entitled to vote generally in the election of Directors.

PHILLIPS-VAN HEUSEN CORPORATION
1997 STOCK OPTION PLAN
(As Amended Through September 21, 2006)

1. Purpose. The purposes of the 1997 Stock Option Plan (the "Plan") are to induce certain individuals to remain in the employ, or to continue to serve as directors, of Phillips-Van Heusen Corporation (the "Company") and its present and future subsidiary corporations (each a "Subsidiary"), as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. Options granted hereunder are intended to be either (a) "incentive stock options" (which term, when used herein, shall have the meaning ascribed thereto by the provisions of Section 422(b) of the Code) or (b) options which are not incentive stock options ("non-incentive stock options") or (c) a combination thereof, as determined by the Committee (the "Committee") referred to in Section 5 at the time of the grant thereof.

2. Effective Date of the Plan. The Plan became effective on April 29, 1997.

3. Stock Subject to Plan. 2,500,000 of the authorized but unissued shares of the common stock, \$1.00 par value, of the Company (the "Common Stock") are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

4. Administration.

A. Except as otherwise provided in paragraph B of Section 4, the Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have complete authority, in its discretion, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements or certificates (which need not be identical), to determine the individuals (each a "Participant") to whom and the times and the prices at which Options shall be granted, the periods during which each Option shall be exercisable, the number of shares of the Common Stock to be subject to each Option and whether such Option shall be an incentive stock option or a non-incentive stock option and to make all other determinations necessary or advisable for the administration of the Plan. In making such determinations, the Committee may take into account the nature of the services rendered by the respective individuals, their present

and potential contributions to the success of the Company and the Subsidiaries and such other factors as the Committee in its discretion shall deem relevant. The Committee's determination on the matters referred to in this Section 4 shall be conclusive. Any dispute or disagreement which may arise under or as a result of or with respect to any Option shall be determined by the Committee, in its sole discretion, and any interpretations by the Committee of the terms of any Option shall be final, binding and conclusive.

B. The Chairman of the Board or, if the Chairman is not an executive officer of the Company, the Chief Executive Officer of the Company or other executive officer of the Company designated by the Committee who is also a director (the Chairman, Chief Executive Officer or other designated executive officer being referred to as the "Designated Director") may administer the Plan with respect to employees of the Company or a Subsidiary (i) who are not officers of the Company subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (ii) whose compensation is not subject to the provisions of Section 162(m) of the Code. The authority of the Designated Director and Options granted by the Designated Director shall be subject to such terms, conditions, restrictions and limitations as may be imposed by the Board, including, but not limited to, a limit on the aggregate number of shares of Common Stock subject to Options that may be granted in any one calendar year by the Designated Director to all such employees of the Company and its Subsidiaries and a maximum number of shares that may be subject to Options granted under the Plan in any one calendar year to any single employee by the Designated Director. Unless and until the Board shall take further action, the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 2000 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director shall be 100,000 in the aggregate and the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 2000 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director to any single employee shall be 5,000 in the aggregate. Any actions duly taken by the Designated Director with respect to the grant of Options to such employees shall be deemed to have been taken by the Committee for purposes of the Plan.

5. Committee. The Committee shall consist of two or more members of the Board. It is intended that all of the members of the Committee shall be "non-employee directors" within the meaning of Rule 16b-3(b)(3) promulgated under the Exchange Act, and "outside directors" within the contemplation of Section 162(m)(4)(C)(i) of the Code. The Committee shall be appointed annually by the Board, which may at any time and from time to time remove any members of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except that the Committee may delegate to any one of its members the authority of the Committee with respect to the grant of Options to any person who shall not be an officer and/or director of the Company and who is not, and in the judgment of the Committee may not be reasonably expected to become, a "covered employee" within the meaning of Section 162(m)(3) of the Code. Any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee (or by the member(s) of the Committee to whom authority has been delegated) shall be fully as effective as if it had been made at a meeting duly called and held.

6. Eligibility. An Option may be granted only to a key employee of the Company or a Subsidiary or to a director of the Company or a Subsidiary who is not an employee of the Company or a Subsidiary.

7. Option Prices.

A. The initial per share option price of any Option shall be the price determined by the Committee, but not less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the initial per share option price shall not be less than 110% of the fair market value of a share of the Common Stock on the date of grant.

B. For all purposes of the Plan, the fair market value of a share of the Common Stock on any date shall be equal to (i) the closing sale price of the Common Stock on the New York Stock Exchange on the business day preceding such date or (ii) if there is no sale of the Common Stock on such Exchange on such business day, the average of the bid and asked prices on such Exchange at the close of the market on such business day.

8. Option Term. Participants shall be granted Options for such term as the Committee shall determine, not in excess of ten years from the date of the granting thereof; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the term with respect to such Option shall not be in excess of five years from the date of the granting thereof.

9. Limitations on Amount of Options Granted.

A. The aggregate fair market value of the shares of the Common Stock for which any Participant may be granted incentive stock options which are exercisable for the first time in any calendar year (whether under the terms of the Plan or any other stock option plan of the Company) shall not exceed \$100,000.

B. No Participant shall, during any fiscal year of the Company, be granted Options under the Plan to purchase more than 100,000 shares of the Common Stock.

10. Exercise of Options.

A. Except as otherwise determined by the Committee at the time of grant, a Participant may not exercise an Option during the period commencing on the date of the granting of such Option to him or her and ending on the day next preceding the third anniversary of such date. Except as otherwise determined by the Committee at the time of grant, a Participant may (i) during the period commencing on the third anniversary of the date of the granting of an Option to him or her and ending on the day next preceding the fourth anniversary of such date, exercise such Option with respect to one-third of the shares granted thereby, (ii) during the period commencing on such fourth anniversary and ending on the day next preceding the fifth

anniversary of the date of the granting of such Option, exercise such Option with respect to two-thirds of the shares granted thereby, and (iii) during the period commencing on such fifth anniversary, exercise such Option with respect to all of the shares granted thereby.

B. Except as hereinbefore otherwise set forth, an Option may be exercised either in whole at any time or in part from time to time.

C. An Option may be exercised only by a written notice of intent to exercise such Option with respect to a specific number of shares of the Common Stock and payment to the Company of the amount of the option price for the number of shares of the Common Stock so specified; provided, however, that, if the Committee shall in its sole discretion so determine at the time of the grant of any Option, all or any portion of such payment may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid; provided, further, however, that no portion of such payment may be made by delivering shares of the Common Stock acquired upon the exercise of an Option if such shares shall not have been held by the Participant for at least six months; provided, further, however, that, subject to the requirements of Regulation T (as in effect from time to time) promulgated under the Exchange Act, the Committee may implement procedures to allow a broker chosen by a Participant to make payment of all or any portion of the option price payable upon the exercise of an Option and receive, on behalf of such Participant, all or any portion of the shares of the Common Stock issuable upon such exercise.

D. The Board may, in its discretion, permit any Option to be exercised, in whole or in part, prior to the time when it would otherwise be exercisable.

