

PVH CORP. /DE/
Form 10-Q
June 06, 2016

UNITED STATES
SECURITIES AND 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 May 1, 2016

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
PVH CORP.

(Exact name of registrant as specified in its charter)

Delaware	13-1166910
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Madison Avenue, New York, New York	10016
(Address of principal executive offices)	(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 No

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 No

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

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 May 31, 2016 was 80,856,451.

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, earnings 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, (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 acquisitions; (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 or business into us with no substantial adverse effect on the acquired entity's, the acquired business'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; (ix) our results could be adversely affected by the strengthening of the United States dollar against major foreign currencies in which we transact business; and (x) 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, earnings or cash flows, whether as a result of the receipt of new information, future events or otherwise.

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

PVH Corp.

Consolidated Income Statements

Unaudited

(In millions, except per share data)

	Thirteen Weeks Ended	
	May 1, 2016	May 3, 2015
Net sales	\$1,817.7	\$1,785.1
Royalty revenue	77.1	74.2
Advertising and other revenue	23.0	20.0
Total revenue	1,917.8	1,879.3
Cost of goods sold (exclusive of depreciation and amortization)	910.9	893.7
Gross profit	1,006.9	985.6
Selling, general and administrative expenses	865.2	814.9
Gain to write-up equity investment in joint venture to fair value	153.1	—
Equity in net (loss) income of unconsolidated affiliates	(0.2)) 6.1
Income before interest and taxes	294.6	176.8
Interest expense	29.9	30.9
Interest income	0.9	1.1
Income before taxes	265.6	147.0
Income tax expense	34.0	32.9
Net income	231.6	114.1
Basic net income per common share	\$2.85	\$1.38
Diluted net income per common share	\$2.83	\$1.37
Dividends declared per common share	\$0.0750	\$0.0750

See accompanying notes.

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

	Thirteen Weeks Ended	
	May 1, 2016	May 3, 2015
Net income	\$231.6	\$114.1
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax (benefit) expense of \$(0.0) and \$0.0	184.3	(15.3)
Amortization of prior service credit related to pension and postretirement plans, net of tax benefit of \$0.0 and \$0.0	(0.1)	(0.1)
Net unrealized and realized loss related to effective hedges, net of tax benefit of \$5.9 and \$0.9	(54.9)	(16.9)
Total other comprehensive income (loss)	129.3	(32.3)
Total comprehensive income	\$360.9	\$81.8

See accompanying notes.

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

	May 1, 2016 UNAUDITED	January 31, 2016 AUDITED	May 3, 2015 UNAUDITED
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 365.1	\$ 556.4	\$ 419.3
Trade receivables, net of allowances for doubtful accounts of \$21.1, \$18.1 and \$18.9	661.5	657.2	733.6
Other receivables	22.8	28.7	31.8
Inventories, net	1,281.4	1,322.3	1,173.3
Prepaid expenses	154.5	150.5	162.6
Other	42.9	89.4	102.7
Total Current Assets	2,528.2	2,804.5	2,623.3
Property, Plant and Equipment, net	749.9	744.6	720.9
Goodwill	3,572.3	3,219.3	3,261.0
Tradenames	2,841.2	2,802.6	2,826.2
Other Intangibles, net	967.5	843.8	931.4
Other Assets, including deferred taxes of \$17.1, \$12.2 and \$17.7	226.0	259.0	286.9
Total Assets	\$ 10,885.1	\$ 10,673.8	\$ 10,649.7
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 497.7	\$ 636.1	\$ 411.7
Accrued expenses	706.2	696.3	683.0
Deferred revenue	23.3	32.3	22.3
Short-term borrowings	41.0	25.9	10.6
Current portion of long-term debt	126.7	136.6	99.3
Total Current Liabilities	1,394.9	1,527.2	1,226.9
Long-Term Debt	2,991.6	3,031.7	3,362.8
Other Liabilities, including deferred taxes of \$880.1, \$836.4 and \$893.3	1,636.3	1,562.6	1,615.5
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; 83,665,468; 83,545,818 and 83,366,852 shares issued	83.6	83.5	83.4
Additional paid in capital - common stock	2,832.9	2,822.5	2,782.1
Retained earnings	2,786.6	2,561.2	2,109.2
Accumulated other comprehensive loss	(574.9) (704.2) (448.8
Less: 2,680,402; 2,057,850 and 688,450 shares of common stock held in treasury, at cost	(265.9) (210.7) (81.4
Total Stockholders' Equity	4,862.3	4,552.3	4,444.5
Total Liabilities and Stockholders' Equity	\$ 10,885.1	\$ 10,673.8	\$ 10,649.7

See accompanying notes.

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

	Thirteen Weeks Ended	
	May 1, 2016	May 3, 2015
OPERATING ACTIVITIES		
Net income	\$231.6	\$114.1
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	70.6	61.0
Equity in net loss (income) of unconsolidated affiliates	0.2	(6.1)
Deferred taxes	0.5	(0.6)
Stock-based compensation expense	10.3	8.5
Gain to write-up equity investment in joint venture to fair value	(153.1)	—
Changes in operating assets and liabilities:		
Trade receivables, net	12.7	(28.8)
Inventories, net	90.1	83.4
Accounts payable, accrued expenses and deferred revenue	(174.0)	(194.8)
Prepaid expenses	2.6	(29.9)
Other, net	17.7	53.6
Net cash provided by operating activities	109.2	60.4
INVESTING ACTIVITIES⁽¹⁾		
Business acquisitions, net of cash acquired	(158.0)	—
Purchase of property, plant and equipment	(45.9)	(48.5)
Contingent purchase price payments	(12.8)	(11.9)
Change in restricted cash	—	20.2
Investments in unconsolidated affiliates	(1.5)	(22.4)
Net cash used by investing activities	(218.2)	(62.6)
FINANCING ACTIVITIES⁽¹⁾		
Net proceeds from short-term borrowings	15.1	2.1
Repayment of 2014 facilities	(51.9)	(49.8)
Net proceeds from settlement of awards under stock plans	0.8	3.4
Excess tax benefits from awards under stock plans	0.1	2.0
Cash dividends	(6.2)	(6.2)
Acquisition of treasury shares	(53.0)	(9.1)
Payments of capital lease obligations	(2.0)	(1.9)
Net cash used by financing activities	(97.1)	(59.5)
Effect of exchange rate changes on cash and cash equivalents	14.8	1.7
Decrease in cash and cash equivalents	(191.3)	(60.0)
Cash and cash equivalents at beginning of period	556.4	479.3
Cash and cash equivalents at end of period	\$365.1	\$419.3

⁽¹⁾ See Note 16 for information on Noncash Investing and Financing Transactions.

See accompanying notes.

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 for North America and the Caribbean, as well as various other owned, licensed and private label brands. The Company designs and markets branded dress shirts, neckwear, sportswear, jeanswear, intimate apparel, swim products, 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 5, “Investments in Unconsolidated Affiliates,” for a further discussion.

The Company’s fiscal years are based on the 52-53 week periods ending on the Sunday closest to February 1 of each calendar year 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 is made to the Company’s audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended January 31, 2016.

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 1, 2016 and May 3, 2015 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.

The Company records warehousing and distribution expenses as a component of selling, general and administrative expenses in its Consolidated Income Statements. Warehousing and distribution expenses totaled \$58.3 million and \$57.5 million in the thirteen weeks ended May 1, 2016 and May 3, 2015, respectively.

