



Ellen Tracy



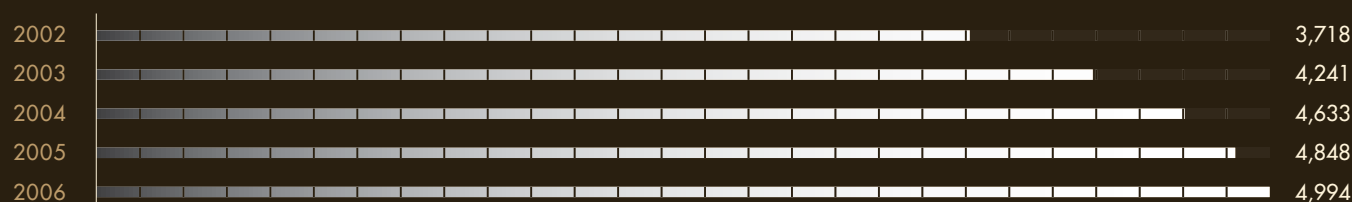
Mexx

2006

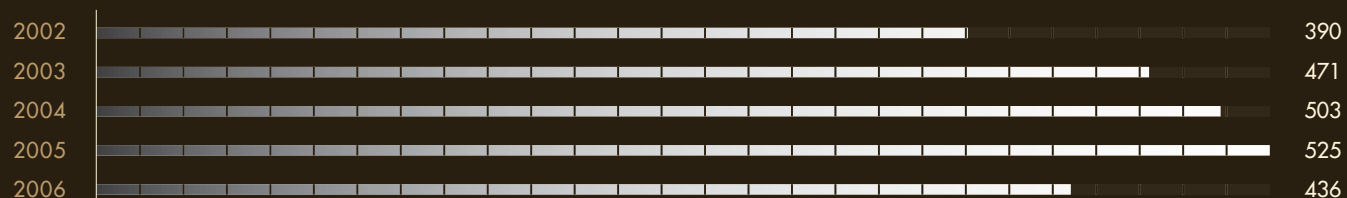
Liz Claiborne Inc. designs and markets an extensive range of fashion apparel and accessories appropriate to wearing occasions ranging from casual to dressy. Although they offer a wide array of styles, all Liz Claiborne Inc. brands share the common characteristics of innovative fashion and exceptionally high quality and value. Products are manufactured to the Company's specifications in the United States and abroad and are marketed through leading department and specialty stores and other channels in the United States, Canada, Europe, Asia, Australia and Central and South America.

(All dollar amounts in thousands except per common share data)	2006	2005	2004	2003	2002
NET SALES	\$ 4,994,318	\$ 4,847,753	\$ 4,632,828	\$ 4,241,115	\$ 3,717,503
GROSS PROFIT	2,387,465	2,298,357	2,142,562	1,889,791	1,619,635
OPERATING INCOME	436,077	525,340	502,746	470,790	389,888
NET INCOME	254,685	317,366*	313,569*	279,693*	231,165*
WORKING CAPITAL	796,195	848,798	871,540	836,911	618,490
TOTAL ASSETS	3,495,768	3,152,036	3,029,752	2,606,999	2,268,357
LONG TERM OBLIGATIONS	570,469	417,833	484,516	440,303	384,137
STOCKHOLDERS' EQUITY	2,129,981	2,002,706	1,811,789	1,577,971	1,286,361
PER COMMON SHARE DATA:					
Basic earnings	2.50	2.98*	2.90*	2.60*	2.19*
Diluted earnings	2.46	2.94*	2.85*	2.55*	2.16*
Book value at year end	20.65	19.08	16.66	14.40	12.02
Dividends paid	0.23	0.23	0.23	0.23	0.23
BASIC SHARES OUTSTANDING	101,989,470	106,353,769	108,128,172	107,451,157	105,592,062
DILUTED SHARES OUTSTANDING	103,482,699	107,919,303	109,886,352	109,619,241	107,195,872

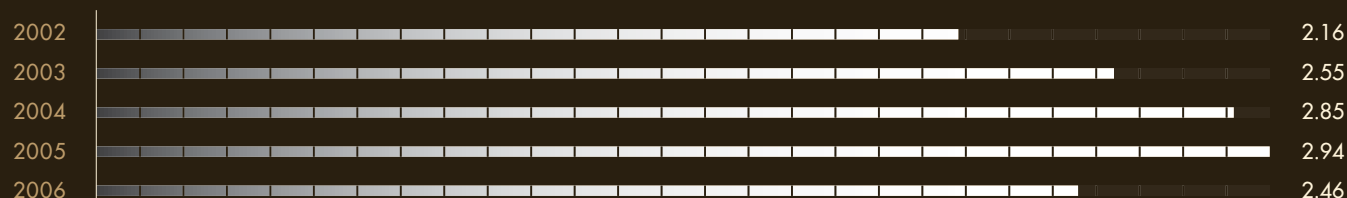
NET SALES (in millions of \$)



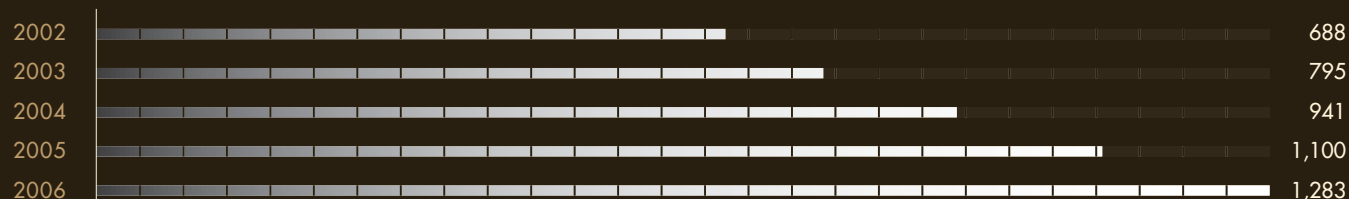
OPERATING INCOME (in millions of \$)



DILUTED EARNINGS PER SHARE



ASSET INVESTMENT** (cumulative, in millions of \$)



* Includes a restructuring gain of \$394 (\$610 pretax) or \$0.004 per share in 2005, a net restructuring charge of \$6,472 (\$9,694 pretax) or \$0.06 per share and a one time gain on sale of an equity investment of \$7,965 (\$11,934 pretax) or \$0.07 per common share in 2004, a restructuring gain of \$429 (\$672 pretax) or \$0.004 per share in 2003, and a restructuring charge of \$4,547 (\$7,130 pretax) or \$0.04 per common share in 2002. See Note 25 of Notes to Consolidated Financial Statements.

** Includes capital expenditures and in-store merchandise shops.

Access
Bora Bora
C & C California
Claiborne
Concepts by Claiborne
Curve
Dana Buchman
DKNY Active®
DKNY Jeans®
Ellen Tracy
Emma James
Enyce
First Issue
Intuitions
J.H. Collectibles
Juicy Couture
Kate Spade
Kenneth Cole New York
Kensie
Kensiegirl
Laundry by Design
Laundry by Shelli Segal
LIZ
Liz & Co.
Liz Claiborne
Lucky Brand Jeans
Mac & Jac
Mambo
Marvella
Mexx
Monet
Monet 2
Prana
Ratio
Reaction Kenneth Cole
Realities
Sigrid Olsen
Soul by Curve
Spark
Stamp 10
Tapemeasure
Tint
Trifari
Villager
Yzza

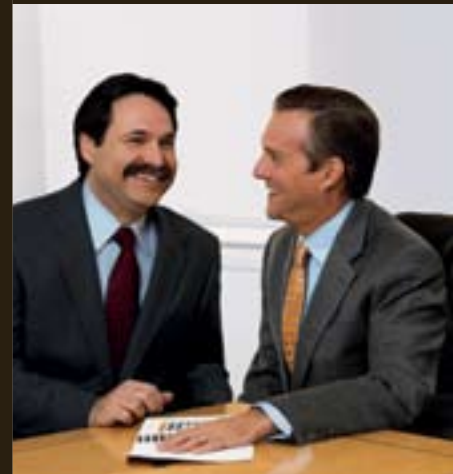


LIZ CLAIBORNE INC

Liz Claiborne Inc.

1441 Broadway, New York, NY 10018

www.lizclaiborne.com



William L. McComb
Chief Executive Officer

Trudy F. Sullivan
President

Michael Scarpa
Chief Operating Officer

DEAR STOCKHOLDERS, ASSOCIATES, BUSINESS PARTNERS AND FRIENDS:

Liz Claiborne Inc. has long been known for its many strengths—a unique brand portfolio, superb talent, a commitment to leadership, top global sourcing capabilities and, of course, a consistent return to shareholders.

It's been said, however, that every successful company should reassess what drives its results and find new ways of “supercharging”—that is, reinventing—those drivers. As a company, the time is right for us to do so, and in 2006, we began this process.

There was much to be proud of in the past year. Juicy Couture and Lucky Brand Jeans saw tremendous growth, and our core Liz Claiborne brand gained momentum in the midst of its important turnaround.

Nevertheless, we are not satisfied with our performance. Our earnings per share did not make the progress both we and our shareholders have come to know and expect.

The dynamics of our industry continued to place external pressures on our business, and we began the year anticipating the impact of the integration of May Department Stores into the Federated organization, the largest consolidation in the history of our wholesale business.

