PVH CORP. /DE/
Form 10-Q
June 12, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended	May 4, 2014

OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-07572
PVH CORP.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-1166910 (I.R.S. Employer Identification No.)
200 Madison Avenue, New York, New York (Address of principal executive offices)	10016 (Zip Code)

(212) 381-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

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

The number of outstanding shares of common stock, par value $1.00 per share, of the registrant as of June 3, 2014 was 82,349,513.

PVH CORP.
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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 revenue and cash flows, plans, strategies, objectives, expectations and intentions are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy, and some of which might not be anticipated, including, without limitation, the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) we may be considered to be highly leveraged, and we use a significant portion of our cash flows to service our indebtedness, as a result of which we might not have sufficient funds to operate our businesses in the manner we intend or have operated in the past; (iii) the levels of sales of our apparel, footwear and related products, both to our wholesale customers and in our retail stores, 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, repositionings of brands by our licensors and other factors; (iv) our plans and results of operations will be affected by our ability to manage our growth and inventory, including our ability to realize benefits from our acquisition of The Warnaco Group, Inc. ("Warnaco"); (v) 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, 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), changes in available factory and shipping capacity, wage and shipping cost escalation, and civil conflict, war or terrorist acts, the threat of any of the foregoing, or political and labor instability in any of the countries where our or our licensees' or other business partners' products are sold, produced or are planned to be sold or produced; (vi) 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, as well as reduced consumer traffic and purchasing, as consumers become ill or limit or cease shopping in order to avoid exposure; (vii) acquisitions and issues arising with acquisitions and proposed transactions, including, without limitation, the ability to integrate an acquired entity, such as Warnaco, into us with no substantial adverse effect on the acquired entity's or our existing operations, employee relationships, vendor relationships, customer relationships or financial performance; (viii) 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 (ix) 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
revenue or cash flows, whether as a result of the receipt of new information, future events or otherwise.

PART I -- FINANCIAL INFORMATION

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

PVH Corp.
Consolidated Income Statements
Unaudited
(In millions, except per share data)

	Thirteen Weeks Ended	
	May 4, 2014	May 5, 2013
Net sales	$1,871.5	$1,823.0
Royalty revenue	69.4	67.1
Advertising and other revenue	22.8	20.1
Total revenue	1,963.7	1,910.2
Cost of goods sold	930.5	958.3
Gross profit	1,033.2	951.9
Selling, general and administrative expenses	859.1	895.4
Debt modification and extinguishment costs	93.1	40.4
Equity in income of unconsolidated affiliates, net	3.5	2.3
Income before interest and taxes	84.5	18.4
Interest expense	42.1	47.9
Interest income	1.5	2.0
Income (loss) before taxes	43.9	(27.5)
Income tax expense (benefit)	8.7	(17.2)
Net income (loss)	35.2	(10.3)
Less: Net (loss) income attributable to redeemable non-controlling interest	(0.1)	0.0
Net income (loss) attributable to PVH Corp.	$35.3	$(10.3)
Basic net income (loss) per common share attributable to PVH Corp.	$0.43	$(0.13)
Diluted net income (loss) per common share attributable to PVH Corp.	$0.42	$(0.13)
Dividends declared per common share	$0.0375	$0.0750

See accompanying notes.

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PVH Corp.
Consolidated Statements of Comprehensive Income (Loss)
Unaudited
(In millions)

	Thirteen Weeks Ended	
	May 4, 2014	May 5, 2013
Net income (loss)	$35.2	$(10.3)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax (benefit) of $(3.3); and $(0.4)	109.5	(111.7)
Amortization of prior service credit related to pension and postretirement plans, net of tax (benefit) of $(0.1) and $(0.1)	(0.1)	(0.1)
Net unrealized and realized (loss) gain on effective hedges, net of tax (benefit) of $(0.1) and $(1.2)	(7.5)	7.9
Comprehensive income (loss)	137.1	(114.2)
Less: Comprehensive income attributable to redeemable non-controlling interest	0.5	0.1
Total comprehensive income (loss) attributable to PVH Corp.	$136.6	$(114.3)

See accompanying notes.