E. (1) Notwithstanding the provisions of paragraph A of this Section 10, in the event that a Change in Control shall occur, then, each Option theretofore granted to any Participant which shall not have theretofore expired or otherwise been cancelled or become unexercisable shall become immediately exercisable in full. For the purposes of this paragraph E, a "Change in Control" shall be deemed to occur upon the first to occur of the following events:

(a) Any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act), other than a "person" who on April 9, 2004 was the owner of at least 8% of the Voting Power (as defined below) of the securities of the Company having Voting Power, becomes a "beneficial owner," as such term is used in Rule 13d-3 promulgated under the Exchange Act, of securities with at least (x) one-quarter but less than one-half of the Voting Power of securities having Voting Power, unless such acquisition has been approved in advance by at least three-quarters of the Incumbent Board (as defined in clause (b) below taking into account the provisos) or (y) one-half of the Voting Power of the securities of the Company having Voting Power;

(b) Individuals who, as of April 9, 2004, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to April 9, 2004 whose election, or nomination for election by the Company's stockholders, was

approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person (as defined below) other than the Board;

(c) Consummation of a reorganization, merger, consolidation or a sale or other disposition of all or substantially all of the assets of the Company (each, a “Business Combination”), in each case unless, following such Business Combination, (w) all or substantially all of the Persons that were the beneficial owners of the outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) and the Voting Power of the securities of the Company having Voting Power, immediately prior to such Business Combination, beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and more than 50% of the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Voting Power of the securities of the Company having Voting Power, as the case may be (there being excluded from securities held by such security holders of the corporation resulting from the Business Combination, but not from the securities with Voting Power of the corporation resulting from such Business Combination, any securities with Voting Power received by Affiliates (as defined below) of such other company in exchange for securities of such other company or, if such other company is the surviving company and its securities remain unchanged, any securities of such other company with Voting Power held by an Affiliate of such other company immediately prior to the Business Combination), (x) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined Voting Power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed in the Company prior to the Business Combination, and (y) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination, whichever occurs first; or

(d) Approval by the stockholders of the Company of (A) a liquidation of all or substantially all of the Company’s assets or (B) a dissolution of the Company.

Notwithstanding the foregoing, "Change in Control" with respect to any Participant shall be as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary, unless such employment agreement provides otherwise. For the purposes of this paragraph (1), (i) the term "Affiliate" shall mean any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, any other Person, (ii) the term "Person" shall mean any individual, partnership, firm, trust, corporation or other similar entity, (iii) "Company" shall include any entity that succeeds to all or substantially all of the business of the Company, and (iv) "Voting Power" shall mean general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(2) In the event that a Change of Control shall occur, then, from and after the time of such event, neither the provisions of this Section 10(e) nor any of the rights of any Participant hereunder shall be modified or amended in any way.

F. Notwithstanding any other provision of the Plan to the contrary, including, but not limited to, the provisions of paragraph D of Section 10, if any Participant shall have effected a Hardship Withdrawal from a 401(k) Plan maintained by the Company and/or one or more of the Subsidiaries, then, during the period of one year commencing on the date of such Hardship Withdrawal, such Participant may not exercise any Option using cash. For the purpose of this paragraph F, a "Hardship Withdrawal" shall mean a distribution to a Participant provided for in Reg. § 1.401(k)-1(d)(1)(ii) promulgated under Section 401(k)(2)(B)(i)(IV) of the Code or an analogous provision of the Puerto Rico Internal Revenue Code of 1994, as amended (the "Puerto Rico Code") and the regulations promulgated thereunder, and a "401(k) Plan" shall mean a plan which is a "qualified plan" within the contemplation of Section 401(a) of the Code or an analogous provision of the Puerto Rico Code which contains a "qualified cash or deferred arrangement" within the contemplation of Section 401(k)(2) of the Code or an analogous provision of the Puerto Rico Code.

11. Transferability. No Option shall be assignable or transferable except by will and/or by the laws of descent and distribution and, during the life of any Participant, each Option granted to him or her may be exercised only by him or her.

12. Termination of Employment or Service. Except as otherwise determined by the Committee, in the event a Participant leaves the employ, or ceases to serve as a director, of the Company and the Subsidiaries, whether voluntarily or otherwise but other than by reason of his or her death or retirement, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent exercisable on the date of such termination of employment or service and not theretofore exercised, terminate upon the earlier to occur of (x) the expiration of (i) 30 days after the date of such Participant's termination of employment or cessation of service, if such option was granted on or prior to December 18, 2001 or (ii) 90 days after the date of such Participant's termination of employment or cessation of service, if such option was granted after December 18, 2001; and (y) the date of termination specified in such Option. Notwithstanding the foregoing, except as otherwise determined by the Committee, if a Participant is terminated for cause (as defined herein), each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent not theretofore exercised, terminate forthwith. Except as otherwise determined by the Committee, in the event a Participant leaves the employ, or ceases to serve as a director, of

the Company and the Subsidiaries by reason of his or her retirement, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three years after the date of such retirement and the date of termination specified in such Option. Except as otherwise determined by the Committee, in the event a Participant's employment, or service as a director, with the Company and the Subsidiaries terminates by reason of his or her death, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three months after the date of the qualification of a representative of his or her estate and the date of termination specified in such Option. For purposes of the foregoing, (a) the term "cause" shall mean: (i) the commission by the Participant of any act or omission that would constitute a crime under federal, state or equivalent foreign law, (ii) the commission by the Participant of any act of moral turpitude, (iii) fraud, dishonesty or other acts or omissions that result in a breach of any fiduciary or other material duty to the Company and/or the Subsidiaries, (iv) continued alcohol or other substance abuse that renders the Participant incapable of performing his or her material duties to the satisfaction of the Company and/or the Subsidiaries or (v) as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary and (b) the term "retirement" shall mean (i) the termination of a Participant's employment with the Company and all of the Subsidiaries (A) other than for cause or by reason of his or her death and (B) on or after the earlier to occur of (I) the first day of the calendar month in which his or her 65th birthday shall occur and (II) the date on which he or she shall have both attained his or her 55th birthday and completed 10 years of employment with the Company and/or the Subsidiaries or (ii) the termination of a Participant's service as a director with the Company and all of the Subsidiaries (A) other than for cause or by reason of his or her death and (B) on or after the first day of the calendar month in which his or her 65th birthday shall occur.

13. Adjustment of Number of Shares. In the event that (i) a dividend shall be declared upon the Common Stock payable in shares of the Common Stock or (ii) any other change in the Common Stock that would be considered an equity restructuring (within the meaning of Financial Accounting Standards No. 123R), then the number of shares of the Common Stock then subject to any Option and the number of shares of the Common Stock reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number of shares set forth in paragraph B of Section 9 shall be adjusted to prevent dilution or enlargement of rights by adding to each share the number of shares which would be distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend or subject to such other change. In the event that there shall be any change, other than as specified in this Section 13, in the number or kind of outstanding shares of the Common Stock, or of any stock or other securities into which the Common Stock shall have been changed, or for which it shall have been exchanged, then, if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the number or kind of shares to prevent dilution or enlargement of rights, then subject to any Option and the number or kind of shares reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number or kind of shares referred to in paragraph B of Section 9, such adjustment shall be made by the Committee and shall be effective and binding for all purposes of the Plan and of each

stock option agreement or certificate entered into in accordance with the provisions of the Plan. In the case of any substitution or adjustment in accordance with the provisions of this Section 13, the option price in each stock option agreement or certificate for each share covered thereby prior to such substitution or adjustment shall be adjusted to the extent, if any, necessary to maintain the same aggregate intrinsic value (within the meaning of Financial Accounting Standards No. 123R) of the total award being substituted for or adjusted in accordance with the provisions of this Section 13. No adjustment or substitution provided for in this Section 13 shall require the Company to sell a fractional share under any stock option agreement or certificate. In the event of the dissolution or liquidation of the Company, or a merger, reorganization or consolidation in which the Company is not the surviving corporation, then, except as otherwise provided in the second sentence of this Section 13, each Option, to the extent not theretofore exercised, shall terminate forthwith.

14. Purchase for Investment, Withholding and Waivers. Unless the shares to be issued upon the exercise of an Option by a Participant shall be registered prior to the issuance thereof under the Securities Act of 1933, as amended, such Participant will, as a condition of the Company's obligation to issue such shares, be required to give a representation in writing that he or she is acquiring such shares for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any thereof. In the event of the death of a Participant, a condition of exercising any Option shall be the delivery to the Company of such tax waivers and other documents as the Committee shall determine. In the case of each non-incentive stock option, a condition of exercising the same shall be the entry by the person exercising the same into such arrangements with the Company with respect to withholding as the Committee may determine.