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. Cost for principally all wholesale inventories in North America and certain wholesale and retail inventories in Asia and Latin America is determined using the first-in, first-out method. Cost for all other inventories is determined using the weighted average cost method. The Company reviews current business trends, inventory aging and discontinued merchandise categories to determine adjustments that it estimates will be needed to liquidate existing clearance inventories and record inventories at the lower of cost or market.

3. ACQUISITIONS

Acquisition of TH China

The Company acquired on April 13, 2016 the 55% interest in TH Asia, Ltd. (“TH China”), its joint venture for Tommy Hilfiger in China, that it did not already own. Prior to April 13, 2016, the Company’s existing 45% interest in TH China was accounted for under the equity method of accounting. Following the acquisition of the 55% interest, the results of TH China’s operations were consolidated in the Company’s consolidated financial statements.

TH China began operating the Tommy Hilfiger wholesale and retail distribution businesses in China in 2011 and licensed from a subsidiary of the Company the Tommy Hilfiger trademarks for use in connection with these businesses.

The carrying value of the Company’s existing 45% interest in TH China prior to the acquisition was \$52.5 million. In connection with the acquisition, this investment was remeasured to a fair value of \$205.6 million, resulting in the recognition of a pre-tax noncash gain of \$153.1 million during the first quarter of 2016. Such fair value was estimated based on the fair value of TH China using future operating cash flow projections discounted at a rate of return that accounted for the relative risks of the estimated future cash flows and included an estimated discount for a lack of marketability.

The acquisition date fair value of the consideration for the 55% interest that the Company did not already own was \$266.1 million, consisting of \$263.3 million paid in cash and the elimination of a \$2.8 million pre-acquisition receivable owed to the Company by TH China, and is subject to future adjustment for a net working capital settlement. Together with the fair value of the Company’s existing 45% interest, the total fair value of TH China was \$471.7 million. The estimated fair value of assets acquired and liabilities assumed included net assets of \$98.6 million (including \$105.3 million of cash acquired), \$110.8 million of other intangible assets and \$262.3 million of goodwill. The goodwill of \$262.3 million was assigned to the Company’s Tommy Hilfiger International segment. Goodwill is not expected to be deductible for tax purposes.

The other intangible assets of \$110.8 million as of April 13, 2016 included reacquired license rights of \$72.1 million, order backlog of \$26.3 million and customer relationships of \$12.4 million, which are subject to amortization on a straight-line basis over 2.7 years, 0.8 years and 10.0 years, respectively. The Company is still in the process of finalizing the valuation of the assets acquired and liabilities assumed; thus, the allocation of the acquisition consideration is subject to change.

4. ASSETS HELD FOR SALE

During 2015, one of the Company’s European subsidiaries entered into an agreement to sell an owned building in Amsterdam, the Netherlands for €15.0 million (approximately \$17.1 million based on the exchange rate in effect on May 1, 2016). The building had a carrying value of \$15.3 million as of May 1, 2016, including \$0.8 million of building improvements. The sale is expected to close in the second quarter of 2016.

The Company classified the building as held for sale beginning in the fourth quarter of 2015 and ceased recording depreciation on the building at that time. The carrying amounts in the Company’s Consolidated Balance Sheets of \$15.3 million and \$14.7 million as of May 1, 2016 and January 31, 2016, respectively, which were determined to be lower than the fair value, less costs to sell, were included in other current assets in the Calvin Klein International segment.

5. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Karl Lagerfeld

The Company acquired a 10% economic interest in Kingdom Holding 1 B.V., the parent company of the Karl Lagerfeld brand (“Karl Lagerfeld”), during 2014 for \$18.9 million. During the first quarter of 2016, a third party acquired a minority stake in Karl Lagerfeld, diluting the Company’s economic interest to 8%. An employee of the Company, who is also a former executive officer and director, owns approximately 29% of Karl Lagerfeld. The Company has significant influence as defined under FASB guidance with respect to this investment, which is being accounted for under the equity method of accounting.

PVH 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 subsidiary of the Company 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 PVH Australia its subsidiaries that were operating the Calvin Klein Jeans businesses in Australia and New Zealand.

During the first quarter of 2015, the Company completed a transaction in which the Tommy Hilfiger and Van Heusen trademarks in Australia were licensed for certain product categories to subsidiaries of PVH Australia for use in Australia, New Zealand and, in the case of Tommy Hilfiger, other island nations in the South Pacific. The Tommy Hilfiger trademarks had previously been licensed to a third party and the Van Heusen trademarks had previously been licensed to the Company's joint venture partner in PVH Australia.

The Company made net payments of \$20.8 million to PVH Australia during the thirteen weeks ended May 3, 2015, which represented its 50% share of the joint venture funding for the period. This investment is being accounted for under the equity method of accounting.

CK India

The Company acquired a 51% economic interest in a Calvin Klein joint venture in India, Premium Garments Wholesale Trading Private Limited (renamed Calvin Klein Arvind Fashion Private Limited, effective May 19, 2016, "CK India"), in 2013. CK India licenses from a subsidiary of the Company the rights to the Calvin Klein trademarks in India for certain product categories. CK India was consolidated in the Company's financial statements during 2013. During the first quarter of 2014, Arvind Limited ("Arvind") 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 Arvind, the Company no longer was deemed to hold 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 made a payment of \$1.6 million to CK India during the thirteen weeks ended May 3, 2015 to contribute its 51% share of the joint venture funding for the period.

TH Brazil

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

The Company made a payment of \$1.5 million to TH Brazil during the thirteen weeks ended May 1, 2016 to contribute its 40% share of the joint venture funding for the period.

TH China

The Company formed TH China as a joint venture in 2010. This investment was accounted for under the equity method of accounting until April 13, 2016, on which date the Company acquired the 55% interest in TH China that it did not already own. Please see Note 3, "Acquisitions," for a further discussion.

TH 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 certain product categories. This investment is being accounted for under the equity method of accounting. Arvind, the Company's joint venture partner in CK India, is also the Company's joint venture partner in TH India.

Total Investments in Unconsolidated Affiliates

Included in other assets in the Company's Consolidated Balance Sheets as of May 1, 2016, January 31, 2016 and May 3, 2015 is \$95.9 million, \$140.7 million (of which \$52.9 million related to TH China) and \$136.1 million (of which \$46.0 million related to TH China), respectively, related to these investments in unconsolidated affiliates.