PVH Corp.
Consolidated Balance Sheets
(In millions, except share and per share data)

	May 4, 2014 UNAUDITED	February 2, 2014 AUDITED	May 5, 2013 UNAUDITED
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 513.0	$ 593.2	$ 746.3
Trade receivables, net of allowances for doubtful accounts of $20.9, $26.4 and $28.1	817.4	730.3	765.8
Other receivables	37.8	30.9	53.8
Inventories, net	1,177.8	1,281.0	1,135.8
Prepaid expenses	174.2	151.9	225.0
Other, including deferred taxes of $153.2, $155.1 and $99.4	207.1	211.3	129.7
Total Current Assets	2,927.3	2,998.6	3,056.4
Property, Plant and Equipment, net	708.5	712.1	680.1
Goodwill	3,577.7	3,506.8	3,426.5
Tradenames	3,038.0	3,010.3	2,973.3
Other Intangibles, net	1,047.3	1,041.9	1,143.8
Other Assets, including deferred taxes of $34.3, $35.2 and $82.4	330.2	305.9	312.6
Total Assets	$ 11,629.0	$ 11,575.6	$ 11,592.7
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 428.7	$ 582.9	$ 418.7
Accrued expenses, including deferred taxes of $0.1, $1.2 and $17.9	771.5	844.2	736.1
Deferred revenue	22.1	33.5	21.7
Short-term borrowings	144.8	6.8	14.7
Current portion of long-term debt	99.3	85.0	98.8
Total Current Liabilities	1,466.4	1,552.4	1,290.0
Long-Term Debt	3,862.0	3,878.2	4,362.3
Other Liabilities, including deferred taxes of $1,009.6, $1,016.6 and $1,068.8	1,821.1	1,804.2	1,813.7
Redeemable Non-Controlling Interest	—	5.6	5.7
Stockholders' Equity:			
Preferred stock, par value $100 per share; 150,000 total shares authorized	—	—	—
Common stock, par value $1 per share; 240,000,000 shares authorized; 82,897,616; 82,679,574 and 81,200,842 shares issued	82.9	82.7	81.2
Additional paid in capital - common stock	2,715.1	2,696.6	2,594.5
Retained earnings	1,607.0	1,574.8	1,429.3
Accumulated other comprehensive income	143.6	42.3	35.9
Less: 576,377; 512,702 and 172,839 shares of common stock held in treasury, at cost	(69.1)	(61.2)	(19.9)
Total Stockholders' Equity	4,479.5	4,335.2	4,121.0
	$ 11,629.0	$ 11,575.6	$ 11,592.7

Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity

See accompanying notes.

PVH Corp.
Consolidated Statements of Cash Flows
Unaudited
(In millions)

	Thirteen Weeks Ended	
	May 4, 2014	May 5, 2013
OPERATING ACTIVITIES		
Net income (loss)	$35.2	$(10.3)
Adjustments to reconcile to net cash used by operating activities:		
Depreciation and amortization	60.7	84.2
Equity in income of unconsolidated affiliates, net	(3.5)	(2.3)
Deferred taxes	(45.7)	(35.2)
Stock-based compensation expense	11.7	18.9
Debt modification and extinguishment costs	93.1	40.4
Net gain on deconsolidation of subsidiaries and joint venture	(8.0)	—
Changes in operating assets and liabilities:		
Trade receivables, net	(80.4)	(69.4)
Inventories, net	112.1	145.6
Accounts payable, accrued expenses and deferred revenue	(230.9)	(330.9)
Prepaid expenses	(33.1)	(20.8)
Employer pension contributions	—	(30.0)
Other, net	37.4	74.5
Net cash used by operating activities	(51.4)	(135.3)
INVESTING ACTIVITIES(1)		
Business acquisitions, net of cash acquired	(7.4)	(1,815.3)
Cash received for sale of Chaps sportswear assets	—	18.3
Purchase of property, plant and equipment	(50.7)	(45.7)
Contingent purchase price payments	(11.6)	(14.2)
Change in restricted cash	9.7	—
Investments in unconsolidated affiliates	(26.2)	—
Net cash used by investing activities	(86.2)	(1,856.9)
FINANCING ACTIVITIES(1)		
Net proceeds from (payments on) short-term borrowings	139.9	(23.0)
Repayment of 2011 facilities	—	(900.0)
Redemption of 7 3/8% senior notes, including make whole premium	(667.6)	—
Repayment of Warnaco’s previously outstanding debt	—	(197.0)
Proceeds from 2014/2013 facilities, net of related fees	586.7	2,993.4
Payment of fees associated with issuance of 4 1/2% senior notes	—	(16.3)
Net proceeds from settlement of awards under stock plans	3.9	10.1
Excess tax benefits from awards under stock plans	3.1	14.8
Cash dividends	(3.1)	(6.1)
Acquisition of treasury shares	(7.9)	(20.1)
Payments of capital lease obligations	(2.2)	(2.4)
Net cash provided by financing activities	52.8	1,853.4
Effect of exchange rate changes on cash and cash equivalents	4.6	(7.1)
Decrease in cash and cash equivalents	(80.2)	(145.9)
Cash and cash equivalents at beginning of period	593.2	892.2