In response to this and other trends, we started to reshape and reinvest our cost base. We reduced approximately four percent of our global workforce, with significant reductions at senior levels of the organization, rationalized distribution facilities and closed or repurposed underperforming retail concepts. While difficult, these decisions and others to come will make it possible for us to reinvent our strengths to drive growth. In 2006 alone, total cost savings equaled approximately \$31 million, which was reinvested back into our brands.

So, as we enter 2007, we are a company in transition—strong today, but prepared to make the changes needed to be even stronger. Let me share with you our path forward.

Investing In Our Brands

In 2006 we invested in our brands and our core business operations.

We opened 45 specialty retail stores globally for brands including Juicy Couture, Lucky Brand Jeans and Mexx. This brings us to a record of 399 specialty stores across numerous formats, and we expect this pace of store openings to continue for the foreseeable future, with a goal of opening 100–125 specialty retail stores around the world in 2007.

International sales grew during the year and represented 28% of our total revenues.

Turning to our namesake brand, we are seeing results from strong design and merchandising, plus increased marketing, including the “Liz Is” campaign, which was inspired to reflect the authenticity of the brand and the people who wear it, while giving Liz Claiborne new energy and a fresh look. We plan to continue to invest in—and execute—design, product and marketing improvement initiatives for this and other brands in the future.

At the end of 2006, our acquisition of Kate Spade took us further into the lucrative and growing “accessible luxury” category. A lifestyle brand with positive brand equity and high consumer regard, we will concentrate on growing its signature handbag and accessories collections while planning further line extensions for the future. The brand will also take significant steps forward into the specialty retail arena, increasing its store base, while continuing to support the wholesale customers Kate Spade has always served so well.

The Three M's

Multi-brand, multi-channel, multi-geography—our company has evolved dramatically over the past decade. From a strong, single brand, Liz Claiborne Inc. has become a strategic acquirer with many brands addressing different lifestyles and price points. In the past five years, seeking to identify new sources of growth and leverage our brand management skills, we have greatly enhanced our focus on specialty retail and overseas markets. Looking forward, we aim to grow even more significantly through global expansion, and to control our brands and product through owned-retail and direct-to-consumer distribution.

While we will continue to pursue a proven multi-brand approach, even the best strategy can be refined. Currently, we intend to compete in the consumer and product segments that offer the most attractive and consistent financial prospects with even stronger, enduring brand propositions.

At the heart of this reinvestment and reinvention will be the concept of Power Brands—Juicy Couture, Kate Spade, Liz Claiborne, Lucky Brand Jeans and Mexx. For each of these multi-channel, multi-category, multi-geography brands, we will be developing and implementing accelerated growth plans, ranging from specialty store expansion to enhanced marketing initiatives to more widely distributed national advertising campaigns.

In addition, we will seek to acquire companies that will deliver capabilities and/or platforms that we can leverage across multiple businesses. To be certain, acquisitions will remain important, but we will also rely on organic growth—bringing scale to proven concepts within our portfolio, building our ‘power brands’ and developing new ones through an incubator approach.

In the meantime, we are continuing the re-examination necessary to accelerate the development of our revised and refined strategy. The intent is to announce our plans and goals for the next several years this July.

The First 100 Days: Reinventing Strengths

As mentioned earlier, we have begun reassessing what drives our results to find ways to reinvent those strengths, and in my first 100 days as the new Chief Executive Officer of Liz Claiborne Inc., my team and I have worked closely to do so.

During this time, we traveled, we talked to people and we listened.

When we met with designers, we heard heartfelt concerns about the need to refocus on our products and encourage creativity. When we met with our manufacturing and sourcing folks around the world, we learned about new ways to speed designs to market and better coordinate our efforts with distribution and logistics strategies.

We also took action:

- Chief Creative Officer, Tim Gunn—Former Chair of the Department of Fashion Design at Parsons The New School for Design in New York City and a regular on Bravo’s “Project Runway,” Tim will play a key role in restoring a culture of creativity in which product comes first. As CCO, he will lead our effort to attract and retain the best design and merchandising talent. And while he will not act as a designer, Tim will focus closely on improving our design processes.
- Chief Operating Officer, Mike Scarpa—Long-time Chief Financial Officer of our company, Mike will now expand his role beyond corporate finance, distribution and logistics, adding responsibility for manufacturing, sourcing and technology, and consolidating all responsibility for product movement under his experienced eye.

And, ultimately, we set a course—one born from our mission of serving the consumer globally, in multiple channels, across multiple brands. This management team came out of its first 100 days with our attention clearly focused on four drivers that have historically built advantage for our company.

Irresistible Product

Our product goal is simple: To tempt and excite consumers with something they don’t need—but must have. Our merchandise must be more than just appealing. It has to stand out in a crowd. And to do so, our culture, systems, processes and management must nurture the greatness of our creative design and merchant community who literally reinvent our product lines each and every season. To deliver product that improves nearly every financial metric and simultaneously makes our brands strong, we must harness the talent we have across our company—that is a top priority at Liz Claiborne. And we believe that in his new role, Tim Gunn will make a rapid difference on this front.

Building ‘Buzz’ and Brand Loyalty

Brand image is more than the quality or desirability of the product itself. Brand image comes from who is wearing the brand, what people are saying about it, where it is sold and how it is merchandised. And in today’s world of instant communication, this is more true than ever before.

To build the right kind of buzz for our brands, we are revitalizing our marketing function—strengthening traditional resources and developing new approaches to influencing consumers and thought leaders. There are huge opportunities to breathe new energy into several of the brands in our fantastic portfolio and we are eager to take advantage of them.

Supply Chain Solutions

At Liz Claiborne, we have long benefited from a superior supply chain, but as in all aspects of our business, we must challenge ourselves to improve and when possible reinvent strengths.

As we adapt to operating globally, we need flexibility, speed and efficiency to best serve the variety of business models we operate around the world. To accomplish this, our supply chain must enable, and even encourage, design innovation regardless of the consumer segment we are addressing. Be it contemporary, traditional, mid-tier or designer, we must adhere to the mantra of “putting the product back into production.”

Our supply chain vision, in sum, is clear and focused—create a best-in-class system that will speed irresistible product to market. Activities and processes that help reduce cycle time or foster innovation for one brand may be different than what works or is appropriate for another. Accordingly, across all of our businesses, we will look carefully for opportunities to apply and take advantage of supply chain enhancements on a global basis, and we believe we can do so without sacrificing scale advantage or cost efficiencies.

Finally, to ensure we bring both an operational and product perspective to our efforts, Tim Gunn, Mike Scarpa and Trudy Sullivan, the President of Liz Claiborne Inc., are jointly leading our supply chain strategy review, and we expect to identify four to five high-impact initiatives to implement in 2007 and beyond.

A Focus on Talent

While we have a long track record as one of the industry’s great developers of teams and talent, today we face an unprecedented need for creativity. Brilliant designers, strong leaders, cross-functional thinkers, globally-oriented team players—these individuals and more have critical roles to play as we reinvent the strengths of Liz Claiborne Inc. As a result, an integral part of our plan to accelerate growth is to strengthen our recruitment and development programs.

The Year Ahead

Without question, 2007 promises to be an important year for the company, a transition year. We will continue our strategy of re-examination. We will make decisions to improve our competitiveness. Above all, we will reinvent our strengths, day-in and day-out, to drive growth in the coming years.

As always, we appreciate your support and, we look forward to talking to you about Liz Claiborne Inc.’s very bright future.



William L. McComb

Chief Executive Officer

Paul R. Charron
Twelve years of leadership
and innovation

It would be remiss not to acknowledge the contributions made by Paul R. Charron to the success of Liz Claiborne Inc.

At the end of 2006, Paul left his position as our Chairman and Chief Executive Officer and now serves as Chairman Emeritus. For more than twelve years, Paul's inspired leadership made Liz Claiborne Inc. a world leader in the fashion business.

The source of this company's remarkable growth has been Paul's vision of a business that could serve the fashion needs of consumers wherever they live and shop, whatever their tastes, preferences and pocketbooks. In creating a global, multi-brand, multi-channel portfolio, supported by integrated technology, sourcing, logistics and distribution, Paul built a company able to respond successfully to evolving market conditions. It is this strategic platform that will be Paul's most lasting legacy, not only because it has been the source of the company's growth but, even more importantly, because it helps position Liz Claiborne Inc. to anticipate and adapt to the changes that will inevitably occur in the future.

For all that he accomplished, Paul always found time to say thank you to the many associates who worked to achieve his vision. Now, all of the people of Liz Claiborne Inc. would like to take this opportunity to say thank *you*, Paul, for all that you have done for us.