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6. GOODWILL

The changes in the carrying amount of goodwill for the thirteen weeks ended May 1, 2016, by segment (please see Note 17, “Segment Data,” for a further discussion), 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 January 31, 2016							
Goodwill, gross	\$ 728.0	\$ 841.5	\$ 204.4	\$ 1,208.4	\$ 237.0	\$ 11.9	\$ 3,231.2
Accumulated impairment losses	—	—	—	—	—	(11.9)	(11.9)
Goodwill, net	728.0	841.5	204.4	1,208.4	237.0	—	3,219.3
Contingent purchase price payments to Mr. Calvin Klein	7.1	5.2	—	—	—	—	12.3
Acquisition of TH China	—	—	—	262.3	—	—	262.3
Currency translation	4.1	20.4	—	53.6	0.3	—	78.4
Balance as of May 1, 2016							
Goodwill, gross	739.2	867.1	204.4	1,524.3	237.3	11.9	3,584.2
Accumulated impairment losses	—	—	—	—	—	(11.9)	(11.9)
Goodwill, net	\$ 739.2	\$ 867.1	\$ 204.4	\$ 1,524.3	\$ 237.3	\$ —	\$ 3,572.3

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 qualified defined benefit pension plans as of May 1, 2016 covering substantially all employees resident in the United States who meet certain age and service requirements. The plans provide monthly benefits upon retirement generally based on career average compensation and years of credited service. Vesting in plan benefits generally occurs after five years of service. The Company refers to these five noncontributory 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 program, which is an unfunded non-qualified supplemental defined benefit plan. 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 noncontributory 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 The Warnaco Group, Inc. ("Warnaco") in 2013, 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 in the Company's Consolidated Income Statements as follows:

	Pension Plans		SERP Plans		Postretirement Plans	
	Thirteen Weeks Ended	Thirteen Weeks Ended	Thirteen Weeks Ended	Thirteen Weeks Ended	Thirteen Weeks Ended	Thirteen Weeks Ended
(In millions)	5/1/16	5/3/15	5/1/16	5/3/15	5/1/16	5/3/15
Service cost, including plan expenses	\$6.5	\$7.1	\$1.3	\$1.3	\$—	\$—
Interest cost	7.5	7.1	1.0	0.9	0.2	0.2
Expected return on plan assets	(9.0)	(10.8)	—	—	—	—
Amortization of prior service cost (credit)	0.0	0.0	(0.0)	(0.0)	(0.1)	(0.1)
Total	\$5.0	\$3.4	\$2.3	\$2.2	\$0.1	\$0.1

Currently, the Company expects to make a contribution of approximately \$6.4 million to the Pension Plans in 2016. The Company's actual contributions may differ from planned contributions due to many factors including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

8. DEBT

Short-Term Borrowings

One of the Company's Asian subsidiaries has yen-denominated short-term lines of credit and overdraft facilities with a number of Japanese banks at various interest rates that provide for borrowings of up to ¥2,200.0 million (approximately \$20.5 million based on exchange rates in effect on May 1, 2016) and are utilized primarily to fund working capital needs. As of May 1, 2016, the Company had \$18.6 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at May 1, 2016 was 0.29%. The maximum amount of borrowings outstanding during the thirteen weeks ended May 1, 2016 was \$18.6 million.

One of the Company's Asian subsidiaries has a won-denominated overdraft facility with a South Korean bank that provides for borrowings of up to 3,500.0 million (approximately \$3.1 million based on exchange rates in effect on May 1, 2016) and is utilized primarily to fund working capital needs. Borrowings under this facility are unsecured and bear interest at the South Korean bank three-month certificate of deposit rate plus 1.50%. There were no borrowings outstanding under this facility as of or during the thirteen weeks ended May 1, 2016.

One of the Company's Asian subsidiaries has a United States dollar-denominated short-term revolving credit facility with a bank that provides for borrowings of up to \$10.0 million and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the one-month London interbank borrowing rate ("LIBOR") plus 1.50%. At the end of each month, amounts outstanding under this facility may be carried forward for additional one-month periods for up to one year. This facility is subject to certain terms and conditions and may be terminated at any time at the discretion of the bank. There were no borrowings outstanding under this facility as of or during the thirteen weeks ended May 1, 2016.

One of the Company's European subsidiaries has euro-denominated short-term revolving notes with a number of banks at various interest rates, as well as overdraft facilities, that provide for borrowings of up to €60.0 million (approximately \$68.4 million based on exchange rates in effect on May 1, 2016) and are used primarily to fund working capital needs. There were no borrowings outstanding under these facilities as of or during the thirteen weeks ended May 1, 2016.

One of the Company's European subsidiaries has a United States dollar-denominated short-term line of credit facility with a Turkish bank that provides for borrowings of up to \$3.7 million and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the Turkish overnight lending rate plus 3.00%. As of May 1, 2016, the Company had \$2.6 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at May 1, 2016 was 13.75%. The maximum amount of borrowings outstanding during the thirteen weeks ended May 1, 2016 was \$3.3 million.

One of the Company's European subsidiaries has a Turkish lira-denominated short-term line of credit facility with a Turkish bank that provides for borrowings of up to lira 3.0 million (approximately \$1.1 million based on exchange rates in effect on

May 1, 2016) and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the Turkish overnight lending rate plus 4.00%. As of May 1, 2016, the Company had \$0.9 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at May 1, 2016 was 15.50%. The maximum amount of borrowings outstanding during the thirteen weeks ended May 1, 2016 was \$0.9 million.

One of the Company's Mexican subsidiaries has peso-denominated short-term line of credit facilities with a number of banks at various interest rates that provide for borrowings of up to 279.8 million (approximately \$16.3 million based on exchange rates in effect on May 1, 2016) and are utilized primarily to fund working capital needs. As of May 1, 2016, the Company had \$8.0 million of borrowings outstanding under these facilities. The weighted average interest rate on the funds borrowed at May 1, 2016 was 5.32%. The maximum amount of borrowings outstanding during the thirteen weeks ended May 1, 2016 was \$13.5 million.

One of the Company's Mexican subsidiaries has a peso-denominated short-term revolving credit facility with a Mexican bank that provides for borrowings of up to 161.1 million (approximately \$9.4 million based on exchange rates in effect on May 1, 2016) and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the Interbank Equilibrium Interest Rate plus 0.90%. As of May 1, 2016, the Company had \$8.5 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at May 1, 2016 was 4.37%. The maximum amount of borrowings outstanding during the thirteen weeks ended May 1, 2016 was equal to the maximum amount of borrowings available under this facility.

One of the Company's Latin American subsidiaries has Brazilian real-denominated short-term revolving credit facilities with a number of banks at various interest rates that provide for total available borrowings of R\$83.0 million (approximately \$23.8 million based on exchange rates in effect on May 1, 2016) and are utilized primarily to fund working capital needs. There were no borrowings outstanding under these facilities as of or during the thirteen weeks ended May 1, 2016.

The Company also has the ability to draw revolving borrowings under its senior secured credit facilities as discussed in the section entitled "2014 Senior Secured Credit Facilities" below. As of May 1, 2016, the Company had \$2.4 million of borrowings outstanding under these facilities. The weighted average interest rate on the funds borrowed at May 1, 2016 was 3.20%. The maximum amount of revolving borrowings outstanding under these facilities during the thirteen weeks ended May 1, 2016 was \$8.0 million.

Long-Term Debt

The carrying amounts of the Company's long-term debt were as follows:

(In millions)	5/1/16	5/3/15
Senior secured Term Loan A facility due 2019	\$1,758.3	\$1,877.5
Senior secured Term Loan B facility due 2020	571.4	797.7
4 1/2% senior unsecured notes due 2022	689.2	687.6
7 3/4% debentures due 2023	99.4	99.3
Total	3,118.3	3,462.1
Less: Current portion of long-term debt	126.7	99.3
Long-term debt	\$2,991.6	\$3,362.8

Please see Note 11, "Fair Value Measurements," for the fair value of the Company's long-term debt as of May 1, 2016 and May 3, 2015.