Cash and cash equivalents at end of period	$513.0	$746.3

(1) See Note 17 for information on noncash investing and financing transactions.

See accompanying notes.

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PVH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

PVH Corp. and its consolidated subsidiaries (collectively, the “Company”) constitute a global apparel company whose brand portfolio consists of nationally and internationally recognized brand names, including Calvin Klein, Tommy Hilfiger, Van Heusen, IZOD, ARROW, Warner’s and Olga, which are owned, and Speedo, which is licensed in perpetuity, as well as various other owned, licensed and private label brands. In addition, through the end of the third quarter of 2013, the Company owned, and operated businesses under, the G.H. Bass & Co. and Bass trademarks. The Company designs and markets branded dress shirts, neckwear, sportswear, jeanswear, underwear, intimate apparel, swim products and, to a lesser extent, handbags, footwear and other related products and licenses its owned brands over a broad range of products. References to the aforementioned and other brand names are to registered trademarks owned by the Company or licensed to the Company by third parties and are identified by italicizing the brand name.

The consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities that the Company does not control but has the ability to exercise significant influence over are accounted for using the equity method of accounting. The Company’s Consolidated Income Statements include its proportionate share of the net income or loss of these entities. Please see Note 4, “Investments in Unconsolidated Affiliates,” for a further discussion. As a result of the acquisition of The Warnaco Group, Inc. (“Warnaco”), the Company acquired a majority interest in a joint venture in India that was consolidated and accounted for as a redeemable non-controlling interest during 2013. The redeemable non-controlling interest represented the minority shareholders’ proportionate share (49%) of the equity in that entity. During the first quarter of 2014, in connection with the sale of the minority shareholders’ interests to a third party, the Company and the new shareholder entered into a shareholder agreement with different governing arrangements between the Company and the new shareholder as compared to the arrangements with the prior minority shareholders. Based on the new arrangements, the joint venture was deconsolidated and is now accounted for using the equity method of accounting. Please see Note 5, “Redeemable Non-Controlling Interest,” for a further discussion.

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. References to a year are to the Company’s fiscal year, unless the context requires otherwise.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not contain all disclosures required by accounting principles generally accepted in the United States for complete financial statements. Reference should be made to the audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended February 2, 2014.

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 these estimates.

The results of operations for the thirteen weeks ended May 4, 2014 and May 5, 2013 are not necessarily indicative of those for a full fiscal year due, in part, to seasonal factors. The data contained in these financial statements are unaudited and are subject to year-end adjustments. However, in the opinion of management, all known adjustments (which consist only of normal recurring accruals) have been made to present fairly the consolidated operating results for the unaudited periods.

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

2. INVENTORIES

Inventories are comprised principally of finished goods and are stated at the lower of cost or market.

3. ACQUISITIONS AND DIVESTITURES

Acquisition of Warnaco

The Company acquired on February 13, 2013 all of the outstanding equity interests in Warnaco. The results of Warnaco's operations since that date are included in the Company's consolidated financial statements. Warnaco designs, sources, markets and distributes a broad line of intimate apparel, underwear, jeanswear and swim products worldwide. Warnaco's products are sold under the Calvin Klein, Speedo, Warner's and Olga brand names and were also previously sold under the Chaps brand name. Ralph Lauren Corporation reacquired the Chaps license effective contemporaneously with the Company's acquisition of Warnaco.