Juicy Couture

COUTURE

LUXUR



Once up
time in a
far, far
e a l l

two

create

Juicy
Couture

swept
land &
lived hap
ever atte

Our Licenses*

THE LICENSES OF LIZ CLAIBORNE

	Access	Claiborne	Concepts by Claiborne	Dana Buchman	Ellen Tracy	Emma James	Enyce	First Issue	J.H. Collectibles	Juicy Couture	Kate Spade	Kenzie	Laundry by Shelli Segal	Liz & Co.	Liz Claiborne	Liz Claiborne Woman	Lucky Brand Jeans	Mac & Jac	Mexx	Ratio	Sigrid Olsen	Villager
APPAREL																						
Baby/Kids		■					■			■												
Dresses/Suits						■			■						■	■						
Dress Shirts	■	■	■																			
Formalwear		■																				
Intimate Apparel/Underwear	■											■			■					■		
Outerwear	■	■	■	■	■								■		■	■						
Pants		■	■																			
School Uniforms		■													■							
Sleepwear/Loungewear	■	■										■			■					■		■
Swimwear										■					■	■	■					
Tailored Clothing	■	■	■																			
NON-APPAREL																						
Baby Buggies											■											
Belts	■	■	■	■	■	■	■	■				■								■		
Cosmetics and Fragrances																						
Footwear	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Hair Accessories																					■	
Handbags												■										
Jewelry																					■	
Legwear/Socks	■			■	■	■	■	■				■			■					■		
Luggage		■	■												■							
Men's Accessories	■	■	■				■															
Neckwear/Scarves	■	■	■				■					■										
Optics		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Slippers							■								■							
Stationery/Paper Goods											■											
Sunglasses	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Watches												■										
HOME																						
Bed and Bath															■					■	■	■
Blankets/Throws															■							
Decorative Fabrics															■							
Flooring															■							
Furniture															■							
Hard Tabletop											■											
Home Fragrance															■							■
Table Linens															■							■
Window Treatments															■							■



*As of March 2007

Modern

Axcess

C & C California

Claiborne

Concepts by Claiborne

Intuitions

Juicy Couture

Kensie

Kensiegirl

Laundry by Design

Mac & Jac

Mexx

Ratio

Tapemeasure



Mexx

Intuitions




Laundry by Design



DANA BUCHMAN

DANA BUCHMAN

The image shows the storefront of a Dana Buchman retail store. The name 'DANA BUCHMAN' is prominently displayed in large, illuminated, gold-colored letters at the top. Below the sign is a glass display window. Inside the window, two mannequins are dressed in elegant, dark-colored clothing. The background of the window is decorated with vertical panels of shimmering, sequined fabric. Track lighting is visible above the window. To the right of the window is a glass entrance door. Through the door, the interior of the store is visible, featuring warm lighting, a mannequin in a bright red blazer, and a person standing near a counter. A large vase of white flowers sits on a dark pedestal in the foreground of the entrance area.



Classic

Dana Buchman

Ellen Tracy

Emma James

First Issue

Liz & Co.

Liz Claiborne

Villager

Yzza

Liz Claiborne

Emma James



Dana Buchman

SIGRID OLSEN



Relaxed

J.H. Collectibles
Sigrid Olsen



Sigrid Olsen

LUCKY BRAND JEANS





Denim & Streetwear

DKNY Jeans

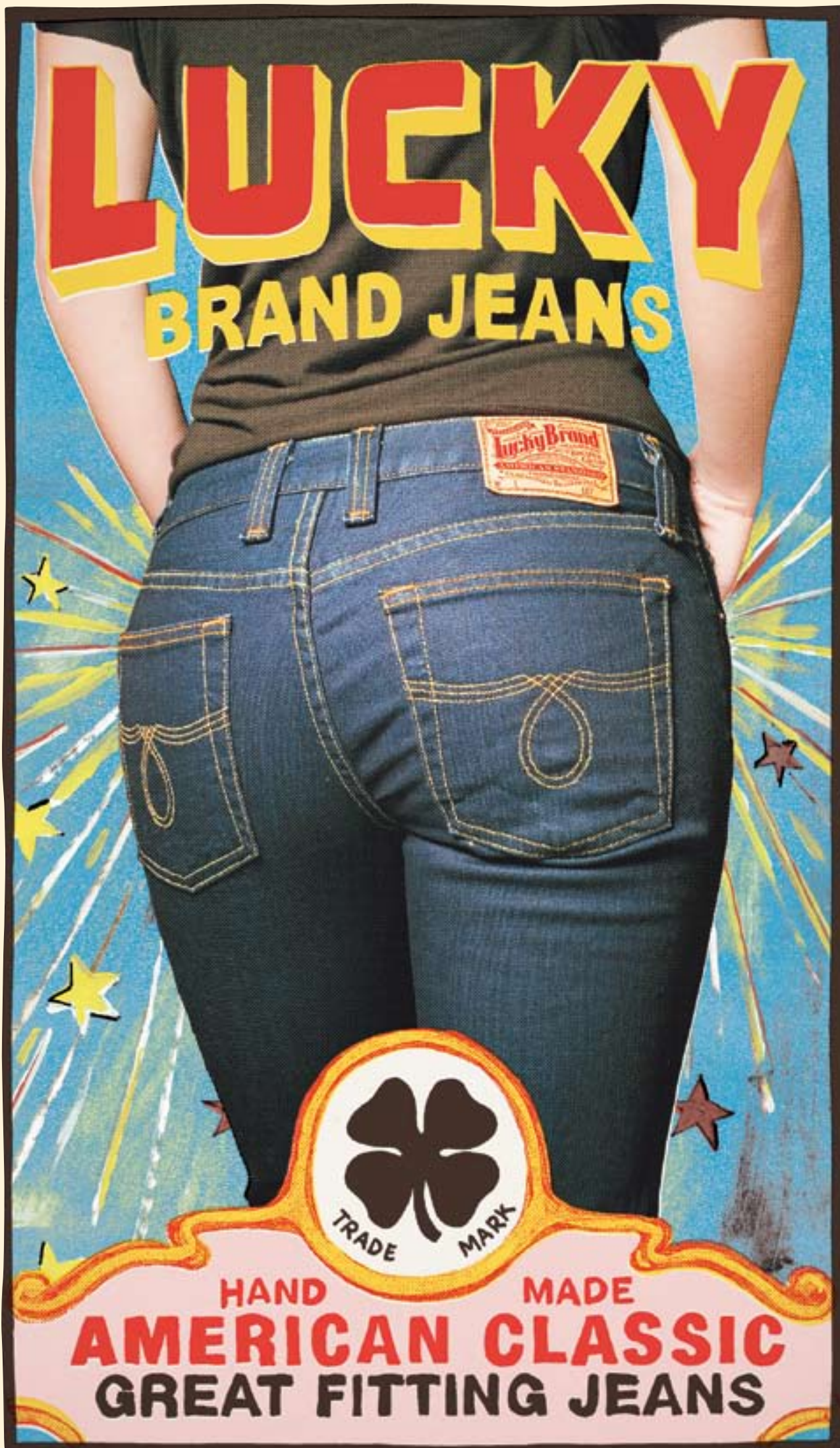
Enyce

Lucky Brand Jeans

Stamp 10

Tint

Enyce





Menswear

Access

C & C California

Claiborne

Concepts by Claiborne

DKNY Jeans

Enyce

Juicy Couture

Lucky Brand Jeans

Mac & Jac

Mexx

Prana

Ratio

Stamp 10

Claiborne

Active

DKNY Active
Prana



Prana



Kate Spade

Handbags

- Access
- Ellen Tracy
- Emma James
- First Issue
- Juicy Couture
- Kate Spade
- Kensie
- Laundry by Design
- Liz & Co.
- Liz Claiborne
- Lucky Brand Jeans
- Mac & Jac
- Mexx
- Prana
- Sigrid Olsen
- Stamp 10
- Tint
- Villager
- Yzza

Jewelry

Axcess
Ellen Tracy
Emma James
First Issue
Juicy Couture
Kenneth Cole New York
Kensie
Laundry by Shelli Segal
Liz & Co.
Liz Claiborne
Lucky Brand Jeans
Marvella
Mexx
Monet
Monet2
Ratio
Reaction Kenneth Cole
Sigrid Olsen
Stamp 10
Tint
Trifari
Villager
Yzza



Monet



Fashion Accessories

Axcess

Claiborne

Concepts by Claiborne

Ellen Tracy

Emma James

Enyce

First Issue

Juicy Couture

Kate Spade

Kensie

Liz & Co.