On May 19, 2016 (the “Amendment Date”), the Company entered into an amendment (the “Amendment”) to its existing 2014 Senior Secured Credit Facilities that it had entered into on March 21, 2014, which are discussed below in the section entitled “2014 Senior Secured Credit Facilities.” Among other things, the Amendment provides for an additional \$582.0 million principal amount of loans under the Term Loan A facility, the repayment of the \$582.0 million principal amount of outstanding loans under the Term Loan B facility and the termination of the Term Loan B facility as of the Amendment Date. Please see Note 20, “Subsequent Events,” for a further discussion. The following discussion pertains to the Company’s debt as of May 1, 2016 and does not give effect to such amendment and repayment.

As of May 1, 2016, the Company's mandatory long-term debt repayments for the next five years were as follows:

(In millions)

Remainder of 2016	\$ 89.5
2017	186.2
2018	198.6
2019	1,291.1
2020	582.0
2021	—

Total debt repayments for the next five years exceed the carrying amount of the Company's term loan facilities as of May 1, 2016 because the carrying amount reflects the unamortized portions of debt issuance costs and the original issue discounts.

As of May 1, 2016, after taking into account the effect of the Company's interest rate swap agreements discussed in the section below entitled "2014 Senior Secured Credit Facilities," which were in effect as of such date, approximately 65% of the Company's long-term debt had a fixed interest rate, with the remainder at variable interest rates.

2014 Senior Secured Credit Facilities

On March 21, 2014 (the "Restatement Date"), the Company entered into an amendment (the "Prior Amendment") to the prior facilities (as amended by the Prior Amendment, the "2014 facilities"). The Prior Amendment provided for an additional \$350.0 million principal amount of loans under the Term Loan A facility and an additional \$250.0 million principal amount of loans under the Term Loan B facility and extended the maturity of the Term Loan A and the revolving credit facilities from February 13, 2018 to February 13, 2019. The maturity date of the Term Loan B facility remained February 13, 2020. On the Restatement Date, the Company borrowed the additional principal amounts described above and used the proceeds to redeem all of its outstanding 7 3/8% senior notes. In connection with entering into the Prior Amendment, the Company paid debt issuance costs of \$13.3 million (of which \$8.0 million was expensed as debt modification and extinguishment costs and \$5.3 million was being amortized over the term of the related debt agreement) and recorded additional debt modification and extinguishment costs of \$3.2 million to write-off previously capitalized debt issuance costs.

The 2014 facilities consist of a \$1,986.3 million United States dollar-denominated Term Loan A facility (recorded net of an original issue discount of \$7.8 million), a \$1,188.6 million United States dollar-denominated Term Loan B facility (recorded net of an original issue discount of \$5.7 million) and senior secured revolving credit facilities consisting of (a) a \$475.0 million United States dollar-denominated revolving credit facility, (b) a \$25.0 million United States dollar-denominated revolving credit facility available in United States dollars or Canadian dollars and (c) a €185.9 million euro-denominated revolving credit facility available in euro, pounds sterling, Japanese yen or Swiss francs.

The revolving credit facilities also include amounts available for letters of credit. As of May 1, 2016, the Company had \$2.4 million of outstanding revolving credit borrowings and \$29.3 million of outstanding letters of credit. A portion of each of the United States dollar-denominated revolving credit facilities is also available for the making of swingline loans. The issuance of such letters of credit and the making of any swingline loan reduces the amount available under the applicable revolving credit facility. So long as certain conditions are satisfied, the Company may add one or more term loan facilities or increase the commitments under the revolving credit facilities by an aggregate amount not to exceed the sum of (1) the sum of (x) \$1,350.0 million plus (y) the aggregate amount of all voluntary

prepayments of term loans under the facilities and the revolving credit facilities (to the extent, in the case of voluntary prepayments of loans under the revolving credit facilities, there is an equivalent permanent reduction of the revolving commitments) plus (z) an amount equal to the aggregate revolving commitments of any defaulting lender (to the extent the commitments with respect thereto have been terminated) and (2) an additional unlimited amount as long as the ratio of the Company's senior secured net debt to consolidated adjusted earnings before interest, taxes, depreciation and amortization (in each case calculated as set forth in the documentation relating to the 2014 facilities) would not exceed 3 to 1 after giving pro forma effect to the incurrence of such increase. The lenders under the 2014 facilities are not required to provide commitments with respect to such additional facilities or increased commitments.

During the thirteen weeks ended May 1, 2016 and May 3, 2015, the Company made payments of \$51.9 million and \$49.8 million, respectively, on its term loans under the 2014 facilities. As of May 1, 2016, the Company had total term loans outstanding of \$2,329.7 million, net of original issue discounts and debt issuance costs. The terms of each of Term Loan A and

Term Loan B contain a mandatory quarterly repayment schedule. Due to previous voluntary payments, the Company is not required to make any additional scheduled mandatory payments under Term Loan B prior to maturity.

Obligations of the Company under the 2014 facilities are guaranteed by substantially all of the Company's existing and future direct and indirect United States subsidiaries, with certain exceptions. Obligations of the European Borrower under the 2014 facilities are guaranteed by the Company, substantially all of its existing and future direct and indirect domestic subsidiaries (with certain exceptions) and Tommy Hilfiger Europe B.V., a wholly owned subsidiary of the Company. The Company and its domestic subsidiary guarantors have pledged certain of their assets as security for the obligations under the 2014 facilities.

The outstanding borrowings under the 2014 facilities are prepayable at any time without penalty (other than customary breakage costs). The terms of the 2014 facilities require the Company to repay certain amounts outstanding thereunder with (a) net cash proceeds of the incurrence of certain indebtedness, (b) net cash proceeds of certain asset sales or other dispositions (including as a result of casualty or condemnation) that exceed certain thresholds, to the extent such proceeds are not reinvested or committed to be reinvested in the business in accordance with customary reinvestment provisions, and (c) a percentage of excess cash flow that exceeds the voluntary debt payments the Company has made during the applicable year, which percentage is based upon the Company's net leverage ratio during the relevant fiscal period.

The United States dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a base rate determined by reference to the greater of (i) the prime rate, (ii) the United States federal funds rate plus 1/2 of 1.00% and (iii) a one-month adjusted Eurocurrency rate plus 1.00% (provided that, with respect to the Term Loan B facility, in no event will the base rate be deemed to be less than 1.75%) or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the 2014 facilities (provided that, with respect to the Term Loan B facility, in no event will the adjusted Eurocurrency rate be deemed to be less than 0.75%).

The Canadian dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a Canadian prime rate determined by reference to the greater of (i) the rate of interest per annum that Royal Bank of Canada establishes at its main office in Toronto, Ontario as the reference rate of interest in order to determine interest rates for loans in Canadian dollars to its Canadian borrowers and (ii) the sum of (x) the average of the rates per annum for Canadian dollar bankers' acceptances having a term of one month that appears on the display referred to as "CDOR Page" of Reuters Monitor Money Rate Services as of 10:00 a.m. (Toronto time) on the date of determination, as reported by the administrative agent (and if such screen is not available, any successor or similar service as may be selected by the administrative agent), and (y) 0.75%, or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the Prior Amendment.

The borrowings under the 2014 facilities in currencies other than United States dollars or Canadian dollars bear interest at a rate equal to an applicable margin plus an adjusted Eurocurrency rate, calculated in a manner set forth in the Prior Amendment.