15. No Stockholder Status. Neither any Participant nor his or her legal representatives, legatees or distributees shall be or be deemed to be the holder of any share of the Common Stock covered by an Option unless and until a certificate for such share has been issued. Upon payment of the purchase price thereof, a share issued upon exercise of an Option shall be fully paid and non-assessable.

16. No Restrictions on Corporate Acts. Neither the existence of the Plan nor any Option shall in any way affect the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding whether of a similar character or otherwise.

17. No Employment Right. Neither the existence of the Plan nor the grant of any Option shall require the Company or any Subsidiary to continue any Participant in the employ of the Company or such Subsidiary.

18. Termination and Amendment of the Plan. The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable; provided, however, that the Board may not without further approval of the holders of a majority of the shares of the

Common Stock present in person or by proxy at any special or annual meeting of the stockholders, increase the number of shares as to which Options may be granted under the Plan (as adjusted in accordance with the provisions of Section 13), or change the class of persons eligible to participate in the Plan, or change the manner of determining the option prices. Except as otherwise provided in Section 13, no termination or amendment of the Plan may, without the consent of the Participant to whom any Option shall theretofore have been granted, adversely affect the rights of such Participant under such Option. The Committee may not, without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of the stockholders, amend any outstanding Option to reduce the option price, or cancel any outstanding Option and contemporaneously award a new Option to the same optionee for substantially the same number of shares at a lower option price.

19. Expiration and Termination of the Plan. The Plan shall terminate on April 28, 2007 or at such earlier time as the Board may determine. Options may be granted under the Plan at any time and from time to time prior to its termination. Any Option outstanding under the Plan at the time of the termination of the Plan shall remain in effect until such Option shall have been exercised or shall have expired in accordance with its terms.

20. Options for Outside Directors.

A. A director of the Company who is not an employee of the Company or a Subsidiary (an "Outside Director") shall be eligible to receive, in addition to any other Option which he or she may receive pursuant to Section 6, an annual Option. Except as otherwise provided in this Section 20, each such Option shall be subject to all of the terms and conditions of the Plan.

B. I. At the first meeting of the Board immediately following each Annual Meeting of the Stockholders of the Company, each Outside Director shall be granted an Option, which shall be a non-incentive stock option, to purchase 10,000 shares of the Common Stock. Notwithstanding the foregoing, an Outside Director may not receive a grant under this Section 20 for any year if and to the extent such Outside Director receives a grant of options to purchase Common Stock under any other Company stock option plan then in effect solely for his or her services as a director of the Company for such year and the aggregate number of shares of Common Stock issuable upon the exercise of all such options granted for such year would exceed 10,000.

II. The initial per share option price of each Option granted to an Outside Director shall under this Section 20 be equal to the fair market value of a share of the Common Stock on the date of grant.

III. The term of each Option granted to an Outside Director shall be ten years from the date of the granting thereof.

IV. All or any portion of the payment required upon the exercise of an Option granted to an Outside Director may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid.

C. The provisions of this Section 20 may not be amended except by the vote of a majority of the members of the Board and by the vote of a majority of the members of the Board who are not Outside Directors.

PHILLIPS-VAN HEUSEN CORPORATION
2000 STOCK OPTION PLAN
(As Amended Through September 21, 2006)

1. Purpose. The purposes of the 2000 Stock Option Plan (the "Plan") are to induce certain individuals to remain in the employ, or to continue to serve as directors of, or consultants or advisors to, Phillips-Van Heusen Corporation (the "Company") and its present and future subsidiary corporations (each a "Subsidiary"), as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. Options granted hereunder are intended to be either (i) "incentive stock options" (which term, when used herein, shall have the meaning ascribed thereto by the provisions of Section 422(b) of the Code) or (ii) options which are not incentive stock options ("non-qualified stock options") or (iii) a combination thereof, as determined by the Committee (the "Committee") referred to in Section 5 at the time of the grant thereof.

2. Effective Date of the Plan. The Plan became effective on April 27, 2000.

3. Stock Subject to Plan. 3,000,000 of the authorized but unissued shares of the common stock, \$1.00 par value, of the Company (the "Common Stock") are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

4. Administration.

(a) Except as otherwise provided in Section 4(b), the Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have complete authority, in its discretion, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements or certificates (which need not be identical), to determine the individuals (each a "Participant") to whom and the times and the prices at which Options shall be granted, the periods during which each Option shall be exercisable, the number of shares of the Common Stock to be subject to each Option and whether such Option shall be an incentive stock option or a non-qualified stock option and to make all other determinations necessary or advisable for the administration of the Plan. In making such determinations, the Committee may

take into account the nature of the services rendered by the respective individuals, their present and potential contributions to the success of the Company and the Subsidiaries and such other factors as the Committee in its discretion shall deem relevant. The Committee's determination on the matters referred to in this Section 4 shall be conclusive. Any dispute or disagreement which may arise under or as a result of or with respect to any Option shall be determined by the Committee, in its sole discretion, and any interpretations by the Committee of the terms of any Option shall be final, binding and conclusive.

(b) The Chairman of the Board or, if the Chairman is not an executive officer of the Company, the Chief Executive Officer of the Company or other executive officer of the Company designated by the Committee who is also a director (the Chairman, Chief Executive Officer or other designated executive officer being referred to as the "Designated Director") may administer the Plan with respect to employees of the Company or a Subsidiary (i) who are not officers of the Company subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (ii) whose compensation is not subject to the provisions of Section 162(m) of the Code. The authority of the Designated Director and Options granted by the Designated Director shall be subject to such terms, conditions, restrictions and limitations as may be imposed by the Board, including, but not limited to, a limit on the aggregate number of shares of Common Stock subject to Options that may be granted in any one calendar year by the Designated Director to all such employees of the Company and its Subsidiaries and a maximum number of shares that may be subject to Options granted under the Plan in any one calendar year to any single employee by the Designated Director. Unless and until the Board shall take further action, the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 1997 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director shall be 100,000 in the aggregate and the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 1997 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director to any single employee shall be 5,000 in the aggregate. Any actions duly taken by the Designated Director with respect to the grant of Options to such employees shall be deemed to have been taken by the Committee for purposes of the Plan.

5. Committee. The Committee shall consist of two or more members of the Board. It is intended that all of the members of the Committee shall be "non-employee directors" within the meaning of Rule 16b-3(b)(3) promulgated under the Exchange Act, and "outside directors" within the contemplation of Section 162(m)(4)(C)(i) of the Code. The Committee shall be appointed annually by the Board, which may at any time and from time to time remove any members of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except that the Committee may delegate to any one of its members the authority of the Committee with respect to the grant of Options to any person who shall not be an officer and/or director of the Company and who is not, and in the judgment of the Committee may not be reasonably expected to become, a "covered employee" within the meaning of Section 162(m)(3) of the Code. Any decision or determination of the Committee reduced to writing and signed by all of the members of the

Committee (or by the member(s) of the Committee to whom authority has been delegated) shall be fully as effective as if it had been made at a meeting duly called and held.

6. Eligibility. An Option may be granted only to a key employee of the Company or a Subsidiary or to a director of the Company or a Subsidiary who is not an employee of the Company or a Subsidiary or to an independent consultant or advisor who renders services to the Company or a Subsidiary.

7. Option Prices.

(a) The initial per share option price of any Option shall be the price determined by the Committee, but not less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the initial per share option price shall not be less than 110% of the fair market value of a share of the Common Stock on the date of grant.

(b) For all purposes of the Plan, the fair market value of a share of the Common Stock on any date shall be equal to (i) the closing sale price of the Common Stock on the New York Stock Exchange on the business day preceding such date or (ii) if there is no sale of the Common Stock on such Exchange on such business day, the average of the bid and asked prices on such Exchange at the close of the market on such business day.