The Warnaco acquisition provided the Company with complete direct global control of the Calvin Klein brand image and commercial decisions for the two largest Calvin Klein apparel categories — jeanswear and underwear. In addition, the Company believes the acquisition takes advantage of its and Warnaco's complementary geographic platforms. Warnaco's operations in Asia and Latin America should enhance the Company's opportunities in those high-growth regions, and the Company has the ability to leverage its expertise and infrastructure in North America and Europe to enhance the growth and profitability of the Calvin Klein Jeans and Calvin Klein Underwear businesses in those regions.

Fair Value of the Acquisition Consideration

The acquisition date fair value of the acquisition consideration paid at closing totaled $3,137.1 million, which consisted of the following:

(In millions, except per share data)		
Cash	$2,180.0	
Common stock (7.7 shares, par value $1.00 per share)	926.5	
Warnaco employee replacement stock awards	39.8	
Elimination of pre-acquisition liability to Warnaco	(9.2	)
Total fair value of the acquisition consideration	$3,137.1	

The fair value of the 7.7 million common shares issued was equal to the aggregate value of the shares at the closing market price of the Company's common stock on February 12, 2013, the day prior to the closing. The value of the replacement stock awards was determined by multiplying the estimated fair value of the Warnaco awards outstanding at the time of the acquisition, reduced by an estimated value of awards to be forfeited, by the proportionate amount of the vesting period that had lapsed as of the acquisition date. Also included in the acquisition consideration was the elimination of a $9.2 million pre-acquisition liability to Warnaco.

The Company funded the cash portion and related costs of the Warnaco acquisition, repaid all outstanding borrowings under its previously outstanding senior secured credit facilities and repaid all of Warnaco's previously outstanding long-term debt with the net proceeds of (i) the issuance of $700.0 million of 4 1/2% senior notes due 2022; and (ii) the borrowing of $3,075.0 million of term loans under new senior secured credit facilities.

Please see Note 8, "Debt," Note 12, "Stock-Based Compensation," and Note 14, "Stockholders' Equity," for a further discussion of these aspects of the acquisition.

The Company incurred certain pre-tax costs in 2012 and 2013 directly associated with the acquisition, including short-lived non cash valuation adjustments and amortization, totaling approximately $170.0 million, of which approximately $65.0 million was recorded during the thirteen weeks ended May 5, 2013. Please see Note 15, "Activity

Exit Costs," for a discussion of restructuring costs incurred during the thirteen weeks ended May 4, 2014 associated with the acquisition.

The operations acquired with Warnaco had total revenue of $516.6 million and a net loss, after non cash valuation adjustments and amortization and integration costs, of $(22.3) million for the period from the date of acquisition through May 5, 2013. These amounts were included in the Company's results of operations for the thirteen week period then ended.

Pro Forma Impact of the Transaction

The following table presents the Company’s pro forma consolidated results of operations for the thirteen weeks ended May 5, 2013, as if the acquisition and the related financing transactions had occurred at the beginning of the year prior to the acquisition date. The pro forma results were calculated applying the Company’s accounting policies and reflect (i) the impact on revenue, cost of goods sold and selling, general and administrative expenses resulting from the elimination of intercompany transactions; (ii) the impact on depreciation and amortization expense based on fair value adjustments to Warnaco’s property, plant and equipment and intangible assets recorded in connection with the acquisition; (iii) the impact on interest expense resulting from changes to the Company’s capital structure in connection with the acquisition; (iv) the impact on cost of goods sold resulting from acquisition date adjustments to the fair value of inventory; (v) the elimination of transaction costs related to the acquisition that were included in the Company’s results of operations for the thirteen weeks ended May 5, 2013; and (vi) the tax effects of the above adjustments. The pro forma results do not include any anticipated cost synergies or other effects of the planned integration of Warnaco. Accordingly, such pro forma amounts are not indicative of the results that actually would have occurred had the acquisition been completed at the beginning of the year prior to the acquisition date, nor are they indicative of the future operating results of the combined company.