Liz Claiborne

Lucky Brand Jeans

Mexx

Prana

Ratio

Sigrid Olsen

Stamp 10

Villager

Yzza

Liz Claiborne

Fragrances

Bora Bora
Claiborne for Men
Claiborne Sport
Curve
Curve Chill
Curve Crush
Curve Kicks
Curve Wave
Ellen Tracy
Graphite Blue by Realities
Juicy Couture
LIZ
Liz Claiborne
Liz Sport
Lucky Number 6
Lucky You
Mambo
Mexx 1
Mexx Ice Touch
Mexx Pure Life
Realities
Soul by Curve
Spark
Spark Seduction
Sweet Desire by Realities
Tracy
Vintage Soul
Vivid



Juicy Couture



Claiborne

Liz Claiborne Inc. 2006 Financial Statements

OVERVIEW

Business/Segments

We operate the following business segments: Wholesale Apparel, Wholesale Non-Apparel and Retail:

- *Wholesale Apparel* consists of women's, men's and children's apparel designed and marketed worldwide under various trademarks owned by the Company or licensed by the Company from third-party owners. This segment includes our better apparel (LIZ CLAIBORNE, CLAIBORNE (men's), INTUITIONS, MAC & JAC, MEXX and SIGRID OLSEN), bridge-priced (DANA BUCHMAN and ELLEN TRACY), our mid-tier brands (AXCESS, CRAZY HORSE (which will be replaced by LIZ & CO and CONCEPTS BY CLAIBORNE), FIRST ISSUE, STAMP 10, TINT and VILLAGER), moderate brands (EMMA JAMES, J.H. COLLECTIBLES and TAPEMEASURE), denim/street wear (ENYCE and LUCKY BRAND DUNGAREES), contemporary sportswear (JUICY COUTURE, C & C CALIFORNIA, KENSIE, KENSIEGIRL and LAUNDRY BY SHELLI SEGAL) and our active wear (prAna), as well as our licensed DKNY® JEANS and DKNY® ACTIVE businesses.
- *Wholesale Non-Apparel* consists of handbags, small leather goods, fashion accessories, jewelry and cosmetics designed and marketed worldwide under certain of the above listed and other owned or licensed trademarks, including our MONET, TRIFARI, MARVELLA, KATE SPADE and JACK SPADE labels and our licensed KENNETH COLE label.
- *Retail* consists of our worldwide retail operations that sell most of these apparel and non-apparel products to the public through our 336 outlet stores, 399 specialty retail stores and 625 international concession stores (where the retail selling space is either owned and operated by the department store in which the retail selling space is located, or leased and operated by a third party, while, in each case, the Company owns the inventory) and our e-commerce sites. This segment includes specialty retail and outlet stores operating under the following formats: MEXX, LUCKY BRAND DUNGAREES, LIZ CLAIBORNE, ELISABETH, DKNY® JEANS, DANA BUCHMAN, ELLEN TRACY, SIGRID OLSEN, MONET, LAUNDRY BY SHELLI SEGAL, JUICY COUTURE, YZZA, KATE SPADE and JACK SPADE.

The Company, as licensor, also licenses to third parties the right to produce and market products bearing certain Company-owned trademarks. The resulting royalty income is included in the line "Sales from external customers" under the caption "Corporate/Eliminations" in Note 20 of Notes to Consolidated Financial Statements.

Competitive Profile

We operate in global fashion markets that are intensely competitive. Our ability to continuously evaluate and respond to changing consumer demands and tastes, across multiple markets, distribution channels and geographies, is critical to our success. Although our brand portfolio approach is aimed at diversifying our risks in this regard, misjudging shifts in consumer preferences could have a negative effect. Other key aspects of competition include quality, brand image, market share, distribution methods, price, size and location of selling space, customer service and intellectual property protection. Our size and global operating strategies help us to compete successfully by positioning us to take advantage of synergies in product design, development, sourcing and distribution of our products throughout the world. We believe we owe much of our success to our ability to identify strategic acquisitions, our ability to grow our existing businesses, including the creation of internally developed brands, as well as the continued expansion of our retail business, to our product designs and to leveraging our competencies in technology and supply chain management for the benefit of existing and new (both acquired and internally developed) businesses.

Consumers are continuing to migrate away from traditional department stores, turning instead to specialty retailers, national chains and off-price retailers. This factor, combined with the complexities and unknown impacts of the ongoing retail industry consolidation, including the post-merger integration and rationalization of Federated Department Stores and May Company, and the continuing internal distractions of certain other retailers, present a multitude of challenges in the sector. As our larger department store customers continue to focus on inventory productivity and product differentiation to gain competitive market share, they continue to execute their buying activities very cautiously. This conservative operating environment adversely affects our domestic wholesale apparel business. In response to this challenging business climate, we are focusing our investment on trending categories and trending businesses, including the further expansion into specialty retail where we plan to open 100–125 specialty retail stores globally in 2007, with the majority of store openings focused on Juicy Couture, Lucky Brand, MEXX and Kate Spade formats. We are currently conducting a review of our operations to assess options to best allocate our resources to those businesses with the maximum potential for growth in sales and earnings. We have already begun to identify additional streamlining and reinvestment opportunities in 2007, focusing on our wholesale and corporate expense structure and on the refinement of our retail portfolio.

In February 2006 and October 2006, we announced initiatives to streamline our operations to increase efficiency in managing our multi-brand, multi-channel and multi-geography portfolio and more closely align our businesses with customer and consumer needs. These efforts include the redeployment of resources in order to better capitalize on compelling growth opportunities across a number of our brands. For the year ended December 30, 2006, we recorded \$86.7 million (\$54.4 million after-tax) related to this initiative, including \$46 million of payroll and related costs, \$11 million of lease

termination costs, \$23 million of fixed asset write-downs and disposals and \$7 million of other costs. Approximately \$23 million of these charges were non-cash.

We expect that the challenges of our retail partners will continue over the near term and the conservative approach to planning inventory levels will continue to be a major focus. Retailers will turn to wholesalers who can respond quickly to market trends, allowing those retailers to maintain lean retail inventory stock levels of faster turning, differentiated products. We believe that our technology, coupled with our modern business models and evolving supply chain, enables us to partner with our customers, and to quickly identify and enable them to reorder those items that are trending well with customers and appeal to consumers. In order to make decisions faster and deliver products to market more quickly, we are establishing several new process models that will help our teams work more rapidly across time zones, including the opening of a new design resource center in Hong Kong.

We have also diversified geographically, with our international operations representing approximately 28% of total Company net sales for the year ended December 30, 2006. We view the international markets as an important area of growth for us as we continue to build the capability to launch brands from our domestic portfolio and evaluate business development opportunities in markets outside of the United States. Additionally, we will continue to focus on our rigorous internal inventory control management activities as well as our process improvement and expense control initiatives.

In summary, our success in the future will depend on our ability to continue to design and deliver products that are acceptable to the marketplaces that we serve, to source the manufacture of our products on a competitive basis, particularly in light of uncertainty regarding quota for apparel products, and to leverage our technology competencies. We remain convinced that a multi-brand, multi-channel and multi-geography strategy speaks to our vision to support future and sustained growth.

On October 16, 2006, we announced that William L. McComb, formerly Company Group Chairman at Johnson & Johnson had been appointed Chief Executive Officer and a member of the Board of Directors, effective November 6, 2006. Mr. McComb succeeded Paul R. Charron as Chief Executive Officer of the Company. Mr. Charron remained Chairman through the end of 2006 and became Chairman Emeritus, an honorary designation, as of January 1, 2007. Mr. Charron will provide consulting services to us through 2007. We also announced that Kay Koplovitz, a member of the Board of Directors since 1992, had been appointed non-executive Chairman of the Board of Directors, effective January 1, 2007.

Reference is also made to the other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices as are set forth under "Statement Regarding Forward-Looking Disclosure" below and in our 2006 Annual Report on Form 10-K, including, without limitation, those set forth under the heading "Item 1A — Risk Factors."

Operating Highlights

For the period beginning in 2001 through 2006, the Company's revenues have grown to \$4.994 billion in 2006 from \$3.448 billion in 2001. This growth has been largely a result of our acquisitions of MEXX Europe and MEXX Canada, JUICY COUTURE, LUCKY BRAND and ELLEN TRACY, as well as organic growth, as we execute our multi-brand, multi-channel, multi-geography diversification strategy under which we strive to offer consumers apparel and non-apparel products across a range of styles, price points and channels of distribution. In implementing this strategy, we seek to position most of our acquisitions and internally developed businesses for transformation into a "lifestyle" brand, extending their offerings into a broad range of apparel and non-apparel categories. Our revenue growth over the five-year period also reflects the growth of our moderate and mid-tier businesses, which sell products at prices lower than our better-priced offerings, and our non-apparel businesses, as well as continued growth in our retail businesses. We have diversified our business by channels of distribution, price point and target consumer, as well as by geography. For the period beginning in 2001 through 2005, our operating margin rate had exceeded 10%. The operating margin rate for 2006 declined to 8.7% primarily due to expenses related to our streamlining initiatives. Diluted EPS increased 34% to \$2.46 in 2006 from \$1.83 in 2001.

2006 Overall Results

Net Sales

Net sales in 2006 were \$4.994 billion, an increase of \$146.6 million, or 3.0%, over 2005 net sales.

The sales results reflected increased sales in our accessories, direct to consumer retail and European wholesale businesses, as well as the inclusion of our recently acquired prAna and Mac & Jac businesses, partially offset by a decrease in our domestic wholesale apparel businesses, primarily resulting from decreases in our LIZ CLAIBORNE, DANA BUCHMAN, SIGRID OLSEN, ELLEN TRACY and Men's apparel businesses. The impact of foreign currency exchange rates, primarily as a result of the strengthening of the euro and Canadian dollar, in our international businesses, increased sales by approximately \$28.0 million during 2006.

- Global net sales for our key brands in 2006 across all product categories were as follows:
 - Net sales in our MEXX brand increased approximately 8% compared to 2005, excluding the impact of foreign currency exchange rates, primarily driven by increases in Canadian and European retail.
 - Net sales in our LIZ CLAIBORNE brand decreased approximately 9% compared to 2005, primarily due to decreases in wholesale apparel and non-apparel.
 - Net sales for LUCKY BRAND increased approximately 20% compared to 2005, primarily driven by increases in retail and wholesale non-apparel.
 - Net sales in our JUICY COUTURE brand increased approximately 30% compared to 2005, primarily driven by increases in retail and wholesale non-apparel.