8. Option Term. Participants shall be granted Options for such term as the Committee shall determine, not in excess of 10 years from the date of the granting thereof; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the term with respect to such Option shall not be in excess of five years from the date of the granting thereof.

9. Limitations on Amount of Options Granted.

(a) The aggregate fair market value of the shares of the Common Stock for which any Participant may be granted incentive stock options which are exercisable for the first time in any calendar year (whether under the terms of the Plan or any other stock option plan of the Company) shall not exceed \$100,000.

(b) No Participant shall, during any fiscal year of the Company, be granted Options under the Plan to purchase more than 500,000 shares of the Common Stock.

10. Exercise of Options.

(a) Except as otherwise determined by the Committee at the time of grant, a Participant may not exercise an Option during the period commencing on the date of the grant of such Option to him or her and ending on the day immediately preceding the first anniversary of such date. Except as otherwise determined by the Committee at the time of grant, a Participant may (i) during the period commencing on the first anniversary of the date of the grant of an Option to him or her and ending on the day immediately preceding the second anniversary of

such date, exercise such Option with respect to one-quarter of the shares granted thereby, (ii) during the period commencing on the second anniversary of the date of such grant and ending on the day immediately preceding the third anniversary of the date of such grant, exercise such Option with respect to one-half of the shares granted thereby, (iii) during the period commencing on the third anniversary of the date of such grant and ending on the day immediately preceding the fourth anniversary of such date, exercise such Option with respect to three-quarters of the shares granted thereby and (iv) during the period commencing on the fourth anniversary of the date of such grant and ending at the time the Option expires pursuant to the terms hereof, exercise such Option with respect to all of the shares granted thereby.

(b) Except as hereinbefore otherwise set forth, an Option may be exercised either in whole at any time or in part from time to time.

(c) An Option may be exercised only by a written notice of intent to exercise such Option with respect to a specific number of shares of the Common Stock and payment to the Company of the amount of the option price for the number of shares of the Common Stock so specified; provided, however, that, if the Committee shall in its sole discretion so determine at the time of the grant of any Option, all or any portion of such payment may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid; provided further, however, that no portion of such payment may be made by delivering shares of the Common Stock acquired upon the exercise of an Option if such shares shall not have been held by the Participant for at least six months; and provided further, however, that, subject to the requirements of Regulation T (as in effect from time to time) promulgated under the Exchange Act, the Committee may implement procedures to allow a broker chosen by a Participant to make payment of all or any portion of the option price payable upon the exercise of an Option and receive, on behalf of such Participant, all or any portion of the shares of the Common Stock issuable upon such exercise.

(d) The Committee may, in its discretion, permit any Option to be exercised, in whole or in part, prior to the time when it would otherwise be exercisable.

(e) (1) Notwithstanding the provisions of Section 10(a) or the last sentence of Section 13, in the event that a Change in Control shall occur, then, each Option theretofore granted to any Participant which shall not have theretofore expired or otherwise been cancelled or become unexercisable shall become immediately exercisable in full. For the purposes of this Section 10(e), a "Change in Control" shall be deemed to occur upon the first to occur of the following events:

(i) Any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act), other than a "person" who on April 9, 2004 was the owner of at least 8% of the Voting Power (as defined below) of the securities of the Company having Voting Power, becomes a "beneficial owner," as such term is used in Rule 13d-3 promulgated under the Exchange Act, of securities with at least (A) one-quarter but less than one-half of the Voting Power of securities having Voting Power, unless such acquisition has been approved in advance by at least three-quarters of the Incumbent Board (as defined in clause (ii) below taking into account the provisos) or (B) one-half of the Voting Power of the securities of the Company having Voting Power;

(ii) Individuals who, as of April 9, 2004, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to April 9, 2004 whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person (as defined below) other than the Board;

(iii) Consummation of a reorganization, merger, consolidation or a sale or other disposition of all or substantially all of the assets of the Company (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the Persons that were the beneficial owners of the outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) and the Voting Power of the securities of the Company having Voting Power, immediately prior to such Business Combination, beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and more than 50% of the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Voting Power of the securities of the Company having Voting Power, as the case may be (there being excluded from securities held by such security holders of the corporation resulting from the Business Combination, but not from the securities with Voting Power of the corporation resulting from such Business Combination, any securities with Voting Power received by Affiliates (as defined below) of such other company in exchange for securities of such other company or, if such other company is the surviving company and its securities remain unchanged, any securities of such other company with Voting Power held by an Affiliate of such other company immediately prior to the Business Combination), (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined Voting Power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed in the Company prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination, whichever occurs first; or

(iv) Approval by the stockholders of the Company of (A) a liquidation of all or substantially all of the Company's assets or (B) a dissolution of the Company.

Notwithstanding the foregoing, "Change in Control" with respect to any Participant shall be as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary, unless such employment agreement provides otherwise. For the purposes of this paragraph (1), (i) the term "Affiliate" shall mean any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, any other Person, (ii) the term "Person" shall mean any individual, partnership, firm, trust, corporation or other similar entity, (iii) "Company" shall include any entity that succeeds to all or substantially all of the business of the Company, and (iv) "Voting Power" shall mean general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(2) In the event that a Change of Control shall occur, then, from and after the time of such event, neither the provisions of this Section 10(e) nor any of the rights of any Participant hereunder shall be modified or amended in any way.

(f) Notwithstanding any other provision of the Plan to the contrary, including, but not limited to, the provisions of Section 10(d), if any Participant shall have effected a Hardship Withdrawal from a 401(k) Plan maintained by the Company and/or one or more of the Subsidiaries, then, during the period of one year commencing on the date of such Hardship Withdrawal, such Participant may not exercise any Option using cash. For the purpose of this Section 10(f), a "Hardship Withdrawal" shall mean a distribution to a Participant provided for in Reg. § 1.401(k)-1(d)(1)(ii) promulgated under Section 401(k)(2)(B)(i)(IV) of the Code or an analogous provision of the Puerto Rico Internal Revenue Code of 1994, as amended (the "Puerto Rico Code") and the regulations promulgated thereunder, and a "401(k) Plan" shall mean a plan which is a "qualified plan" within the contemplation of Section 401(a) of the Code or an analogous provision of the Puerto Rico Code which contains a "qualified cash or deferred arrangement" within the contemplation of Section 401(k)(2) of the Code or an analogous provision of the Puerto Rico Code.

11. Transferability. (a) Except as otherwise provided in Section 11(b), no Option shall be assignable or transferable except by will and/or by the laws of descent and distribution and, during the life of any Participant, each Option granted to such Participant may be exercised only by him or her.

(b) A Participant may, with the prior approval of the Committee, transfer for no consideration an Option which is a non-qualified stock option to or for the benefit of the Participant's Immediate Family, a trust for the exclusive benefit of the Participant's Immediate Family or to a partnership or limited liability company for one or more members of the Participant's Immediate Family, subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to the Option prior to such transfer. The term "Immediate Family" shall mean the Participant's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, former spouse, siblings, nieces, nephews, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or

sister-in-law, including adoptive relationships or any person sharing the Participant's household (other than a tenant or employee).