(In millions)	Pro Forma Thirteen Weeks Ended 5/5/13
Total revenue	$1,973.2
Net income attributable to PVH Corp.	75.4

Allocation of the Acquisition Consideration

The following table summarizes the fair values of the assets acquired and liabilities and redeemable non-controlling interest assumed at the date of acquisition:

(In millions)	
Cash and cash equivalents	$364.7
Trade receivables	286.7
Other receivables	46.9
Inventories	442.9
Prepaid expenses	38.7
Other current assets	56.0
Property, plant and equipment	123.3
Goodwill	1,513.2
Tradenames	604.6
Other intangibles	1,023.7
Other assets	169.3
Total assets acquired	4,670.0
Accounts payable	180.1
Accrued expenses	260.5
Short-term borrowings	26.9
Current portion of long-term debt	2.0
Long-term debt	195.0
Other liabilities	862.8
Total liabilities assumed	1,527.3

Redeemable non-controlling interest	5.6
Total fair value of acquisition consideration	$3,137.1

The Company finalized the purchase price allocation during the fourth quarter of 2013 and applied applicable measurement period adjustments retrospectively in accordance with Financial Accounting Standards Board ("FASB") guidance for business combinations.

During the process of finalizing the purchase price allocation in the fourth quarter of 2013, the Company received additional information about facts and circumstances that existed as of the Warnaco acquisition date. As a result of the receipt of new information, which was included in the final valuation report received from a third-party valuation firm, and considering the results of that report, the Company estimated the fair value of the order backlog acquired as part of the Warnaco acquisition to be $24.1 million lower than the estimated provisional amount. As a result of this adjustment to fair value, the carrying amount of the order backlog (which was being amortized principally over six months) was retrospectively decreased as of February 13, 2013, with a corresponding increase to goodwill and other intangible assets (net of related deferred taxes), and the related order backlog amortization expense for the first quarter of 2013 was reduced by $11.6 million. The Company recorded these measurement period adjustments in the fourth quarter of 2013 and applied the adjustments retrospectively to the first quarter of 2013. The measurement period adjustments were included in the results of the Calvin Klein International segment.

In connection with the acquisition, the Company recorded goodwill of $1,513.2 million, which was assigned to the Company's Calvin Klein North America, Calvin Klein International, Tommy Hilfiger North America, Tommy Hilfiger International, Heritage Brands Wholesale and Heritage Brands Retail segments in the amounts of $456.0 million, $658.6 million, $5.9 million, $296.5 million, $84.3 million and $11.9 million, respectively. In accordance with FASB guidance, the goodwill acquired in the Warnaco acquisition was assigned as of the acquisition date to the Company's reporting units that are expected to benefit from the synergies of the combination. For those reporting units that had not been assigned any of the assets acquired or liabilities assumed in the acquisition, the amount of goodwill assigned was determined by calculating the estimated fair value of such reporting units before the acquisition and their estimated fair values after the acquisition. None of the goodwill is expected to be deductible for tax purposes.

The Company also recorded other intangible assets of $1,628.3 million, which included reacquired license rights of $593.3 million, order backlog of $73.0 million and customer relationships of $149.8 million, which are all amortizable, as well as tradenames of $604.6 million and perpetual license rights of $207.6 million, which have indefinite lives.

Sale of Chaps Sportswear Assets

Contemporaneously with the Company's acquisition of Warnaco, Ralph Lauren Corporation reacquired the license for Chaps men's sportswear that Warnaco held from affiliates of Ralph Lauren Corporation. The Chaps sportswear business was previously operated by Warnaco under such license. In connection with this transaction, the Company sold all of the assets of the Chaps sportswear business, which consisted principally of inventory, to Ralph Lauren Corporation for gross proceeds of $18.3 million.

Acquisition of Russia Franchisee

The Company acquired three Tommy Hilfiger stores in Russia during the fourth quarter of 2013 and two additional stores during the first quarter of 2014 from a former franchisee. The Company paid $6.0 million during the fourth quarter of 2013 for the first three stores and $4.3 million during the first quarter of 2014 for the other two. These transactions were accounted for as business combinations.

Acquisition of Ireland Franchisee

During the first quarter of 2014, the Company acquired six Tommy Hilfiger stores in Ireland from a former Tommy Hilfiger franchisee. The Company paid $3.1 million as consideration for this transaction. This transaction was accounted for as a business combination.

4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Karl Lagerfeld

The Company acquired a 10% economic interest in Karl Lagerfeld B.V., the parent company of the Karl Lagerfeld brand, during the thirteen weeks ended May 4, 2014 for $18.9 million. One of the Company’s executive officers indirectly owns approximately 35% of Karl Lagerfeld B.V. The Company has significant influence as defined under FASB guidance with respect to its investment in Karl Lagerfeld B.V., therefore, this investment is being accounted for under the equity method of accounting.