Gross Profit and Net Income

Our gross profit increased slightly in 2006 reflecting the impact of a changing mix within our portfolio, primarily due to an increased proportion of sales from our retail segment, which runs at a higher gross profit rate than the Company average, and a decreased proportion of sales from our wholesale apparel segment, which runs at a lower gross profit rate than the Company average, partly offset by the inclusion in 2005 of a \$12.3 million reimbursement from a customer of improperly collected markdown allowances. Overall, net income decreased to \$254.7 million in 2006 from \$317.4 million in 2005, reflecting in part approximately \$44.4 million of net, after-tax expenses associated with our streamlining initiatives, the inclusion in 2005 of the reimbursement from a customer of improperly collected markdown allowances (\$8.0 million net of tax) as well as the impact of decreased sales in our domestic wholesale businesses.

Balance Sheet

Our financial position continues to be strong. We ended 2006 with a net debt position of \$397.6 as compared to \$123.4 million at 2005 year-end. We generated \$394.0 million in cash from operations during fiscal 2006, which enabled us to fund \$266.8 of acquisition related payments, our 2006 share repurchase of \$174.1 million and our capital expenditures of \$182.4 million, while only increasing our net debt by \$274.2 million. The effect of foreign currency translation on our Eurobond increased our debt balance by \$48.5 million.

International Operations

Revenues for the last five years are presented on a geographic basis as follows:

IN THOUSANDS	2006	2005	2004	2003	2002
Domestic	\$3,599,383	\$3,586,048	\$3,502,565	\$3,304,614	\$3,037,325
International	1,394,935	1,261,705	1,130,263	936,501	680,178
Total Company	\$4,994,318	\$4,847,753	\$4,632,828	\$4,241,115	\$3,717,503

In 2006, sales from our international segment represented 27.9% of our overall sales, compared to 18.3% in 2002, primarily due to our acquisitions of MEXX Europe and MEXX Canada and, to a lesser extent, expansion of the MONET brand. We expect our international sales to continue to represent an increasingly higher percentage of our overall sales volume as a result of further anticipated growth in our MEXX Europe and MEXX Canada businesses and from international growth of a number of our current domestic brands, including JUICY COUTURE, LUCKY BRAND and KATE SPADE. Accordingly, our overall results can be greatly impacted by changes in foreign currency exchange rates. In 2006, the impact of foreign currency exchange rates represented \$28.0 million of the increase in international sales compared to \$12.8 million of the increase in international sales in 2005. The strengthening of the Canadian dollar and the euro against the U.S. dollar has positively impacted the results in our international businesses. Although we use foreign currency forward contracts and options to hedge against our exposure to exchange rate fluctuations affecting the actual cash flows associated with our international operations, unanticipated shifts in exchange rates could have an impact on our financial results.

Recent Acquisitions

On December 13, 2006, we acquired 100 percent of the equity interest of Kate Spade LLC ("Kate Spade"). Based in New York City, Kate Spade is a designer, marketer, wholesaler and retailer of fashion accessories for women and men through its Kate Spade® and JACK SPADE® brands. We believe the addition of Kate Spade further diversifies our portfolio and provides considerable opportunity for growth in our direct to consumer business. The purchase price totaled approximately \$124 million, plus fees and an additional \$1-2 million for certain post-closing adjustments and assumption of liabilities that

were accounted for as additional purchase price. On a preliminary basis, we allocated \$68.2 million of purchase price to the value of trademarks and trade names associated with the business; \$3.5 million has been allocated to the value of customer relationships and \$44.7 million to goodwill. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to our consolidated results.

On January 26, 2006, we acquired 100 percent of the equity interest of Westcoast Contempo Fashions Limited and Mac & Jac Holdings Limited, which collectively design, market and sell the Mac & Jac, Kensie and Kensiegirl apparel lines ("Mac & Jac"). Based in Vancouver, Canada and founded in 1985, Mac & Jac is a designer, marketer, wholesaler and retailer of premium apparel for women and men through its MAC & JAC brands. We believe the acquisition of MAC & JAC's brand names and multi-brand, multi-channel, multi-geography approach complement our portfolio diversification strategy, as well as offer the opportunity for expanded distribution in the U.S. department store and specialty store channels. The purchase price totaled 26.2 million Canadian dollars (or \$22.7 million), which includes the retirement of debt at closing and fees, contingent payments to be determined based upon a multiple of Mac & Jac's earnings in fiscal years 2006, 2008, 2009 and 2010. We utilize various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. We allocated \$13.9 million of purchase price to the value of trademarks and trade names associated with the business and \$5.6 million has been allocated to the value of customer relationships. The trademarks and trade names are deemed to have an indefinite life and are subject to an annual test for impairment. The value of customer relationships is being amortized over 12 years. We currently estimate that the aggregate of the contingent payments will be in the range of approximately \$8-16 million and will be accounted for as additional purchase price when paid. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to our consolidated results.

On November 18, 2005, we acquired 100 percent of the equity interest of Skylark Sport Marketing Corporation, doing business as prAna ("prAna"). Based in California and established in 1993, prAna is a designer, marketer and wholesaler of climbing, yoga and outdoor/active lifestyle apparel and accessories. The purchase price totaled \$45.8 million, consisting of an initial payment and the assumption of debt and fees (including \$13.5 million paid in 2006 primarily consisting of tax-related purchase price adjustments) and contingent payments to be determined based upon a multiple of prAna's earnings in fiscal years 2008, 2009 and 2010. We currently estimate that the aggregate of the contingent payments will be in the range of approximately \$35-40 million. The contingent payments will be accounted for as additional purchase price when paid. We utilize various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. We allocated \$16.7 million of purchase price to the value of trademarks and trade names associated with the business and \$11.4 million has been allocated to the value of customer relationships. The trademarks and trade names as well as goodwill of \$13.5 million are deemed to have an indefinite life and are subject to an annual test for impairment. The value of customer relationships is being amortized over 8 years. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to our consolidated results.

On January 6, 2005, we acquired 100 percent of the equity interest of C & C California, Inc. ("C & C"). Based in California and founded in 2002, C & C is a designer, marketer and wholesaler of premium apparel for women, men and children through its C & C California brand. C & C sells its products primarily through select specialty stores as well as through international distributors in Canada, Europe and Asia. The purchase price consisted of payments totaling \$29.2 million, including fees and contingent payments to be determined based upon a multiple of C & C's earnings in fiscal years 2007, 2008 and 2009. On May 2, 2006, the Company and the sellers of C & C agreed to settle the contingent payment agreement based on a projection of earnings for 2007, 2008 and 2009. This payment, which totaled \$16.3 million, was made in cash and was accounted for as additional purchase price. We utilize various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. We allocated \$7.6 million of purchase price to the value of trademarks and trade names associated with the business and \$10.6 million has been allocated to the value of customer relationships. The trademarks and trade names have been classified as having finite lives and will be amortized over their estimated useful life of 20 years. Goodwill of \$25.6 million is not amortized and is subject to an annual test for impairment. The value of customer relationships is being amortized over periods ranging from 10 to 20 years. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to our consolidated results.

Unaudited pro forma information on an aggregate basis for the above acquisitions is not included, as the impact of these transactions is not material to our consolidated results.

On April 7, 2003, we acquired 100 percent of the equity interest of Juicy Couture, Inc. (formerly, Travis Jeans, Inc.) ("Juicy Couture"), a privately held fashion apparel company. The total purchase price consisted of: (a) a payment, including the assumption of debt and fees, of \$53.1 million and (b) a contingent payment to be determined as a multiple of Juicy Couture's earnings for one of the years ended 2005, 2006 or 2007. The selection of the measurement year for the contingent payment is at either party's option. In March of 2005, the contingent payment agreement was amended to include an advance option for the sellers providing that (i) if the 2005 measurement year is not selected, the sellers may

elect to receive up to 70 percent of the estimated contingent payment based upon 2005 results; (ii) if the 2005 and 2006 measurement years are not selected, the sellers are eligible to elect to receive up to 85 percent of the estimated contingent payment based on the 2006 measurement year net of any 2005 advances. In April 2006, the sellers elected to receive a 70 percent advance against the contingent purchase price and were paid \$80.3 million on April 20, 2006. The payment was accounted for as additional purchase price and an increase to goodwill. We estimate that if the 2006 measurement year is selected, the remaining contingent payment would be in the range of \$22–24 million. The contingent payment will be accounted for as additional purchase price when paid. We utilize various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method uses the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. We allocated \$27.3 million of purchase price to the value of trademarks and trade names associated with the business. The trademarks and trade names have been classified as having indefinite lives and are subject to an annual test for impairment.

On July 9, 2002, we acquired 100 percent of the equity interest of Mexx Canada, Inc., a privately-held fashion apparel and accessories company ("Mexx Canada"). The total purchase price consisted of: (a) an initial cash payment made at the closing date of \$15.2 million; (b) a second payment made at the end of the first quarter 2003 of 26.4 million Canadian dollars (or \$17.9 million); and (c) a contingent payment to be determined as a multiple of Mexx Canada's earnings and cash flow performance for the year ended either 2004 or 2005. In December 2004, the 2004 measurement year was selected by the seller for the calculation of the contingent payment. The contingency was settled on April 26, 2005 for 45.3 million Canadian dollars (or \$37.1 million). The contingent payment was accounted for as additional purchase price and an increase in goodwill.