12. Termination of Employment or Service. Except as otherwise determined by the Committee, in the event a Participant leaves the employ or service, or ceases to serve as a director, of the Company and the Subsidiaries, whether voluntarily or otherwise but other than by reason of his or her death or, in the case of Participant who shall be an employee or director, retirement, each Option theretofore granted to him or her which shall not have been exercisable prior to the date of the termination of his or her employment or service shall terminate immediately. Except as otherwise determined by the Committee, each other Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent exercisable on the date of such termination of employment or service and not theretofore exercised, terminate upon the earlier to occur of (x) the expiration of (i) 30 days after the date of such Participant's termination of employment or cessation of service, if such Option was granted on or prior to December 18, 2001, or (ii) 90 days after the date of such Participant's termination of employment or cessation of service, if such Option was granted after December 18, 2001; and (y) the date of termination specified in such Option. Notwithstanding the foregoing except as otherwise determined by the Committee, if a Participant is terminated for cause (as defined herein), each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent not theretofore exercised, terminate forthwith. Except as otherwise determined by the Committee, in the event a Participant leaves the employ, or ceases to serve as a director, of the Company and the Subsidiaries by reason of his or her retirement, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three years after the date of such retirement and the date of termination specified in such Option. Except as otherwise determined by the Committee, in the event a Participant's employment or service with the Company and the Subsidiaries terminates by reason of his or her death, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three months after the date of the qualification of a representative of his or her estate and the date of termination specified in such Option. For purposes of the foregoing, (a) the term "cause" shall mean: (i) the commission by the Participant of any act or omission that would constitute a crime under federal, state or equivalent foreign law, (ii) the commission by the Participant of any act of moral turpitude, (iii) fraud, dishonesty or other acts or omissions that result in a breach of any fiduciary or other material duty to the Company and/or the Subsidiaries, (iv) continued substance abuse that renders the Participant incapable of performing his or her material duties to the satisfaction of the Company and/or the Subsidiaries, or (v) as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary and (b) the term "retirement" shall mean (I) the termination of a Participant's employment with the Company and all of the Subsidiaries (x) other than for cause or by reason of his or her death and (y) on or after the earlier to occur of (1) the first day of the calendar month in which his or her 65th birthday shall occur and (2) the date on which he or she shall have both attained his or her 55th birthday and completed 10 years of employment with the Company and/or the Subsidiaries or (II) the termination of a Participant's service as a director with the Company and all of the Subsidiaries

(x) other than for cause or by reason of his or her death and (y) on or after the first day of the calendar month in which his or her 65th birthday shall occur.

13. Adjustment of Number of Shares. In the event that (i) a dividend shall be declared upon the Common Stock payable in shares of the Common Stock or (ii) any other change in the Common Stock that would be considered an equity restructuring (within the meaning of Financial Accounting Standards No. 123R), then the number of shares of the Common Stock then subject to any Option and the number of shares of the Common Stock reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number of shares set forth in Section 9(b) shall be adjusted to prevent dilution or enlargement of rights by adding to each share the number of shares which would be distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend or subject to such other change. In the event that there shall be any change, other than as specified in this Section 13, in the number or kind of outstanding shares of the Common Stock, or of any stock or other securities into which the Common Stock shall have been changed, or for which it shall have been exchanged, then, if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the number or kind of shares to prevent dilution or enlargement of rights, then subject to any Option and the number or kind of shares reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number or kind of shares referred to in Section 9(b), such adjustment shall be made by the Committee and shall be effective and binding for all purposes of the Plan and of each stock option agreement or certificate entered into in accordance with the provisions of the Plan. In the case of any substitution or adjustment in accordance with the provisions of this Section 13, the option price in each stock option agreement or certificate for each share covered thereby prior to such substitution or adjustment shall be adjusted to the extent, if any, necessary to maintain the same aggregate intrinsic value (within the meaning of Financial Accounting Standards No. 123R) of the total award being substituted for or adjusted in accordance with the provisions of this Section 13. No adjustment or substitution provided for in this Section 13 shall require the Company to sell a fractional share under any stock option agreement or certificate. In the event of the dissolution or liquidation of the Company, or a merger, reorganization or consolidation in which the Company is not the surviving corporation, then, except as otherwise provided in Section 10(e) and the second sentence of this Section 13, each Option, to the extent not theretofore exercised, shall terminate forthwith.

14. Purchase for Investment, Withholding and Waivers. Unless the shares to be issued upon the exercise of an Option by a Participant shall be registered prior to the issuance thereof under the Securities Act of 1933, as amended, such Participant will, as a condition of the Company's obligation to issue such shares, be required to give a representation in writing that he or she is acquiring such shares for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any thereof. In the event of the death of a Participant, a condition of exercising any Option shall be the delivery to the Company of such tax waivers and other documents as the Committee shall determine. In the case of each non-qualified stock option, a condition of exercising the same shall be the entry by the person exercising the same into such arrangements with the Company with respect to withholding as the Committee may determine.

15. No Stockholder Status. Neither any Participant nor his or her legal representatives, legatees or distributees shall be or be deemed to be the holder of any share of the Common Stock covered by an Option unless and until a certificate for such share has been issued. Upon payment of the purchase price thereof, a share issued upon exercise of an Option shall be fully paid and non-assessable.

16. No Restrictions on Corporate Acts. Neither the existence of the Plan nor any Option shall in any way affect the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding whether of a similar character or otherwise.

17. No Employment Right. Neither the existence of the Plan nor the grant of any Option shall require the Company or any Subsidiary to continue any Participant in the employ or service of the Company or such Subsidiary.

18. Termination and Amendment of the Plan. The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable; provided, however, that the Board may not without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of the stockholders, increase the number of shares as to which Options may be granted under the Plan (as adjusted in accordance with the provisions of Section 13), or change the class of persons eligible to participate in the Plan, or change the manner of determining the option prices. Except as otherwise provided in Section 13, no termination or amendment of the Plan may, without the consent of the Participant to whom any Option shall theretofore have been granted, adversely affect the rights of such Participant under such Option. The Committee may not, without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of the stockholders, amend any outstanding Option to reduce the option price, or cancel any outstanding Option and contemporaneously award a new Option to the same optionee for substantially the same number of shares at a lower option price.

19. Expiration and Termination of the Plan. The Plan shall terminate on April 27, 2010 or at such earlier time as the Board may determine. Options may be granted under the Plan at any time and from time to time prior to its termination. Any Option outstanding under the Plan at the time of the termination of the Plan shall remain in effect until such Option shall have been exercised or shall have expired in accordance with its terms.

20. Options for Outside Directors.

(a) A director of the Company who is not an employee of the Company or a Subsidiary (an "Outside Director") shall be eligible to receive, in addition to any other Option which he or she may receive pursuant to Section 6, an annual Option. Except as otherwise provided in this Section 20, each such Option shall be subject to all of the terms and conditions of the Plan.

(b) (i) At the first meeting of the Board immediately following each Annual Meeting of the Stockholders of the Company, each Outside Director shall be granted an Option, which shall be a non-qualified stock option, to purchase 10,000 shares of the Common Stock. Notwithstanding the foregoing, an Outside Director may not receive a grant under this Section 20 for any year if and to the extent such Outside Director receives a grant of options to purchase Common Stock under any other Company stock option plan then in effect solely for his or her services as a director of the Company for such year and the aggregate number of shares of Common Stock issuable upon the exercise of all such options granted for such year would exceed 10,000.

(ii) The initial per share option price of each Option granted to an Outside Director shall under this Section 20 be equal to the fair market value of a share of the Common Stock on the date of grant.

(iii) The term of each Option granted to an Outside Director shall be ten years from the date of the granting thereof.

(iv) All or any portion of the payment required upon the exercise of an Option granted to an Outside Director may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid; provided, however, that no portion of such payment may be made by delivering shares of the Common Stock acquired upon the exercise of an Option if such shares shall not have been held by such Outside Director for at least six months; and provided further, however, that, subject to the requirements of Regulation T (as in effect from time to time) promulgated under the Exchange Act, the Committee may implement procedures to allow a broker chosen by such Outside Director to make payment of all or any portion of the option price payable upon the exercise of an Option and receive, on behalf of such Outside Director, all or any portion of the shares of the Common Stock issuable upon such exercise.

(c) The provisions of this Section 20 may not be amended except by the vote of a majority of the members of the Board and by the vote of a majority of the members of the Board who are not Outside Directors.