The current applicable margin with respect to the Term Loan A facility and each revolving credit facility is 1.50% for adjusted Eurocurrency rate loans and 0.50% for base rate loans, respectively. The current applicable margin with respect to the Term Loan B facility is 2.50% for adjusted Eurocurrency rate loans and 1.50% for base rate loans, respectively. After the date of delivery of the compliance certificate and financial statements with respect to each of the Company's fiscal quarters, the applicable margin for borrowings under the Term Loan A facility, the Term Loan B facility and the revolving credit facilities is subject to adjustment based upon the Company's net leverage ratio.

The 2014 facilities contain customary events of default, including but not limited to nonpayment; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; cross-default to material indebtedness; certain material judgments; certain events related to the Employee Retirement Income Security Act of 1974, as amended; certain events related to certain of the guarantees by the Company and certain of its subsidiaries, and certain pledges of its assets and those of certain of its subsidiaries, as security for the obligations under the 2014 facilities; and a change in control (as defined in the 2014 facilities).

During the second quarter of 2014, the Company entered into an interest rate cap agreement for an 18-month term commencing on August 18, 2014. The agreement was designed with the intended effect of capping the interest rate on an initial notional amount of \$514.2 million of the Company's variable rate debt obligation under the 2014 facilities, or any replacement facility with similar terms. Under the terms of this agreement, the one-month LIBOR that the Company paid was capped at a rate of 1.50%. Therefore, the maximum amount of interest that the Company paid on the then-outstanding notional amount was at the 1.50% capped rate, plus the current applicable margin. The agreement expired on February 17, 2016.

During the second quarter of 2014, the Company entered into an interest rate swap agreement for a two-year term commencing on February 17, 2016. The agreement was designed with the intended effect of converting an initial notional amount of \$682.6 million of the Company's variable rate debt obligation under the 2014 facilities, or any replacement facility with similar terms, to fixed rate debt. Such agreement remains outstanding with a notional amount of \$681.7 million as of May 1, 2016 and is now converting a portion of the Company's variable rate debt obligation under the senior secured credit facilities to fixed rate debt. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month LIBOR is eliminated and the Company will pay a weighted average fixed rate of 1.924%, plus the current applicable margin.

During the second quarter of 2013, the Company entered into an interest rate swap agreement for a three-year term commencing on August 19, 2013. The agreement was designed with the intended effect of converting an initial notional amount of \$1,228.8 million of the Company's variable rate debt obligation under its previously outstanding facilities, or any replacement facility with similar terms, to fixed rate debt. Such agreement remains outstanding with a notional amount of \$561.8 million as of May 1, 2016, and is now converting a portion of the Company's variable rate debt obligation under the senior secured credit facilities to fixed rate debt. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month LIBOR is eliminated and it will pay a fixed rate of 0.604%, plus the current applicable margin.

The notional amount of each interest rate swap will be adjusted according to a pre-set schedule during the term of each swap agreement such that, based on the Company's projections for future debt repayments, the Company's outstanding debt under the Term Loan A facility is expected to always equal or exceed the combined notional amount of the then-outstanding interest rate swaps.

The 2014 facilities also contain covenants that restrict the Company's ability to finance future operations or capital needs, to take advantage of other business opportunities that may be in its interest or to satisfy its obligations under its other outstanding debt. These covenants restrict the Company's ability to, among other things:

- incur or guarantee additional debt or extend credit;
- make restricted payments, including paying dividends or making distributions on, or redeeming or repurchasing, the Company's capital stock or certain debt;
- make acquisitions and investments;
- dispose of assets;
- engage in transactions with affiliates;
- enter into agreements restricting the Company's subsidiaries' ability to pay dividends;
- create liens on the Company's assets or engage in sale/leaseback transactions; and
- effect a consolidation or merger, or sell, transfer, or lease all or substantially all of the Company's assets.

The 2014 facilities require the Company to comply with certain financial covenants, including minimum interest coverage and maximum net leverage. A breach of any of these operating or financial covenants would result in a default under the applicable facility. If an event of default occurs and is continuing, the lenders could elect to declare all amounts then outstanding, together with accrued interest, to be immediately due and payable which would result in acceleration of the Company's other debt. If the Company was unable to repay any such borrowings when due, the lenders could proceed against their collateral, which also secures some of the Company's other indebtedness.

4 1/2% Senior Notes Due 2022

On December 20, 2012, the Company issued \$700.0 million principal amount of 4 1/2% senior notes due December 15, 2022. The Company paid \$16.3 million of fees during 2013 in connection with the issuance of these notes, which

are amortized over the term of the notes. The Company may redeem some or all of these notes at any time prior to December 15, 2017 by paying a “make whole” premium plus any accrued and unpaid interest. In addition, the Company may redeem some or all of these notes on or after December 15, 2017 at specified redemption prices plus any accrued and unpaid interest. The Company’s ability to pay cash dividends and make other restricted payments is limited, in each case, over specified amounts as defined in the indenture governing the notes.

7 3/4% Debentures Due 2023

The Company has outstanding \$100.0 million of debentures due November 15, 2023 with a yield to maturity of 7.80%. The debentures accrue interest at the rate of 7 3/4%. Pursuant to the indenture governing the debentures, the Company must

maintain a certain level of stockholders' equity in order to pay cash dividends and make other restricted payments, as defined in the indenture governing the debentures.

Substantially all of the Company's assets have been pledged as collateral to secure the Company's obligations under its senior secured credit facilities, the 7 3/4% debentures due 2023 and contingent purchase price payments to Mr. Calvin Klein as discussed in Note 6, "Goodwill."

9. INCOME TAXES

The effective income tax rates for the thirteen weeks ended May 1, 2016 and May 3, 2015 were 12.8% and 22.4%, respectively.

The effective income tax rate for the thirteen weeks ended May 1, 2016 was lower than the United States statutory rate due to the benefit of lower tax rates in international jurisdictions where the Company files tax returns. Also contributing to the lower effective income tax rate in the thirteen weeks ended May 1, 2016 was the benefit of certain discrete items, including the lower tax rate applicable to the pre-tax gain recorded to write-up the Company's existing equity investment in TH China to fair value.

The effective income tax rate for the thirteen weeks ended May 3, 2015 was lower than the United States statutory rate due to the benefit of lower tax rates in international jurisdictions where the Company files tax returns.

10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has exposure to changes in foreign currency exchange rates related to certain anticipated cash flows principally associated with certain international inventory purchases and certain intercompany transactions. The Company periodically uses foreign currency forward exchange contracts to hedge against a portion of this exposure.

The Company also has exposure to interest rate volatility related to its senior secured term loan facilities. The Company has entered into interest rate swap agreements to hedge against a portion of this exposure. The Company had also entered into an interest rate cap agreement, which expired on February 17, 2016. Please see Note 8, "Debt," for a further discussion of the Company's 2014 facilities and these agreements.