On June 8, 1999, we acquired 85.0 percent of the equity interest of Lucky Brand Dungarees, Inc. ("Lucky Brand"), whose core business consists of the Lucky Brand Dungarees line of women and men's denim-based sportswear. The acquisition was accounted for using the purchase method of accounting. The total purchase price consisted of a cash payment made at the closing date of approximately \$85 million and a payment made in April 2003 of \$28.5 million. An additional payment of \$12.7 million was made in 2000 for tax-related purchase price adjustments. On January 28, 2005, we entered into an agreement to acquire the remaining 15 percent of Lucky Brand shares that were owned by the sellers of Lucky Brand for aggregate consideration of \$65.0 million and a contingent payment for the final 2.25 percent based upon a multiple of Lucky Brand's 2007 earnings. On January 16, 2007, January 17, 2006 and January 28, 2005, we paid \$10.0 million, \$10.0 million and \$35.0 million, respectively, for 1.5 percent, 1.9 percent and 8.25 percent, respectively, of the equity interest of Lucky Brand. The excess of the amount paid over the related amount of minority interest has been recorded to goodwill. In January 2008, we will acquire 1.1 percent of the equity interest of Lucky Brand for a payment of \$10.0 million. We have recorded the present value of fixed amounts owed (\$19.5 million) as an increase in Accrued expenses and Other Non-Current Liabilities. As of December 30, 2006, the excess of the liability recorded over the related amount of minority interest has been recorded as goodwill. In June 2008, we will acquire the remaining 2.25 percent minority share for an amount based on a multiple of Lucky Brand's 2007 earnings, which management estimates will be in the range of \$19–23 million.

Share-Based Compensation

On July 3, 2005, we adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of our employee share-based options as well as restricted stock. SFAS No. 123(R) revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees."

Prior to adopting SFAS No. 123(R), we applied APB Opinion No. 25 and related Interpretations in accounting for our share-based compensation plans; all employee stock options were granted at or above the grant date market price and accordingly, no compensation cost was recognized for fixed stock option grants in prior periods. Since adoption, we are recognizing the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. We have selected the modified prospective method of transition; accordingly, prior periods have not been restated. We have not modified any unvested awards. As a result of the adoption of SFAS No. 123(R), we expensed \$11.8 million related to stock options in 2006; approximately \$3.7 million related to outstanding stock option awards will be expensed in 2007. Additionally, we have migrated our share-based management compensation program toward an emphasis on restricted stock and away from stock options, issuing restricted shares to a larger group of employees in 2005 and 2006. As it relates to restricted stock awards issued to this larger group of employees, we expensed \$8.3 million in 2006; approximately \$8.6 million of restricted stock will be expensed in fiscal 2007. We anticipate approximately \$6.5 million of outstanding stock option awards will be expensed through 2009 and \$12.5 million of restricted stock will be expensed through 2011 as a result of the adoption of SFAS No. 123 (R) and our migration towards restricted stock awards. We typically issue share-based compensation awards in March as granted by our Compensation Committee. As a result, compensation expense associated with awards to be granted in the first quarter of 2007 has not been included above.

RESULTS OF OPERATIONS

We present our results based on the three business segments discussed in the Overview section, as well as on the following geographic basis based on selling location:

- *Domestic*: wholesale customers, Company specialty retail and outlet stores located in the United States, and our e-commerce sites; and
- *International*: wholesale customers, Company specialty retail, outlet stores, and concession stores located outside of the United States, primarily in our European and Canadian operations.

All data and discussion with respect to our specific segments included within this "Management's Discussion and Analysis of Financial Condition and Results of Operations" is presented after applicable intercompany eliminations.

2006 VS. 2005

The following table sets forth our operating results for the year ended December 30, 2006 (52 weeks), compared to the year ended December 31, 2005 (52 weeks):

	YEAR ENDED		VARIANCE	
	DECEMBER 30, 2006	DECEMBER 31, 2005	\$	%
DOLLARS IN MILLIONS				
NET SALES	\$4,994.3	\$4,847.8	\$146.5	3.0%
GROSS PROFIT	2,387.5	2,298.4	89.1	3.9%
Selling, general and administrative expenses	1,951.4	1,773.6	177.8	10.0%
Restructuring (gain)	0.0	(0.6)	0.6	100.0%
OPERATING INCOME	436.1	525.3	(89.2)	(17.0)%
Other income (expense), net	5.4	(2.3)	7.7	334.8%
Interest (expense), net	(34.9)	(31.8)	(3.1)	(9.7)%
Provision for income taxes	151.9	173.9	(22.0)	(12.7)%
NET INCOME	\$ 254.7	\$ 317.4	\$ (62.7)	(19.8)%

Net Sales

Net sales for 2006 were \$4.994 billion, an increase of \$146.5 million, or 3.0%, over net sales for 2005. The impact of foreign currency exchange rates, primarily as a result of the strengthening of the Canadian dollar and the euro, in our international businesses increased net sales by approximately \$28.0 million during the year. Net sales results for our business segments are provided below:

- *Wholesale Apparel* net sales decreased \$62.2 million, or (2.1)%, to \$2.885 billion as a result of:
 - A \$126.4 million net decrease across our Wholesale Apparel businesses primarily reflecting a decrease in our domestic LIZ CLAIBORNE business (resulting from lower unit volume and, to a lesser extent, lower unit pricing due to the factors discussed above in "Competitive Profile") and decreases in our CRAZY HORSE women's (which is being replaced in 2007 by LIZ & CO), ELLENTRACY and DANA BUCHMAN (due to the discontinuation of special sizes and a shift in demand toward more modern offerings), SIGRID OLSEN (resulting from lower volume due to reduced distribution and reduced demand as well as the discontinuation of special sizes), CLAIBORNE men's (due to reduced volume as a result of the impact of retailer consolidation), CITY UNLTD. (due to the discontinuance of this brand in the department store channel) and AXCESS men's (due to reduced demand and the licensing out of our dress shirts business) businesses, partially offset by growth in our MEXX Europe business (due to volume growth primarily due to new specialty retail customers), DKNY® Jeans women's (due to volume growth in petite sizes and additional points of sale), ENYCE (due to increased demand), our moderate businesses (due to higher unit volume, most notably growth in our J.H. COLLECTIBLES business, due to higher unit volume among existing customers and the addition of new retail customers), EMMA JAMES (due to increased demand and increased department store distribution and the launch of TAPEMEASURE), C & C CALIFORNIA (due to increased unit volume primarily with our department store customers) and the launch of STAMP 10;
 - The inclusion in 2005 of a \$12.3 million reimbursement from a customer of improperly collected markdown allowances;
 - The impact of \$66.0 million of sales from our acquired prAna and MAC & JAC businesses; and
 - A \$10.5 million increase resulting from the impact of foreign currency exchange rates in our international businesses.

- *Wholesale Non-Apparel* net sales increased by \$50.6 million, or 7.8%, to \$701.5 million. The increase was primarily due to:
 - A \$32.9 million net increase in our accessories businesses resulting primarily from increases in our JUICY COUTURE, LUCKY BRAND, SIGRID OLSEN and LAUNDRY businesses due to increased demand, partially offset by decreases in our LIZ CLAIBORNE, department store and MONET jewelry businesses, primarily due to reduced volume as a result of the impact of retailer consolidation;
 - The inclusion of \$1.1 million from our December 13, 2006 acquisition of the KATE SPADE brand; and
 - A \$16.6 million increase in our cosmetics business primarily resulting from the launch of our new JUICY COUTURE, LUCKY BRAND and ELLEN TRACY fragrances.
 - The impact of foreign currency exchange rates in our international businesses was not material.
- *Retail* net sales increased \$154.5 million, or 12.8%, to \$1.362 billion as a result of:
 - A \$131.7 million net increase driven by the net addition over the last 12 months of 45 specialty retail and 12 outlet stores, reflecting in part the opening of 33 LUCKY BRAND, 16 SIGRID OLSEN and 15 JUICY COUTURE specialty retail stores and 14 LIZ CLAIBORNE and 8 MEXX outlet stores in the United States, Canada and Europe;
 - The inclusion of \$5.8 million from our recent acquisition of KATE SPADE (acquired December 13, 2006) and MAC & JAC (acquired January 26, 2006) businesses, which in the aggregate included 21 specialty retail stores and 4 outlets; and
 - A \$17.0 million increase resulting from the impact of foreign currency exchange rates in our international businesses.
 - Comparable store sales in our Company-operated stores increased by 0.8% overall, primarily the result of a 4.3% increase in our Specialty Retail business mostly offset by a 2.3% decrease in our Outlet business.

We ended 2006 with a total of 336 outlet stores, 399 specialty retail stores and 625 international concession stores, including the 21 specialty retail and 4 outlet stores from our recently acquired KATE SPADE and MAC & JAC businesses. Comparable store sales are calculated as sales from existing stores, plus new stores, less closed stores as follows: new stores become comparable after 15 full months of being open. Closed stores become non-comparable one month before they close. If a store undergoes renovations and increases or decreases substantially in size as the result of renovations, it becomes non-comparable. If a store is relocated, stays the same size and has no interruption of selling, then the store remains comparable. If, however, a location change causes a significant increase or decrease in size, then the location becomes non-comparable. Stores that are acquired are not considered comparable until they have been reflected in our results for a period of 12 months. Comparable store sales do not include concession sales.