PHILLIPS-VAN HEUSEN CORPORATION
2003 STOCK OPTION PLAN
(As Amended Through September 21, 2006)

1. Purpose. The purposes of the 2003 Stock Option Plan (the "Plan") are to induce certain individuals to remain in the employ, or to continue to serve as directors of, or consultants or advisors to, Phillips-Van Heusen Corporation (the "Company") and its present and future subsidiary corporations (each a "Subsidiary"), as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. Options granted hereunder are intended to be either (i) "incentive stock options" (which term, when used herein, shall have the meaning ascribed thereto by the provisions of Section 422(b) of the Code) or (ii) options which are not incentive stock options ("non-qualified stock options") or (iii) a combination thereof, as determined by the Committee (the "Committee") referred to in Section 5 at the time of the grant thereof.

2. Effective Date of the Plan. The Plan became effective on May 1, 2003.

3. Stock Subject to Plan. 5,400,000 of the authorized but unissued shares of the common stock, \$1.00 par value, of the Company (the "Common Stock") are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

4. Administration.

(a) Except as otherwise provided in Section 4(b), the Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have complete authority, in its discretion, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to it, to determine the terms and provisions of the respective option agreements or certificates (which need not be identical), to determine the individuals (each a "Participant") to whom and the times and the prices at which Options shall be granted, the periods during which each Option shall be exercisable, the number of shares of the Common Stock to be subject to each Option and whether such Option shall be an incentive stock option or a non-qualified stock option and to make all other determinations necessary or advisable for the administration of the Plan. In making such determinations, the Committee may take into account the nature of the services rendered by the respective individuals, their present

and potential contributions to the success of the Company and the Subsidiaries and such other factors as the Committee in its discretion shall deem relevant. The Committee's determination on the matters referred to in this Section 4 shall be conclusive. Any dispute or disagreement which may arise under or as a result of or with respect to any Option shall be determined by the Committee, in its sole discretion, and any interpretations by the Committee of the terms of any Option shall be final, binding and conclusive.

(b) The Chairman of the Board or, if the Chairman is not an executive officer of the Company, the Chief Executive Officer of the Company or other executive officer of the Company designated by the Committee who is also a director (the Chairman, Chief Executive Officer or other designated executive officer being referred to as the "Designated Director") may administer the Plan with respect to employees of the Company or a Subsidiary (i) who are not officers of the Company subject to the provisions of Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (ii) whose compensation is not, and in the judgment of the Designated Director may not be reasonably expected to become, subject to the provisions of Section 162(m) of the Code. The authority of the Designated Director and Options granted by the Designated Director shall be subject to such terms, conditions, restrictions and limitations as may be imposed by the Board, including, but not limited to, a limit on the aggregate number of shares of Common Stock subject to Options that may be granted in any one calendar year by the Designated Director to all such employees of the Company and its Subsidiaries and a maximum number of shares that may be subject to Options granted under the Plan in any one calendar year to any single employee by the Designated Director. Unless and until the Board shall take further action, the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 1997 Stock Option Plan, 2000 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director shall be 100,000 in the aggregate and the maximum number of shares of Common Stock that may be subject to Options granted under the Plan, the Company's 1997 Stock Option Plan, 2000 Stock Option Plan and any other stock option plan then in effect in any one calendar year by the Designated Director to any single employee shall be 5,000 in the aggregate. Any actions duly taken by the Designated Director with respect to the grant of Options to such employees shall be deemed to have been taken by the Committee for purposes of the Plan.

5. Committee. The Committee shall consist of two or more members of the Board. It is intended that all of the members of the Committee shall be "non-employee directors" within the meaning of Rule 16b-3(b)(3) promulgated under the Exchange Act, and "outside directors" within the contemplation of Section 162(m)(4)(C)(i) of the Code. The Committee shall be appointed annually by the Board, which may at any time and from time to time remove any members of the Committee, with or without cause, appoint additional members to the Committee and fill vacancies, however caused, in the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held, except that the Committee may delegate to any one of its members the authority of the Committee with respect to the grant of Options to any person who shall not be an officer and/or director of the Company and who is not, and in the judgment of the Committee may not be reasonably expected to become, a "covered employee" within the meaning of Section 162(m)(3) of the Code. Any decision or determination of the Committee reduced to writing and signed by all of the members of the

Committee (or by the member(s) of the Committee to whom authority has been delegated) shall be fully as effective as if it had been made at a meeting duly called and held.

6. Eligibility. An Option may be granted only to a key employee of the Company or a Subsidiary or to a director of the Company or a Subsidiary who is not an employee of the Company or a Subsidiary or to an independent consultant or advisor who renders services to the Company or a Subsidiary.

7. Option Prices.

(a) The initial per share option price of any Option shall be the price determined by the Committee, but not less than the fair market value of a share of the Common Stock on the date of grant; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the initial per share option price shall not be less than 110% of the fair market value of a share of the Common Stock on the date of grant.

(b) For all purposes of the Plan, the fair market value of a share of the Common Stock on any date shall be equal to (i) the closing sale price of the Common Stock on the New York Stock Exchange on the business day preceding such date or (ii) if there is no sale of the Common Stock on such Exchange on such business day, the average of the bid and asked prices on such Exchange at the close of the market on such business day.

8. Option Term. Participants shall be granted Options for such term as the Committee shall determine, not in excess of 10 years from the date of the granting thereof; provided, however, that, in the case of a Participant who owns more than 10% of the total combined voting power of the Common Stock at the time an Option which is an incentive stock option is granted to him or her, the term with respect to such Option shall not be in excess of five years from the date of the granting thereof.

9. Limitations on Amount of Options Granted.

(a) The aggregate fair market value of the shares of the Common Stock for which any Participant may be granted incentive stock options which are exercisable for the first time in any calendar year (whether under the terms of the Plan or any other stock option plan of the Company) shall not exceed \$100,000.

(b) No Participant shall, during any fiscal year of the Company, be granted Options under the Plan to purchase more than 1,600,000 shares of the Common Stock.

10. Exercise of Options.

(a) Except as otherwise determined by the Committee at the time of grant, a Participant may not exercise an Option during the period commencing on the date of the grant of such Option to him or her and ending on the day immediately preceding the first anniversary of such date. Except as otherwise determined by the Committee at the time of grant, a Participant may (i) during the period commencing on the first anniversary of the date of the grant of an Option to him or her and ending on the day immediately preceding the second anniversary of such date, exercise such Option with respect to one-quarter of the shares granted thereby,

(ii) during the period commencing on the second anniversary of the date of such grant and ending on the day immediately preceding the third anniversary of the date of such grant, exercise such Option with respect to one-half of the shares granted thereby, (iii) during the period commencing on the third anniversary of the date of such grant and ending on the day immediately preceding the fourth anniversary of such date, exercise such Option with respect to three-quarters of the shares granted thereby and (iv) during the period commencing on the fourth anniversary of the date of such grant and ending at the time the Option expires pursuant to the terms hereof, exercise such Option with respect to all of the shares granted thereby.

(b) Except as hereinbefore otherwise set forth, an Option may be exercised either in whole at any time or in part from time to time.

(c) An Option may be exercised only by a written notice of intent to exercise such Option with respect to a specific number of shares of the Common Stock and payment to the Company of the amount of the option price for the number of shares of the Common Stock so specified; provided, however, that, if the Committee shall in its sole discretion so determine at the time of the grant of any Option, all or any portion of such payment may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid; provided further, however, that no portion of such payment may be made by delivering shares of the Common Stock acquired upon the exercise of an Option if such shares shall not have been held by the Participant for at least six months; and provided further, however, that, subject to the requirements of Regulation T (as in effect from time to time) promulgated under the Exchange Act, the Committee may implement procedures to allow a broker chosen by a Participant to make payment of all or any portion of the option price payable upon the exercise of an Option and receive, on behalf of such Participant, all or any portion of the shares of the Common Stock issuable upon such exercise.

(d) The Committee may, in its discretion, permit any Option to be exercised, in whole or in part, prior to the time when it would otherwise be exercisable.