The Company records the foreign currency forward exchange contracts and interest rate contracts at fair value in its Consolidated Balance Sheets, and does not net the related assets and liabilities. Changes in fair value of the foreign currency forward exchange contracts associated with certain international inventory purchases and the interest rate contracts that are designated as effective hedging instruments (collectively referred to as "cash flow hedges") are recorded in equity as a component of accumulated other comprehensive loss ("AOCL"). The cash flows from such hedges are presented in the same category in the Company's Consolidated Statements of Cash Flows as the items being hedged. No amounts were excluded from effectiveness testing. There was no ineffective portion of cash flow hedges during the thirteen weeks ended May 1, 2016 and May 3, 2015. In addition, the Company records immediately in earnings changes in the fair value of hedges that are not designated as effective hedging instruments ("undesignated contracts"), including all of the foreign currency forward exchange contracts related to intercompany loans that are not of a long-term investment nature. Any gains and losses that are immediately recognized in earnings on such contracts related to intercompany loans are largely offset by the remeasurement of the underlying intercompany loan balances. The Company does not use derivative financial instruments for trading or speculative purposes.

The following table summarizes the fair value and presentation of the Company's derivative financial instruments in its Consolidated Balance Sheets:

(In millions)	Asset Derivatives (Classified in Other Current Assets and Other Assets)			Liability Derivatives (Classified in Accrued Expenses and Other Liabilities)		
	5/1/16	1/31/16	5/3/15	5/1/16	1/31/16	5/3/15
Contracts designated as cash flow hedges:						
Foreign currency forward exchange contracts (inventory purchases)	\$ 1.0	\$ 24.9	\$ 58.1	\$ 34.0	\$ 1.7	\$ 8.1
Interest rate contracts	—	—	0.5	18.4	20.6	13.1
Total contracts designated as cash flow hedges	1.0	24.9	58.6	52.4	22.3	21.2
Undesignated contracts:						
Foreign currency forward exchange contracts (principally intercompany transactions)	0.3	19.3	16.4	0.6	0.1	0.3
Total undesignated contracts	0.3	19.3	16.4	0.6	0.1	0.3
Total	\$ 1.3	\$ 44.2	\$ 75.0	\$ 53.0	\$ 22.4	\$ 21.5

At May 1, 2016, the notional amount outstanding of foreign currency forward exchange contracts was \$943.2 million. Such contracts expire principally between May 2016 and August 2017.

The following table summarizes the effect of the Company's hedges designated as cash flow hedging instruments:

(In millions)	(Loss) Gain Recognized in Other Comprehensive Income (Loss)		Gain (Loss) Reclassified from AOCL into Income (Expense)	
	Location	Amount	Location	Amount
Thirteen Weeks Ended	5/1/16	5/3/15	5/1/16	5/3/15
Foreign currency forward exchange contracts (inventory purchases)	\$ (58.4)	\$ 0.6	Cost of goods sold	\$4.7 \$20.6
Interest rate contracts	(0.1)	1.1	Interest expense	(2.4) (1.1)
Total	\$ (58.5)	\$ 1.7		\$2.3 \$19.5

A net loss in AOCL on foreign currency forward exchange contracts at May 1, 2016 of \$16.9 million is estimated to be reclassified in the next 12 months in the Company's Consolidated Income Statement to costs of goods sold as the underlying inventory hedged by such forward exchange contracts is sold. In addition, a net loss in AOCL for interest rate contracts at May 1, 2016 of \$12.1 million is estimated to be reclassified to interest expense within the next 12 months.

The following table summarizes the effect of the Company's foreign currency forward exchange undesignated contracts:

(In millions)	(Loss) Gain Recognized in Income	
	Location	5/1/16 5/3/15
Foreign currency forward exchange contracts (principally intercompany transactions)	Selling, general and administrative expenses	\$ (3.8) \$ 2.7

The Company had no derivative financial instruments with credit risk-related contingent features underlying the related contracts as of May 1, 2016.

11. FAIR VALUE MEASUREMENTS

FASB guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three level hierarchy that prioritizes the inputs used to measure fair value. The three levels of the hierarchy are defined as follows:

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Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs reflecting the Company’s own assumptions about the inputs that market participants would use in pricing the asset or liability based on the best information available.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company’s financial assets and liabilities that are required to be remeasured at fair value on a recurring basis:

(In millions)	5/1/16				1/31/16				5/3/15			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:												
Foreign currency forward exchange contracts	N/A	\$1.3	N/A	\$1.3	N/A	\$44.2	N/A	\$44.2	N/A	\$74.5	N/A	\$74.5
Interest rate contracts	N/A	—	N/A	—	N/A	—	N/A	—	N/A	0.5	N/A	0.5
Total Assets	N/A	\$1.3	N/A	\$1.3	N/A	\$44.2	N/A	\$44.2	N/A	\$75.0	N/A	\$75.0
Liabilities:												
Foreign currency forward exchange contracts	N/A	\$34.6	N/A	\$34.6	N/A	\$1.8	N/A	\$1.8	N/A	\$8.4	N/A	\$8.4
Interest rate contracts	N/A	18.4	N/A	18.4	N/A	20.6	N/A	20.6	N/A	13.1	N/A	13.1
Contingent purchase price payments related to reacquisition of the perpetual rights to the Tommy Hilfiger trademarks in India	N/A	N/A	\$2.3	2.3	N/A	N/A	\$2.2	2.2	N/A	N/A	\$4.0	4.0
Total Liabilities	N/A	\$53.0	\$2.3	\$55.3	N/A	\$22.4	\$2.2	\$24.6	N/A	\$21.5	\$4.0	\$25.5

The fair value of the foreign currency forward exchange contracts is measured as the total amount of currency to be purchased, multiplied by the difference between (i) the forward rate as of the period end and (ii) the settlement rate specified in each contract. The fair values of the interest rate contracts are based on observable interest rate yield curves and represent the expected discounted cash flows underlying the financial instruments.

Pursuant to the agreement governing the reacquisition of the rights in India to the Tommy Hilfiger trademarks (which the Company entered into in September 2011 in connection with its acquisition of its 50% ownership of TH India), the Company is required to make annual contingent purchase price payments based on a percentage of sales of Tommy Hilfiger products in India in excess of an agreed upon threshold during each of five consecutive 12-month periods (extended to a sixth consecutive 12-month period if the aggregate payments for the five 12-month periods are not at least \$15.0 million, which will be the case). Such payments are subject to a \$25.0 million aggregate maximum and are due within 60 days following each one-year period. The Company made annual contingent purchase price payments of \$0.6 million, \$0.6 million, \$0.4 million and \$0.2 million during 2015, 2014, 2013 and 2012, respectively. The Company is required to remeasure this liability at fair value on a recurring basis and classifies this as a Level 3 measurement. The fair value of such liability was determined using the discounted cash flow method, based on net

sales projections for the Tommy Hilfiger apparel and accessories businesses in India, and was discounted using rates of return that account for the relative risks of the estimated future cash flows. Excluding the initial recognition of the liability for the contingent purchase price payments and payments made to reduce the liability, changes in the fair value are included within selling, general and administrative expenses in the Company's Consolidated Income Statements.

The following table presents the change in the Level 3 contingent purchase price payment liability during the thirteen weeks ended May 1, 2016 and May 3, 2015:

(In millions)	Thirteen Weeks Ended	
	5/1/16	5/3/15
Beginning Balance	\$2.2	\$ 4.0
Payments	—	—
Adjustments included in earnings	0.1	0.0
Ending Balance	\$2.3	\$ 4.0

Additional information with respect to assumptions used to value the contingent purchase price payment liability as of May 1, 2016 is as follows:

Unobservable Inputs	Amount
Approximate compounded annual net sales growth rate	35.0 %
Approximate discount rate	15.0 %

A five percentage point increase or decrease in the discount rate would change the liability by approximately \$0.1 million.

