



Letter to Stockholders



Dear Fellow Stockholders:

As we contemplate our Company's performance in 2008 and look ahead to our future in 2009 and beyond, it is reassuring to recognize that Phillips-Van Heusen was founded over 125 years ago. So when we hear that the current economic environment is one of the most difficult since the 1930s, PVH can look to its own history – and those of many of its brands – for perspective and guidance. There is a reason our business has stood the test of time and weathered dozens of economic cycles. We have a heritage of providing our customers with value and quality and a business designed to adapt and respond to changing market conditions.

It was clear when 2008 began that our Company – and the American economy – would face significant challenges. The nature of the crisis became more pronounced and more widespread as the year progressed. The collapse of the financial industry, the perilous state of the banking system and a plunging stock market seriously affected consumer confidence and consumer spending. Businesses across all sectors retrenched and unemployment began to rise rapidly. All along, the impact of these macroeconomic trends on our business became more pronounced. Our Company has been and continues to be negatively affected by the downturn in consumer confidence and the resulting decline in consumer spending. Shoppers are making fewer trips to malls, delaying purchases and reducing their total spending. Retailers have been hard hit. Longstanding customers – Mervyn's, Boscov's and Gottschalks – filed for bankruptcy in 2008 and, if current trends do not reverse themselves, we would expect additional customers to file in 2009.



Emanuel Chirico
Chairman and Chief Executive Officer

We are focused on meeting the challenges of these difficult times by leveraging our strengths. We must maintain and enhance the strength of our global brands, employ the full potential of our multi-channel distribution strategy and take advantage of the efficiency of our supporting infrastructure. We must continue to stay connected with consumers by investing in our marketing efforts. We must manage our capital structure with a view towards long term stability and investment in growth opportunities. And we must tighten our belts to ensure that our operations, processes and work force are primed for maximum productivity and profitability. All of this requires disciplined management, realistic objectives and the willingness to make difficult decisions, things we have consistently done during our Company's long history.

Performance: The Value of Our Business Model is Reaffirmed

Our diverse business model helped us enormously as conditions in 2008 worsened, demonstrating its resiliency and power. We leveraged the operational efficiencies and expertise within each of our business groups – Calvin Klein, Dress Furnishings, Sportswear and Retail – while increasing our emphasis on forging strong brand connections with consumers. The growth in our Calvin Klein licensing business helped offset the declines we experienced in our heritage businesses, which, so far, have been more deeply affected by the downturn in the global economy.

For 2008, our revenues were relatively flat at \$2.5 billion and operating income, while down year over

“We remain focused on maintaining excellent customer relationships and carefully investing in new projects to promote our brands...”



year, was \$273 million*, or a very respectable 11% of revenues*.

Calvin Klein – The *Calvin Klein* brand continues to be one of the best known and most coveted fashion brands in the world. The brand has consistently grown year to year and 2008 was no exception. Our *Calvin Klein* licensing segment revenues grew 13% to \$300 million while operating income increased 20% to \$154 million, resulting in operating income margins in excess of 50%.

We have more than doubled the reach of the *Calvin Klein* brand since we acquired it, with global retail sales growing to over \$5.8 billion in 2008 from \$2.8 billion in 2003.

While the brand’s U.S. sales have continued to increase, its international expansion has fueled the majority of its growth over the last two years. In 2008, 56% of global retail sales of *Calvin Klein* products came from international markets while the U.S. represented 44% of the total. We expect the

international component of the business to continue to grow more rapidly, as it has the greater long term potential since it is currently less developed than the U.S. business. This growth should help us reach a projected total global retail sales level of \$7 billion over the next two to three years.

Heritage Businesses – Our heritage businesses – dress furnishings, sportswear and retail – most directly felt the impact of the economic downturn. Our target customer for our owned brands, such as *IZOD*, *Van Heusen*, *ARROW* and *Bass*, has cut back and sharply reduced his or her discretionary spending.