Calvin Klein Australia

The Company formed a joint venture, PVH Brands Australia Pty. Limited ("PVH Australia"), in 2013 in which the Company owns a 50% economic interest. The joint venture licenses from a Company subsidiary the rights to distribute and sell certain Calvin Klein brand products in Australia, New Zealand and other island nations in the South Pacific. As part of the transaction, the Company contributed to the joint venture its subsidiaries that were operating the Calvin Klein Jeans businesses in Australia and New Zealand. In connection with this contribution, which took place on the first day of 2014, the Company deconsolidated these subsidiaries and recognized a net gain of $2.1 million during the thirteen weeks ended May 4, 2014, which was recorded in selling, general and administrative expenses. The gain was measured as the difference between the fair value of the Company's 50% interest as determined by a third-party valuation firm and the carrying value of the net assets and cash contributed. The Company made a net payment of $7.3 million to PVH Australia during the thirteen weeks ended May 4, 2014, representing its 50% share of funding. This investment is being accounted for under the equity method of accounting.

Calvin Klein India

As a result of the Warnaco acquisition, the Company acquired a 51% economic interest in a Calvin Klein joint venture in India, Premium Garments Wholesale Trading Private Limited ("CK India"). The joint venture licenses from a Company subsidiary the rights to the Calvin Klein trademark in India. Beginning in the first quarter of 2014, this investment is being accounted for under the equity method of accounting. Please see Note 5, "Redeemable Non-Controlling Interest," for a further discussion.

Tommy Hilfiger Brazil

The Company formed a joint venture, Tommy Hilfiger do Brasil S.A., in Brazil in 2012, in which the Company owns a 40% economic interest. The joint venture licenses from a Company subsidiary the rights to the Tommy Hilfiger trademarks in Brazil. This investment is being accounted for under the equity method of accounting.

Tommy Hilfiger China

The Company formed a joint venture, TH Asia Ltd., in China in 2010, in which the Company owns a 45% economic interest. The joint venture assumed direct control of the Tommy Hilfiger wholesale and retail distribution businesses in China from the prior licensee on August 1, 2011. The joint venture licenses from a Company subsidiary the rights to these businesses. This investment is being accounted for under the equity method of accounting.

Tommy Hilfiger India

The Company acquired in 2011 a 50% economic interest in a company that has since been renamed Tommy Hilfiger Arvind Fashion Private Limited ("TH India"). TH India licenses from a Company subsidiary the rights to the Tommy Hilfiger trademarks in India for all categories (other than fragrance), operates a wholesale apparel, footwear and handbags business in connection with its license, and sublicenses the trademarks for certain other product categories. This investment is being accounted for under the equity method of accounting.

Included in other assets in the Company's Consolidated Balance Sheets as of May 4, 2014, February 2, 2014 and May 5, 2013 is $113.0 million, $71.3 million and $63.3 million, respectively, related to these investments in unconsolidated affiliates.

5. REDEEMABLE NON-CONTROLLING INTEREST

As a result of the acquisition of Warnaco, the Company acquired a 51% interest in a joint venture, CK India, that was consolidated in the Company's financial statements during 2013.

The fair value of the non-controlling interest as of the date of the Warnaco acquisition was $5.6 million. During 2013, subsequent changes in the fair value of the redeemable non-controlling interest were recognized immediately as they occurred and the carrying amount of the redeemable non-controlling interest was adjusted to equal the fair value at the end of each reporting period, provided that this amount at the end of each reporting period was not lower than the initial fair value. Any fair value adjustment to the carrying amount of the redeemable non-controlling interest was recognized immediately in retained earnings of the Company. No fair value adjustments to the carrying amount recorded as of the acquisition date were made during the thirteen weeks ended May 5, 2013, but the carrying amount was adjusted for net income and other comprehensive income during the thirteen weeks ended May 5, 2013. As of May 5, 2013, the carrying value of the redeemable non-controlling interest was $5.7 million.

During the first quarter of 2014, Arvind Limited purchased the Company's prior joint venture partners' shares in CK India and, as a result of the entry into a shareholder agreement with different governing arrangements between the Company and the new shareholder as compared to the arrangements with the prior minority shareholders, the Company no longer holds a controlling interest in the joint venture. CK India was deconsolidated, as a result, and the Company began reporting its 51% interest as an equity method investment in the first quarter of 2014. The Company recognized a net gain of $5.9 million in connection with the deconsolidation of CK India during the thirteen weeks ended May 4, 2014, which was recorded in selling, general and administrative expenses. The gain was measured as the difference between the fair value of the Company's 51% interest as determined by a third-party valuation firm and the carrying value.