A five percentage point increase or decrease in the compounded annual net sales growth rate would change the liability by approximately \$0.1 million.

There were no transfers between any levels of the fair value hierarchy for any of the Company's fair value measurements.

In connection with the Company's acquisition of the 55% of TH China that it did not already own, the Company's existing 45% interest in TH China was remeasured to a fair value of \$205.6 million, resulting in the recognition of a pre-tax noncash gain of \$153.1 million in the thirteen weeks ended May 1, 2016. The Company classifies this as a Level 3 measurement. Please see Note 3, "Acquisitions," for a further discussion.

In connection with the sale of substantially all of the assets of the Company's G. H. Bass & Co. ("Bass") business in the fourth quarter of 2013, the Company guaranteed lease payments for substantially all Bass retail stores included in the sale pursuant to the terms of noncancelable leases expiring on various dates through 2022. These guarantees include minimum rent payments and relate to leases that commenced prior to the sale of the Bass assets. In certain instances, the Company's guarantee remains in effect when an option is exercised to extend the term of the lease. The estimated fair value of these guarantee obligations as of May 1, 2016, January 31, 2016 and May 3, 2015 was \$1.8 million, \$1.9 million and \$2.8 million, respectively, which was included in accrued expenses and other liabilities in the Company's Consolidated Balance Sheets. The Company classifies these as Level 3 measurements. The fair value of such guarantee obligations was determined using the discounted cash flow method, based on the guaranteed lease payments, the estimated probability of lease extensions and estimates of the risk of default by the buyer of the Bass assets, and was discounted using rates of return that account for the relative risks of the estimated future cash flows.

The carrying amounts and the fair values of the Company's cash and cash equivalents, short-term borrowings and long-term debt as of May 1, 2016, January 31, 2016 and May 3, 2015 were as follows:

(In millions)	5/1/16	1/31/16	5/3/15
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	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$365.1	\$365.1	\$556.4	\$556.4	\$419.3	\$419.3
Short-term borrowings	41.0	41.0	25.9	25.9	10.6	10.6
Long-term debt (including portion classified as current)	3,118.3	3,188.1	3,168.3	3,190.5	3,462.1	3,501.1

The fair values of cash and cash equivalents and short-term borrowings approximate their carrying amounts due to the short-term nature of these instruments. The Company estimates the fair value of its long-term debt using quoted market prices as of the last business day of the applicable quarter. The Company classifies the measurement of its long-term debt as a Level 1 measurement. The carrying amounts of long-term debt reflect the unamortized portions of debt issuance costs and the original issue discounts.

12. STOCK-BASED COMPENSATION

The Company grants stock-based awards under its 2006 Stock Incentive Plan (the “2006 Plan”). The 2006 Plan replaced the Company’s 2003 Stock Option Plan (the “2003 Plan”) and certain other prior stock option plans. The 2003 Plan and these other plans terminated upon the 2006 Plan’s initial stockholder approval in June 2006, other than with respect to outstanding options, which continued to be governed by the applicable prior plan. Only awards under the 2003 Plan continue to be outstanding insofar as these prior plans are concerned. Shares issued as a result of stock-based compensation transactions generally have been funded with the issuance of new shares of the Company’s common stock.

The Company may grant the following types of incentive awards under the 2006 Plan (i) non-qualified stock options (“NQs”); (ii) incentive stock options (“ISOs”); (iii) stock appreciation rights; (iv) restricted stock; (v) restricted stock units (“RSUs”); (vi) performance shares and performance share units (“PSUs”); and (vii) other stock-based awards. Each award granted under the 2006 Plan is subject to an award agreement that incorporates, as applicable, the exercise price, the term of the award, the periods of restriction, the number of shares to which the award pertains, performance periods and performance measures, and such other terms and conditions as the plan committee determines.

Through May 1, 2016, the Company has granted under the 2006 Plan (i) service-based NQs, RSUs and restricted stock; (ii) contingently issuable PSUs; and (iii) RSUs that are intended to satisfy the performance-based condition for deductibility under Section 162(m) of the Internal Revenue Code. According to the terms of the 2006 Plan, for purposes of determining the number of shares available for grant, each share underlying a stock option award reduces the number available by one share and each share underlying a restricted stock award, RSU or PSU reduces the number available by two shares. The per share exercise price of options granted under the 2006 Plan cannot be less than the closing price of the common stock on the date of grant (the business day prior to the date of grant for awards granted prior to September 21, 2006).

The Company currently has service-based NQs outstanding under the 2003 Plan. Such stock options were granted with a per share exercise price equal to the closing price of the Company’s common stock on the business day immediately preceding the date of grant.

Net income for the thirteen weeks ended May 1, 2016 and May 3, 2015 included \$10.3 million and \$8.5 million, respectively, of pre-tax expense related to stock-based compensation, with recognized income tax benefits of \$2.8 million and \$2.0 million, respectively.

Stock options currently outstanding are generally exercisable in four equal annual installments commencing one year after the date of grant. The vesting of such options outstanding is also generally accelerated upon retirement (as defined in the applicable plan). Such options are granted with a 10-year term.

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes-Merton model. The estimated fair value of the options, net of estimated forfeitures, is expensed over the options’ vesting periods.

The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during the thirteen weeks ended May 1, 2016 and May 3, 2015:

	Thirteen Weeks	
	Ended	
	5/1/16	5/3/15
Weighted average risk-free interest rate	1.44 %	1.54 %
Weighted average expected option term (in years)	6.25	6.25
Weighted average Company volatility	34.67 %	36.32 %
Expected annual dividends per share	\$0.15	\$0.15
Weighted average grant date fair value per option	\$35.64	\$40.25

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 term. The expected option term 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. Company volatility is based on the historical volatility of the Company's common stock over a period of time corresponding to the expected option term. Expected dividends are based on the Company's common stock cash dividend rate at the date of grant.

The Company has continued to utilize the simplified method to estimate the expected term for its "plain vanilla" stock options granted due to a lack of relevant historical data resulting, in part, from changes in the pool of employees receiving option grants, mainly due to acquisitions. The Company will continue to evaluate the appropriateness of utilizing such method.

Service-based stock option activity for the thirteen weeks ended May 1, 2016 was as follows:

(In thousands, except per option data)	Options	Weighted Average Exercise Price Per Option
Outstanding at January 31, 2016	1,443	\$ 70.79
Granted	221	99.35
Exercised	12	65.95
Cancelled	—	—
Outstanding at May 1, 2016	1,652	\$ 74.65
Exercisable at May 1, 2016	1,199	\$ 62.65

RSUs granted to employees in 2016 generally vest in four equal annual installments commencing one year after the date of grant. Outstanding RSUs granted to employees prior to 2016 generally vest in three annual installments of 25%, 25% and 50% commencing two years after the date of grant. Service-based RSUs granted to non-employee directors vest in full one year after the date of grant. The underlying RSU award agreements (excluding agreements for non-employee director awards) generally provide for accelerated vesting upon the award recipient's retirement (as defined in the 2006 Plan). The fair value of service-based RSUs is equal to the closing price of the Company's common stock on the date of grant and is expensed, net of estimated forfeitures, over the RSUs' vesting periods.