Our wholesale business segments – dress furnishings and sportswear – were able to combat most of the economic pressures, finishing the year with relatively flat revenues of \$1.2 billion. Operating income was down about 7%* but, at \$149 million*, still represented a healthy 13% of revenues*. The decline in the profitability of our wholesale businesses was driven by heavier promotional markdowns and allowances needed to keep inventory levels clean and meet the competitive pressures in the marketplace.

The outlet retail channel was severely pressured by the economic environment, suffering along with all other channels of retail. Our retail business segments – apparel and footwear – were no exception. As such, sales and profitability were severely challenged by the dramatically high level of promotional activity that occurred during 2008 in response to declining consumer spending trends. Comparable store sales for the year were down about 5%. Gross margins were under pressure due to promotional and clearance markdowns needed to drive sales and maintain appropriate inventory levels. Retail's operating income declined almost 60%* from the prior year. This was due to the significant pressure on gross margin and a lack of operating expense leverage resulting from declining comparable store sales. Operating income was \$35 million*, a disappointing 4% of revenues*.



Cost Cutting: Addressing the Environment

In response to the difficult economic conditions and their effect on our performance, we announced restructuring initiatives that include:

- downsizing our retail operations, including the shutdown of our Geoffrey Beene outlet retail store division, which we completed in 2008, along with the closing, over the next two to three years, of a significant portion of the approximately 200 stores that were impaired in 2008;
- ceasing domestic manufacturing of machine-made neckwear;
- realigning our global sourcing organization;
- reducing warehousing capacity in line with current sales expectations; and
- establishing expense reduction programs aimed at travel, payroll, marketing and other corporate and administrative expenses.

*Non-GAAP financial measure. Reconciled on page 25.

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In connection with these actions, approximately 250 salaried positions, representing over 10% of our salaried workforce, and approximately 150 hourly neckwear manufacturing positions were eliminated. In addition, approximately 400 store associate positions were eliminated in conjunction with the Geoffrey Beene outlet retail division shutdown and additional positions will be eliminated as impaired stores are closed. The workforce reductions associated with the cost cutting program, while very difficult for us, were necessary in order to maintain an efficient and effective operating structure. The actions are projected to result in annualized savings of approximately \$40 million.

Financial Strength: Conservative Management and Significant Liquidity

The conservative manner in which we have managed our finances over many years means we remain well positioned, even within an economy in which the credit and equity markets are deeply troubled.

Today, a strong balance sheet and significant liquidity are key – and we have both. We ended the year with \$328 million of cash, an increase of \$58 million compared with last year. Our business model allows us to generate strong cash flow each year. Our debt balance remains unchanged at \$400 million with no

debt maturing until February 2011 when \$150 million of this balance becomes due. We have in place a \$325 million revolving credit agreement with a group of committed banks that has significant credit availability and does not mature until July 2012. Our corporate credit continues to be rated BBB– with a stable outlook by Standard and Poor's. As we look into 2009, we intend to continue to manage our financial position in a conservative fashion through controlled inventory management and cautious capital spending.

Commitment: Our Vision is Unclouded in Adversity

We have seen consolidation in retail before, and then have seen our importance to our retail partners increase. We have seen fierce competition for limited market share before, and then have seen smaller and less financially sound competitors fall by the wayside. We have seen consumers retrench in previous cycles, and then have seen the appeal of our moderately priced and iconic brands enhanced. We have seen stock markets fall, and then have seen the fundamental value of our company rediscovered. We know that this is a time when austerity and caution are called for, but it is also a time to remember our history and the place we hold in our industry.



Faced with the current difficult economic environment, we remain committed to building our business, enhancing the value of our brands and laying the foundation for growth. We remain focused on maintaining excellent customer relationships and carefully investing in new projects to promote our brands, which will enable us to increase market share and drive future profitability. We are thankful for the support of both our associates and our stockholders during the past year and are committed to working as hard as we can to navigate through the difficult year we are likely to face. We will continue to take decisive and proactive steps to enable us to improve performance and enhance value for our stockholders. Through disciplined and careful management of our strong balance sheet and vigilant control of expenses and overhead, we will maintain the resources and capabilities to react to opportunities and in the end, when the economy rights itself, we will emerge as a stronger company.

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