(e) (1) Notwithstanding the provisions of Section 10(a) or the last sentence of Section 13, in the event that a Change in Control shall occur, then, each Option theretofore granted to any Participant which shall not have theretofore expired or otherwise been cancelled or become unexercisable shall become immediately exercisable in full. For the purposes of this Section 10(e), a "Change in Control" shall be deemed to occur upon the first to occur of the following events:

(i) Any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act), other than a "person" who on April 9, 2004 was the owner of at least 8% of the Voting Power (as defined below) of the securities of the Company having Voting Power, becomes a "beneficial owner," as such term is used in Rule 13d-3 promulgated under the Exchange Act, of securities with at least (A) one-quarter but less than one-half of the Voting Power of securities having Voting Power, unless such acquisition has been approved in advance by at least three-quarters of the Incumbent Board (as defined in clause (ii) below taking into account the provisos) or (B) one-half of the Voting Power of the securities of the Company having Voting Power;

(ii) Individuals who, as of April 9, 2004, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to April 9, 2004 whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person (as defined below) other than the Board;

(iii) Consummation of a reorganization, merger, consolidation or a sale or other disposition of all or substantially all of the assets of the Company (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the Persons that were the beneficial owners of the outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) and the Voting Power of the securities of the Company having Voting Power, immediately prior to such Business Combination, beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and more than 50% of the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Voting Power of the securities of the Company having Voting Power, as the case may be (there being excluded from securities held by such security holders of the corporation resulting from the Business Combination, but not from the securities with Voting Power of the corporation resulting from such Business Combination, any securities with Voting Power received by Affiliates (as defined below) of such other company in exchange for securities of such other company or, if such other company is the surviving company and its securities remain unchanged, any securities of such other company with Voting Power held by an Affiliate of such other company immediately prior to the Business Combination), (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined Voting Power of the then-outstanding voting securities of such corporation, except to the extent that such ownership existed in the Company prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination, whichever occurs first; or

(iv) Approval by the stockholders of the Company of (A) a liquidation of all or substantially all of the Company's assets or (B) a dissolution of the Company.

Notwithstanding the foregoing, "Change in Control" with respect to any Participant shall be as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary, unless such employment agreement provides otherwise. For the purposes of this paragraph (1), (i) the term "Affiliate" shall mean any Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, any other Person, (ii) the term "Person" shall mean any individual, partnership, firm, trust, corporation or other similar entity, (iii) "Company" shall include any entity that succeeds to all or substantially all of the business of the Company, and (iv) "Voting Power" shall mean general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

(2) In the event that a Change of Control shall occur, then, from and after the time of such event, neither the provisions of this Section 10(e) nor any of the rights of any Participant hereunder shall be modified or amended in any way.

11. Transferability. (a) Except as otherwise provided in Section 11(b), no Option shall be assignable or transferable except by will and/or by the laws of descent and distribution and, during the life of any Participant, each Option granted to such Participant may be exercised only by him or her.

(b) A Participant may, with the prior approval of the Committee, transfer for no consideration an Option which is a non-qualified stock option to or for the benefit of the Participant's Immediate Family, a trust for the exclusive benefit of the Participant's Immediate Family or to a partnership or limited liability company for one or more members of the Participant's Immediate Family, subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to the Option prior to such transfer. The term "Immediate Family" shall mean the Participant's children, stepchildren, grandchildren, parents, stepparents, grandparents, spouse, former spouse, siblings, nieces, nephews, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships or any person sharing the Participant's household (other than a tenant or employee).

12. Termination of Employment or Service. Except as otherwise determined by the Committee, in the event a Participant leaves the employ or service, or ceases to serve as a director, of the Company and the Subsidiaries, whether voluntarily or otherwise but other than by reason of his or her death or, in the case of Participant who shall be an employee or director, retirement, each Option theretofore granted to him or her which shall not have been exercisable prior to the date of the termination of his or her employment or service shall terminate immediately. Except as otherwise determined by the Committee, each other Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent exercisable on the date of such termination of employment or service and not theretofore exercised, terminate upon the earlier to occur of (x) 90 days after the date of such Participant's termination of employment or cessation of service and (y) the date of termination specified in such Option. Notwithstanding the foregoing, except as otherwise determined by the Committee, if a Participant is terminated for cause (as defined herein), each Option theretofore

granted to him or her which shall not have theretofore expired or otherwise been cancelled shall, to the extent not theretofore exercised, terminate forthwith. Except as otherwise determined by the Committee, in the event a Participant leaves the employ, or ceases to serve as a director, of the Company and the Subsidiaries by reason of his or her retirement, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three years after the date of such retirement and the date of termination specified in such Option. Except as otherwise determined by the Committee, in the event a Participant's employment or service with the Company and the Subsidiaries terminates by reason of his or her death, each Option theretofore granted to him or her which shall not have theretofore expired or otherwise been cancelled shall become immediately exercisable in full and shall, to the extent not theretofore exercised, terminate upon the earlier to occur of the expiration of three months after the date of the qualification of a representative of his or her estate and the date of termination specified in such Option. For purposes of the foregoing, (a) the term "cause" shall mean: (i) the commission by the Participant of any act or omission that would constitute a crime under federal, state or equivalent foreign law, (ii) the commission by the Participant of any act of moral turpitude, (iii) fraud, dishonesty or other acts or omissions that result in a breach of any fiduciary or other material duty to the Company and/or the Subsidiaries, (iv) continued substance abuse that renders the Participant incapable of performing his or her material duties to the satisfaction of the Company and/or the Subsidiaries, or (v) as defined in the Participant's employment agreement, if any, with the Company or a Subsidiary and (b) the term "retirement" shall mean (I) the termination of a Participant's employment with the Company and all of the Subsidiaries (x) other than for cause or by reason of his or her death and (y) on or after the earlier to occur of (1) the first day of the calendar month in which his or her 65th birthday shall occur and (2) the date on which he or she shall have both attained his or her 55th birthday and completed 10 years of employment with the Company and/or the Subsidiaries or (II) the termination of a Participant's service as a director with the Company and all of the Subsidiaries (x) other than for cause or by reason of his or her death and (y) on or after the first day of the calendar month in which his or her 65th birthday shall occur.

13. Adjustment of Number of Shares. In the event that (i) a dividend shall be declared upon the Common Stock payable in shares of the Common Stock or (ii) any other change in the Common Stock that would be considered an equity restructuring (within the meaning of Financial Accounting Standards No. 123R), then the number of shares of the Common Stock then subject to any Option and the number of shares of the Common Stock reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number of shares set forth in Section 9(b) shall be adjusted to prevent dilution or enlargement of rights by adding to each share the number of shares which would be distributable thereon if such shares had been outstanding on the date fixed for determining the stockholders entitled to receive such stock dividend or subject to such other change. In the event that there shall be any change, other than as specified in this Section 13, in the number or kind of outstanding shares of the Common Stock, or of any stock or other securities into which the Common Stock shall have been changed, or for which it shall have been exchanged, then, if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the number or kind of shares to prevent dilution or enlargement of rights, then subject to any Option and the number or kind of shares reserved for issuance in accordance with the provisions of the Plan but not yet covered by an Option and the number or kind of shares

referred to in Section 9(b), such adjustment shall be made by the Committee and shall be effective and binding for all purposes of the Plan and of each stock option agreement or certificate entered into in accordance with the provisions of the Plan. In the case of any substitution or adjustment in accordance with the provisions of this Section 13, the option price in each stock option agreement or certificate for each share covered thereby prior to such substitution or adjustment shall be adjusted to the extent, if any, necessary to maintain the same aggregate intrinsic value (within the meaning of Financial Accounting Standards No. 123R) of the total award being substituted for or adjusted in accordance with the provisions of this Section 13. No adjustment or substitution provided for in this Section 13 shall require the Company to sell a fractional share under any stock option agreement or certificate. In the event of the dissolution or liquidation of the Company, or a merger, reorganization or consolidation in which the Company is not the surviving corporation, then, except as otherwise provided in Section 10(e) and the second sentence of this Section 13, each Option, to the extent not theretofore exercised, shall terminate forthwith.