6. GOODWILL

The changes in the carrying amount of goodwill for the thirteen weeks ended May 4, 2014, by segment, were as follows:

(In millions)	Calvin Klein North America	Calvin Klein International	Tommy Hilfiger North America	Tommy Hilfiger International	Heritage Brands Wholesale	Heritage Brands Retail	Total
Balance as of February 2, 2014							
Goodwill, gross	$683.6	$877.8	$204.4	$1,489.9	$239.2	$11.9	$3,506.8
Accumulated impairment losses	—	—	—	—	—	—	—
Goodwill, net	683.6	877.8	204.4	1,489.9	239.2	11.9	3,506.8
Contingent purchase price payments to Mr. Calvin Klein	5.5	5.7	—	—	—	—	11.2
Goodwill from acquisition of Russia franchisee	—	—	—	3.8	—	—	3.8
Goodwill from acquisition of Ireland franchisee	—	—	—	3.7	—	—	3.7
Currency translation	1.6	12.1	—	38.3	0.2	—	52.2
Balance as of May 4, 2014							
Goodwill, gross	690.7	895.6	204.4	1,535.7	239.4	11.9	3,577.7
Accumulated impairment losses	—	—	—	—	—	—	—
Goodwill, net	$690.7	$895.6	$204.4	$1,535.7	$239.4	$11.9	$3,577.7

The Company is required to make contingent purchase price payments to Mr. Calvin Klein in connection with the Company's acquisition in 2003 of all of the issued and outstanding stock of Calvin Klein, Inc. and certain affiliated companies (collectively, "Calvin Klein"). Such payments are based on 1.15% of total worldwide net sales, as defined in the acquisition agreement (as amended), of products bearing any of the Calvin Klein brands and are required to be made with respect to sales made through February 12, 2018. A significant portion of the sales on which the payments to Mr. Klein are made are wholesale sales by the Company and its licensees and other partners to retailers.

7. RETIREMENT AND BENEFIT PLANS

The Company has five noncontributory defined benefit pension plans as of May 4, 2014 covering substantially all employees resident in the United States who meet certain age and service requirements. As part of the Warnaco acquisition, the Company acquired a frozen noncontributory defined benefit pension plan. Such plan was merged with an existing plan of the Company's during 2013. 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 refers to these five plans as its "Pension Plans."

The Company also has for certain members of Tommy Hilfiger's domestic senior management a supplemental executive retirement plan, which is an unfunded non-qualified supplemental defined benefit pension plan. Such plan is frozen and, as a result, participants do not accrue additional benefits. In addition, the Company has a capital accumulation plan, which is an unfunded non-qualified supplemental defined benefit plan, covering two current and 15 retired executives as of May 4, 2014. Under the individual participants' agreements, the participants in this plan will receive a predetermined amount during the 10 years following the attainment of age 65, provided that prior to the termination of employment with the Company, the participant has been in the plan for at least 10 years and has attained age 55. The Company also has for certain employees resident in the United States who meet certain age and service requirements an unfunded non-qualified supplemental defined benefit pension plan, which provides benefits for compensation in excess of Internal Revenue Service earnings limits and requires payments to vested employees upon, or shortly after, employment termination or retirement. The Company refers to these three plans as its “SERP Plans.”

The Company also provides certain postretirement health care and life insurance benefits to certain retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. During 2002, the postretirement plan was amended to eliminate the Company contribution, which partially subsidized benefits, for active participants who, as of January 1, 2003, had not attained age 55 and 10 years of service. As a result of the Company’s acquisition of Warnaco, the Company also provides certain postretirement health care and life insurance benefits to certain Warnaco retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. This plan was frozen on January 1, 2014. The Company refers to these two plans as its “Postretirement Plans.”

Net benefit cost was recognized in selling, general and administrative expenses as follows:

	Pension Plans		SERP Plans		Postretirement Plans	
	Thirteen Weeks Ended		Thirteen Weeks Ended		Thirteen Weeks Ended	
(In millions)	5/4/14	5/5/13	5/4/14	5/5/13	5/4/14	5/5/13