RSU activity for the thirteen weeks ended May 1, 2016 was as follows:

(In thousands, except per RSU data)	RSUs	Weighted Average Grant Date Fair Value Per RSU
Non-vested at January 31, 2016	653	\$ 111.61
Granted	308	98.26
Vested	110	105.44
Cancelled	23	113.34
Non-vested at May 1, 2016	828	\$ 107.41

The Company granted contingently issuable PSUs to certain of the Company's senior executives during the first quarter of each of 2013 and 2014. These awards were subject to achievement of an earnings per share goal for the two-year performance period beginning with the year of grant and a service period of one year beyond the certification of performance. For the awards granted in the first quarter of 2014, the two-year performance period has ended and

the holders did not earn any shares based on earnings per share growth over the performance period. For the awards granted in the first quarter of 2013, the holders earned an aggregate of 26,000 shares, which were paid out in the first quarter of 2016. For such awards, the Company recorded expense ratably over each applicable vesting period based on fair value and the Company's expectations of the probable number of shares to be issued. The fair value of these contingently issuable PSUs was equal to the closing price of the Company's common stock on the date of grant, reduced for the present value of any dividends expected to be paid on the Company's common stock during the performance cycle, as these contingently issuable PSUs did not accrue dividends prior to the completion of the performance cycle.

The Company granted contingently issuable PSUs to certain of the Company's executives during the second quarter of 2013 and to certain of the Company's senior executives during the first quarter of each of 2015 and 2016 subject to a three-year performance period. For such awards, the final number of shares to be earned, if any, is contingent upon the Company's achievement of goals for the applicable performance period, of which 50% is based upon the Company's absolute stock price growth during the applicable performance period and 50% is based upon the Company's total shareholder return during the applicable performance period relative to other companies included in the S&P 500 as of the date of grant. For the awards granted in the second quarter of 2013, the performance period ended on May 5, 2016 and the holders did not earn any shares, as the Company did not achieve the threshold performance level required for payout. The Company records expense ratably over the applicable vesting period, net of estimated forfeitures, regardless of whether the market condition is satisfied because the awards are subject to market conditions. The fair value of the awards granted in the first quarter of 2016 and 2015 was established for each grant on the grant date using the Monte Carlo simulation model, which was based on the following assumptions:

	2016		2015	
Risk-free interest rate	1.04	%	0.90	%
Expected Company volatility	28.33	%	29.10	%
Expected annual dividends per share	\$0.15		\$0.15	
Weighted average grant date fair value per PSU	\$87.16		\$101.23	

Certain of the awards granted in the first quarter of 2016 are subject to a holding period of one year after the vesting date. For such awards, the grant date fair value was discounted 12.99% for the restriction of liquidity.

PSU activity for the thirteen weeks ended May 1, 2016 was as follows:

		Weighted Average Grant Date Fair Value Per PSU
(In thousands, except per share data)	PSUs	
Non-vested at January 31, 2016	493	\$ 121.41
Granted	76	87.16
Vested	26	114.77
Cancelled	83	125.09
Non-vested at May 1, 2016	460	\$ 115.42

The Company receives a tax deduction for certain transactions associated with its stock plan awards. The actual income tax benefits realized from these transactions for the thirteen weeks ended May 1, 2016 and May 3, 2015 were \$4.1 million and \$5.7 million, respectively. Of those amounts, \$0.1 million and \$2.0 million, respectively, were reported as excess tax benefits. Excess tax benefits arise when the actual tax benefit resulting from a stock plan award transaction exceeds the tax benefit associated with the grant date fair value of the related stock award.

13. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in AOCL, net of related taxes, by component for the thirteen weeks ended May 1, 2016:

(In millions)	Foreign currency translation	Retirement liability adjustment	Net unrealized and	Total
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	adjustments		realized gain (loss) on effective hedges	
Balance, January 31, 2016	\$ (730.5)	\$ 0.1	\$ 26.2	\$(704.2)
Other comprehensive income (loss) before reclassifications	184.3	—	(52.5)	131.8
Less: Amounts reclassified from AOCL	—	0.1	2.4	2.5
Other comprehensive income (loss)	184.3	(0.1)	(54.9)	129.3
Balance, May 1, 2016	\$ (546.2)	\$ —	\$ (28.7)	\$(574.9)

The following table presents the changes in AOCL, net of related taxes, by component for the thirteen weeks ended May 3, 2015:

(In millions)	Foreign currency translation adjustments	Retirement liability adjustment	Net unrealized and realized gain (loss) on effective hedges	Total
Balance, February 1, 2015	\$ (496.2)	\$ 0.4	\$ 79.3	\$(416.5)
Other comprehensive (loss) income before reclassifications	(15.3)	—	2.3	(13.0)
Less: Amounts reclassified from AOCL	—	0.1	19.2	19.3
Other comprehensive loss	(15.3)	(0.1)	(16.9)	(32.3)
Balance, May 3, 2015	\$ (511.5)	\$ 0.3	\$ 62.4	\$(448.8)

The following table presents reclassifications out of AOCL to earnings for the thirteen weeks ended May 1, 2016 and May 3, 2015:

(In millions)	Amount Reclassified from AOCL Thirteen Weeks Ended 5/1/16 5/3/15	Affected Line Item in the Company's Consolidated Income Statements
Realized gain (loss) on effective hedges:		
Foreign currency forward exchange contracts	\$4.7 \$20.6	Cost of goods sold
Interest rate contracts	(2.4) (1.1)	Interest expense
Less: Tax effect	(0.1) 0.3	Income tax expense
Total, net of tax	\$2.4 \$19.2	
Amortization of retirement liability items:		
Prior service credit	\$0.1 \$0.1	Selling, general and administrative expenses
Less: Tax effect	0.0 0.0	Income tax expense
Total, net of tax	\$0.1 \$0.1	

14. STOCKHOLDERS' EQUITY

The Company's Board of Directors authorized a \$500.0 million three-year stock repurchase program effective June 3, 2015. Repurchases under the program may be made from time to time over the period through open market purchases, accelerated share repurchase programs, privately negotiated transactions or other methods, as the Company deems appropriate. Purchases are made based on a variety of factors, such as price, corporate requirements and overall market conditions, applicable legal requirements and limitations, restrictions under the Company's debt arrangements, trading restrictions under the Company's insider trading policy and other relevant factors. The program may be modified, including to increase or decrease the repurchase limitation or extend, suspend, or terminate the program, at any time, without prior notice.

During the thirteen weeks ended May 1, 2016, the Company purchased approximately 0.6 million shares of its common stock in open market transactions for \$50.5 million (1.9 million shares for \$176.7 million since inception) under the program. As of May 1, 2016, the repurchased shares were held as treasury stock and \$323.3 million of the authorization remained available for future share repurchases.

Treasury stock activity also includes shares that were withheld in conjunction with the settlement of vested RSUs, PSUs and restricted stock to satisfy tax withholding requirements.

15. NET INCOME PER COMMON SHARE

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

(In millions, except per share data)	Thirteen Weeks Ended	
	5/1/16	5/3/15
Net income	\$231.6	\$114.1
Weighted average common shares outstanding for basic net income per common share	81.3	82.6
Weighted average impact of dilutive securities	0.6	0.8
Total shares for diluted net income per common share	81.9	83.4
Basic net income per common share	\$2.85	\$1.38