14. Purchase for Investment, Withholding and Waivers. Unless the shares to be issued upon the exercise of an Option by a Participant shall be registered prior to the issuance thereof under the Securities Act of 1933, as amended, such Participant will, as a condition of the Company's obligation to issue such shares, be required to give a representation in writing that he or she is acquiring such shares for his or her own account as an investment and not with a view to, or for sale in connection with, the distribution of any thereof. In the event of the death of a Participant, a condition of exercising any Option shall be the delivery to the Company of such tax waivers and other documents as the Committee shall determine. In the case of each non-qualified stock option, a condition of exercising the same shall be the entry by the person exercising the same into such arrangements with the Company with respect to withholding as the Committee may determine.

15. No Stockholder Status. Neither any Participant nor his or her legal representatives, legatees or distributees shall be or be deemed to be the holder of any share of the Common Stock covered by an Option unless and until a certificate for such share has been issued. Upon payment of the purchase price thereof, a share issued upon exercise of an Option shall be fully paid and non-assessable.

16. No Restrictions on Corporate Acts. Neither the existence of the Plan nor any Option shall in any way affect the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding whether of a similar character or otherwise.

17. No Employment Right. Neither the existence of the Plan nor the grant of any Option shall require the Company or any Subsidiary to continue any Participant in the employ or service of the Company or such Subsidiary.

18. Termination and Amendment of the Plan. The Board may at any time terminate the Plan or make such modifications of the Plan as it shall deem advisable; provided, however,

that the Board may not without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of the stockholders, increase the number of shares as to which Options may be granted under the Plan (as adjusted in accordance with the provisions of Section 13), or change the class of persons eligible to participate in the Plan, or change the manner of determining the option prices. Except as otherwise provided in Section 13, no termination or amendment of the Plan may, without the consent of the Participant to whom any Option shall theretofore have been granted, adversely affect the rights of such Participant under such Option. The Committee may not, without further approval of the holders of a majority of the shares of the Common Stock present in person or by proxy at any special or annual meeting of the stockholders, amend any outstanding Option to reduce the option price, or cancel any outstanding Option and contemporaneously award a new Option to the same optionee for substantially the same number of shares at a lower option price.

19. Expiration and Termination of the Plan. The Plan shall terminate on April 30, 2013 or at such earlier time as the Board may determine. Options may be granted under the Plan at any time and from time to time prior to its termination. Any Option outstanding under the Plan at the time of the termination of the Plan shall remain in effect until such Option shall have been exercised or shall have expired in accordance with its terms.

20. Options for Outside Directors.

(a) A director of the Company who is not an employee of the Company or a Subsidiary and who is not a director elected solely by the holders of the Company's Series B convertible preferred stock (an "Outside Director") shall be eligible to receive, in addition to any other Option which he or she may receive pursuant to Section 6, an annual Option. Except as otherwise provided in this Section 20, each such Option shall be subject to all of the terms and conditions of the Plan.

(b) (i) At the first meeting of the Board immediately following each Annual Meeting of the Stockholders of the Company, each Outside Director shall be granted an Option, which shall be a non-qualified stock option, to purchase 10,000 shares of the Common Stock. Notwithstanding the foregoing, an Outside Director may not receive a grant under this Section 20 for any year if and to the extent such Outside Director receives a grant of options to purchase Common Stock under any other Company stock option plan then in effect solely for his or her services as a director of the Company for such year and the aggregate number of shares of Common Stock issuable upon the exercise of all such options granted for such year would exceed 10,000.

(ii) The initial per share option price of each Option granted to an Outside Director shall under this Section 20 be equal to the fair market value of a share of the Common Stock on the date of grant.

(iii) The term of each Option granted to an Outside Director shall be ten years from the date of the granting thereof.

(iv) All or any portion of the payment required upon the exercise of an Option granted to an Outside Director may be made in kind by the delivery of shares of the Common Stock having a fair market value equal to the portion of the option price so paid; provided, however, that no portion of such payment may be made by delivering shares of the

Common Stock acquired upon the exercise of an Option if such shares shall not have been held by such Outside Director for at least six months; and provided further, however, that, subject to the requirements of Regulation T (as in effect from time to time) promulgated under the Exchange Act, the Committee may implement procedures to allow a broker chosen by such Outside Director to make payment of all or any portion of the option price payable upon the exercise of an Option and receive, on behalf of such Outside Director, all or any portion of the shares of the Common Stock issuable upon such exercise.

(c) The provisions of this Section 20 may not be amended except by the vote of a majority of the members of the Board and by the vote of a majority of the members of the Board who are not Outside Directors.

Acknowledgement of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in

- (i) Post-Effective Amendment No. 2 to Registration Statement (Form S-8, No. 2-73803), which relates to the Phillips-Van Heusen Corporation Employee Savings and Retirement Plan,
- (ii) Registration Statement (Form S-8, No. 33-50841) and Registration Statement (Form S-8, No. 33-59602), each of which relate to the Phillips-Van Heusen Corporation Associates Investment Plan for Residents of the Commonwealth of Puerto Rico,
- (iii) Registration Statement (Form S-8, No. 33-59101), which relates to the Voluntary Investment Plan of Phillips-Van Heusen Corporation (Crystal Brands Division),
- (iv) Post-Effective Amendment No. 4 to Registration Statement (Form S-8, No. 2-72959), Post-Effective Amendment No. 6 to Registration Statement (Form S-8, No. 2-64564) and Post-Effective Amendment No. 13 to Registration Statement (Form S-8, No. 2-47910), each of which relate to the 1973 Employees' Stock Option Plan of Phillips-Van Heusen Corporation,
- (v) Registration Statement (Form S-8, No. 33-38698), Post-Effective Amendment No. 1 to Registration Statement (Form S-8, No. 33-24057) and Registration Statement (Form S-8, No. 33-60793), each of which relate to the Phillips-Van Heusen Corporation 1987 Stock Option Plan,
- (vi) Registration Statement (Form S-8, No. 333-29765), which relates to the Phillips-Van Heusen Corporation 1997 Stock Option Plan,
- (vii) Registration Statement (Form S-8, No. 333-41068), which relates to the Phillips-Van Heusen Corporation 2000 Stock Option Plan,
- (viii) Registration Statement (Form S-8, No. 333-109000), which relates to the Phillips-Van Heusen Corporation 2003 Stock Option Plan, and
- (ix) Registration Statement (Form S-8, No. 333-125694), which relates to the Phillips-Van Heusen Corporation Associates Investment Plan for Salaried Associates, Associates Investment Plan for Hourly Associates and Associates Investment Plan for Residents of the Commonwealth of Puerto Rico

of our report dated November 20, 2006 with respect to the unaudited condensed consolidated financial statements of Phillips-Van Heusen Corporation that are included in its Form 10-Q for the thirteen week period ended October 29, 2006.

Pursuant to Rule 436(c) of the Securities Act of 1933, our report is not a part of the registration statements or post-effective amendments prepared or certified within the meaning of Section 7 or 11 of the Securities Act of 1933.

ERNST & YOUNG LLP

New York, New York
December 6, 2006

I, Emanuel Chirico, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Phillips-Van Heusen Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 5, 2006

/s/ Emanuel Chirico

Emanuel Chirico
Chief Executive Officer

I, Michael Shaffer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Phillips-Van Heusen Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 30, 2006

/s/ Michael Shaffer

Michael Shaffer
Executive Vice President and
Chief Financial Officer

**CERTIFICATE PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Phillips-Van Heusen Corporation (the "Company") for the quarterly period ended October 29, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Shaffer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 30, 2006

By: /s/ Michael Shaffer
Name: Michael Shaffer
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.