- *Corporate* net sales, consisting of licensing revenue, increased \$3.6 million to \$45.8 million as a result of revenues from new licenses and growth from our existing license portfolio.

Viewed on a geographic basis, *Domestic* net sales increased by \$13.3 million, or 0.4%, to \$3.599 billion, reflecting increases in our specialty retail and wholesale non-apparel business partially offset by the continued declines in our domestic wholesale apparel business. *International* net sales increased \$133.2 million, or 10.6%, to \$1.395 billion. The international increase reflected increases in our MEXX Europe and Canadian retail business. The impact of currency exchange rates increased international sales by approximately \$28.0 million.

Gross Profit

Gross profit increased \$89.1 million, or 3.9%, to \$2.387 billion in 2006 over 2005. \$16.1 million of the increase in gross profit is due to the impact of foreign currency exchange rates in our international businesses. Gross profit as a percent of net sales increased to 47.8% in 2006 from 47.4% in 2005, reflecting the impact of a changing mix within our portfolio, partially offset by a decreased gross profit rate in our wholesale non-apparel segment and the impact of the \$12.3 million (0.3% of net sales) reimbursement in 2005 from a customer of improperly collected markdown allowances. The change in mix primarily reflects an increased proportion of sales from our retail segment, which runs at a higher gross profit rate than the Company average, and a decreased proportion of sales from our wholesale apparel segment, which runs at a lower gross profit rate than the Company average. Warehousing activities including receiving, storing, picking, packing and general warehousing charges are included in Selling, general & administrative expenses ("SG&A"); accordingly, our gross profit may not be comparable to others who may include these expenses as a component of cost of goods sold.

Selling, General & Administrative Expenses

SG&A increased \$177.8 million, or 10.0%, to \$1.951 billion in 2006 over 2005 and as a percent of net sales increased to 39.1% in 2006 from 36.6%. The SG&A increase reflected the following:

- The inclusion of \$29.3 million of expenses from our acquired prAna, MAC & JAC, and KATE SPADE businesses;
- A \$97.5 million increase primarily resulting from the expansion of our domestic and international retail businesses;
- A \$13.7 million increase due to the impact of foreign currency exchange rates in our international businesses;
- \$84.8 million of expenses primarily consisting of employee severance costs, lease termination costs and fixed asset write-downs, offset by savings of \$28.4 million associated with our streamlining initiatives;
- \$14.9 million of reinvestment in marketing and in-store activities of realized savings from our streamlining initiatives; and

- A \$34.0 million net decrease in wholesale and corporate expenses primarily reflecting reduced incentive compensation expense.

The increased SG&A rate primarily reflected net expenses associated with our business streamlining initiatives and the increased proportion of expenses related to our retail segment, which runs at a higher SG&A rate than the Company average, as described above, in addition to reduced expense leverage resulting from the decreased proportion of expenses related to our wholesale apparel segment, which runs at a lower SG&A rate than the Company average.

Operating Income

Operating income was \$436.1 million (8.7% of net sales) in 2006 compared to \$525.3 million (10.8% of net sales) in 2005. The decrease is primarily attributable to \$86.7 million of expenses associated with our streamlining initiatives, the \$12.3 million reimbursement in 2005 from a customer of improperly collected markdown allowances, as well as the impact of reduced wholesale apparel sales, partially offset by decreased wholesale and corporate expenses. Operating income increased by \$2.3 million in 2006 due to the impact of foreign currency exchange rates in our international businesses. Operating income by business segment is provided below:

- *Wholesale Apparel* operating income was \$254.1 million (8.8% of net sales), a decrease of \$69.4 million in 2006 compared to \$323.5 million (11.0% of net sales) in 2005, principally reflecting reduced income in our DANA BUCHMAN, ELLEN TRACY, SIGRID OLSEN, CRAZY HORSE women's and to a lesser extent, MEXX Europe, JUICY COUTURE and LUCKY BRAND apparel businesses and \$36.3 million of net expenses (reflecting \$52.2 million in expenses, savings of \$21.5 million and the reinvestment of \$5.6 million in marketing and in-store activities) associated with our streamlining initiatives, partially offset by increased income in our ENYCE, DKNY® Jeans women's, LAUNDRY and LIZ CLAIBORNE businesses and the inclusion in 2005 of the reimbursement of \$12.3 million from a customer of improperly collected markdown allowances.
- *Wholesale Non-Apparel* operating income increased \$1.7 million to \$103.2 million (14.7% of net sales) in 2006 compared to \$101.5 million (15.6% of net sales) in 2005, principally reflecting increases in our JUICY COUTURE and LUCKY BRAND accessories businesses, partially offset by \$6.1 million of net expenses (reflecting \$6.0 million in expenses, savings of \$5.7 million and the reinvestment of \$5.8 million in marketing and in-store activities) associated with our streamlining initiatives.
- *Retail* operating income was \$41.5 million (3.0% of net sales) decreasing by \$26.7 million in 2006 compared to \$68.2 million (5.6% of net sales) in 2005, principally reflecting \$28.4 million of net expenses (reflecting \$28.5 million in expenses, savings of \$3.6 million and the reinvestment of \$3.5 million in marketing and in-store activities) associated with our streamlining initiatives, reduced income in our outlet business due to reduced comparable store sales as well as higher costs associated with new store openings and higher costs in our European retail business.
- *Corporate* operating income, primarily consisting of licensing operating income, increased \$5.2 million to \$37.3 million in 2006 compared to \$32.1 million in 2005 as a result of increased revenues from our new licenses and growth from our existing license portfolio, as well as expense reductions.

Viewed on a geographic basis, Domestic operating income decreased by \$57.0 million, or 13.6%, to \$360.8 million predominantly reflecting the reduced income in our domestic wholesale apparel and outlet businesses and the expenses associated with our streamlining initiatives. International operating income decreased \$32.2 million, or 30.0%, to \$75.3 million. The international decrease reflected decreased profitability in our European retail business and expenses associated with our streamlining initiatives.

Other Income (Expense), Net

In 2006, Other income (expense), net was \$5.4 million of income compared to \$2.3 million of expense in 2005. In 2006, net other income (expense) was primarily comprised of a \$3.6 million realized gain from the sale of certain equity investments, partially offset by \$1.2 million of minority interest. (See "Financial Position, Capital Resources and Liquidity — Commitments and Capital Expenditures," below, for discussion of the purchase of the remaining Lucky Brand minority interest).

Interest Expense, Net

Net interest expense in 2006 was \$34.9 million, compared to \$31.8 million in 2005, both of which were principally related to borrowings incurred to finance our strategic initiatives, including acquisitions. Net interest includes \$4.4 million and \$2.6 million of interest income in 2006 and 2005, respectively.

Provision for Income Taxes

The income tax rate in 2006 increased to 37.4% from 35.4% in 2005. Taxes on earnings were affected by the impact of discrete tax events as well as a shift in earnings to jurisdictions with higher statutory tax rates.

Net Income

Net income decreased in 2006 to \$254.7 million, or 5.1% of net sales, from \$317.4 million in 2005, or 6.5% of net sales. Diluted earnings per common share ("EPS") decreased to \$2.46 in 2006, from \$2.94 in 2005, a 16.3% decrease. The

impact of the 2005 reimbursement from a customer of improperly collected markdown allowances was approximately \$8.0 million, net of taxes, which increased EPS by \$0.07. Our average diluted shares outstanding decreased by 4.4 million shares in 2006 on a year-over-year basis to 103.5 million as a result of the repurchase of common shares, partially offset by the exercise of stock options and the effect of dilutive securities. Shares repurchased during 2006 increased EPS by approximately \$0.03 in 2006.

2005 vs. 2004

The following table sets forth our operating results for the year ended December 31, 2005 (52 weeks), compared to the year ended January 1, 2005 (52 weeks):

	YEAR ENDED		VARIANCE	
	DECEMBER 31, 2005	JANUARY 1, 2005	\$	%
DOLLARS IN MILLIONS				
NET SALES	\$ 4,847.8	\$ 4,632.8	\$ 214.9	4.6%
GROSS PROFIT	2,298.4	2,142.6	155.8	7.3%
Selling, general and administrative expenses	1,773.6	1,630.1	143.5	8.8%
Restructuring (gain) expense	(0.6)	9.7	10.3	106.2%
OPERATING INCOME	525.3	502.7	22.6	4.5%
Other (expense) income, net	(2.3)	9.6	(11.9)	(124.0)%
Interest (expense), net	(31.8)	(32.2)	(0.4)	(1.3)%
Provision for income taxes	173.9	166.6	7.3	4.3%
NET INCOME	\$ 317.4	\$ 313.6	\$ 3.8	1.2%

Net Sales

Net sales for 2005 were \$4.848 billion, an increase of \$214.9 million, or 4.6%, over net sales for 2004. The impact of foreign currency exchange rates, primarily as a result of the strengthening of the Canadian dollar, in our international businesses added approximately \$12.8 million in sales during the year. Net sales results for our business segments are provided below:

- *WholesaleApparel* net sales decreased \$18.2 million, or 0.6%, to \$2.947 billion as a result of:
 - A \$54.0 million net decrease across our comparable Wholesale Apparel businesses (excluding C & C CALIFORNIA and prAna), primarily reflecting a 19.5% year-over-year decrease in our domestic LIZ CLAIBORNE business (resulting from lower unit volume and, to a lesser extent, lower unit pricing due to the factors discussed above in “Competitive Profile”), the discontinuation of our KENNETH COLE womenswear license and decreases in our CRAZY HORSE women’s (resulting from lower unit volume and increased retailer support), VILLAGER (resulting from lower unit volume due to a shift from classic to more updated brands), CLAIBORNE (due to lower unit pricing and lower unit volume due to the migration of certain customers to higher priced merchandise), ELLEN TRACY (due to lower unit volume and increased retailer support), ENYCE (due to lower unit volume in Specialty Retail stores partially offset by increased unit volume in department stores), partially offset by the continued growth of our MEXX Europe business (due to volume growth primarily in France and Germany and the launch of premium denim products), growth in our moderate businesses (due to higher unit volume, most notably growth in our EMMA JAMES and J.H. COLLECTIBLES due to higher unit volume and the addition of new retail customers and the launch of TAPEMEASURE) and mid-tier businesses (due to higher unit volume in our AXCESS business due to increased volume at existing store locations as well as an increase in new store locations and the launch of BELONGINGS and TINT, the launch of METROCONCEPTS in the men’s category), continued growth in our JUICY COUTURE business (due to increased customer demand mostly reflected in higher unit volume) and increases in our licensed DKNY® JEANS (due to the addition of new retail customers) and LUCKY BRAND DUNGAREES (due to an increase in department store locations within existing customers) businesses and the launch of our CITY UNLTD. brand in the fourth quarter; partially offset by
 - The inclusion of \$17.3 million of sales from our acquired C & C CALIFORNIA and prAna businesses;
 - The reimbursement of \$12.3 million from a customer of improperly collected markdown allowances; and
 - A \$6.2 million increase resulting from the impact of foreign currency exchange rates in our international businesses.

- *WholesaleNon-Apparel* net sales increased by \$86.0 million, or 15.2%, to \$650.9 million. The increase was primarily due to increases in our Cosmetics business (due to continued growth of our CURVE fragrances and the launch of our LIZ and SOUL fragrances), our JUICY COUTURE, LIZ CLAIBORNE, LUCKY BRAND and mid-tier Handbags businesses, and our MONET, JUICY COUTURE, mid-tier, licensed KENNETH COLE and SIGRID OLSEN Jewelry businesses, as well as the addition of our FIRST ISSUE Handbags, AXCESS Jewelry and Fashion Accessories and TINT Jewelry businesses. The impact of foreign currency exchange rates in our international businesses was not material in this segment.

- *Retail* net sales increased \$141.6 million, or 13.3%, to \$1.207 billion as a result of:
 - A \$6.2 million increase resulting from the impact of foreign currency exchange rates in our Canadian businesses; and
 - A \$135.4 million net increase primarily driven by a 9.1% increase in comparable store sales in our Specialty Retail business (including a 21.6% comparable store sales increase in our LUCKY BRAND DUNGAREES business) and the net addition over the last twelve months of 69 Specialty Retail and 36 Outlet stores, reflecting in part the opening of 21 MEXX, 20 LUCKY BRAND, 19 SIGRID OLSEN, and 2 JUICY COUTURE Specialty Retail stores and 22 MEXX and 14 LIZ CLAIBORNE Outlet stores in the United States, Canada and Europe. These increases were partially offset by a 3.4% comparable store sales decrease in our Outlet business as a result of reduced levels of customer traffic. Comparable store sales in our Company-operated stores increased 2.1% overall.

Comparable store sales are calculated as sales from existing stores, plus new stores, less closed stores as follows: new stores become comparable after 15 full months of being open. Closed stores become non-comparable one month before they close. If a store undergoes renovations and increases or decreases substantially in size as the result of renovations, it becomes non-comparable. If a store is relocated, stays the same size and has no interruption of selling, then the store remains comparable. If, however, a location change causes a significant increase or decrease in size, then the location becomes non-comparable. Stores that are acquired are not considered comparable until they have been reflected in our results for a period of 12 months. Comparable store sales do not include concession sales.

- *Corporate* net sales, consisting of licensing revenue, increased \$5.6 million to \$42.2 million as a result of revenues from new licenses and growth from our existing license portfolio, primarily in LIZ CLAIBORNE branded items.

Viewed on a geographic basis, *Domestic* net sales increased by \$83.5 million, or 2.4%, to \$3.586 billion, reflecting the continued growth in our JUICY COUTURE apparel and accessories, LUCKY BRAND DUNGAREES and DKNY® Jeans businesses, partially offset by declines in our LIZ CLAIBORNE business. *International* net sales increased by \$131.4 million, or 11.6%, to \$1.266 billion, reflecting the results of our MEXX Europe and Canadian businesses.

Gross Profit

Gross profit increased \$155.8 million, or 7.3%, to \$2.298 billion in 2005 over 2004, primarily reflecting an increase in net sales, as well as a \$6.0 million increase due to the impact of foreign currency exchange rates, as a result of the strengthening of the Canadian dollar, in our international businesses in addition to the reimbursement of \$12.3 million from a customer of improperly collected markdown allowances. Gross profit as a percent of net sales increased to 47.4% in 2005 from 46.2% in 2004. The increased gross profit rate reflected the positive impact of lower sourcing costs and a change in the mix of product offerings within our portfolio primarily reflecting an increased proportion of sales from our MEXX Europe, Canadian retail and domestic Specialty Retail businesses, which run at higher gross profit rates than the Company average, as well as a decreased proportion of sales from our domestic LIZ CLAIBORNE Wholesale Apparel business, which runs at a lower gross profit rate than the Company average, partially offset by additional liquidation of excess inventory. Warehousing activities including receiving, storing, picking, packing and general warehousing charges are included in Selling, general & administrative expenses (“SG&A”); accordingly, our gross profit may not be comparable to others who may include these expenses as a component of cost of goods sold.

Selling, General & Administrative Expenses

SG&A increased \$143.5 million, or 8.8% to \$1.774 billion in 2005 and as a percent of net sales increased to 36.6% in 2005 from 35.2% in 2004. The SG&A increase reflected the following:

- A \$13.9 million increase from the acquisitions of C & C CALIFORNIA and prAna and the start-up of internally developed businesses;
- A \$5.8 million increase resulting from the impact of foreign currency exchange rates, primarily as a result of the strengthening of the Canadian dollar, in our international businesses;
- The inclusion of an additional \$15.9 million of expense resulting from the adoption of SFAS No. 123(R) and the shift in our share-based management compensation plan; and
- A \$107.9 million net increase primarily resulting from \$32.9 million of expenses associated with the expansion of our domestic retail businesses, a \$53.2 million increase in our MEXX Europe businesses due to wholesale and retail expansion, a \$21.6 million increase in our Canadian businesses due to expansion in our specialty retail and outlet businesses, net increases of \$8.2 million in our domestic wholesale apparel businesses and approximately \$12.7 million of expenses associated with

product offerings in our accessories and jewelry businesses, primarily offset by \$20.7 million of expenses related to the discontinued Kenneth Cole womenswear license.

The SG&A rate in 2005 as a percent of net sales increased year over year to 36.6% from 35.2%. The SG&A increased rate primarily reflected the impact of expenses described above in addition to the increased proportion of expenses related to our Canadian Specialty Retail and MEXX Europe businesses, which run at higher SG&A rates than the Company average, as described above, in addition to reduced expense leverage resulting from the decreased proportion of expenses related to our domestic LIZ CLAIBORNE Wholesale Apparel business, which runs at a lower SG&A rate than the Company average, partially offset by Company-wide expense control initiatives.

Restructuring (Gain) Expense

In 2005 and 2004, we recorded pretax restructuring gains of \$610,000 (\$394,000 after tax) and \$105,000 (\$68,000 after tax), respectively, to reverse prior restructuring reserves. In December 2004, we recorded a pretax restructuring charge of \$9.8 million pretax (\$6.5 million after tax) relating to costs associated with restructuring of our European business and the closure of our Secaucus, New Jersey distribution center.

Operating Income

Operating income for 2005 was \$525.3 million, an increase of \$22.6 million, or 4.5%, over 2004. The increase in operating income primarily resulted from increased sales in our non-apparel segment, lower sourcing costs and the reimbursement of \$12.3 million from a customer of improperly collected markdown allowances, partially offset by the inclusion of \$8.9 million of expenses primarily related to workforce reductions and office and distribution center real estate consolidations and the inclusion of \$15.9 million of expenses resulting from the adoption of SFAS No. 123(R), as well as the shift in our share-based management compensation plan to restricted stock. In 2004, operating income reflected \$9.8 million of restructuring charges. Operating income as a percent of net sales declined to 10.8% from 10.9% in 2004 primarily due to continued investment in the expansion of our domestic and international retail businesses and the additional liquidation of excess inventory as well as the effect of the adoption of SFAS No. 123(R). The impact of foreign currency exchange rates in our international businesses was not material. Operating income by business segment is provided below:

- *WholesaleApparel* operating income was \$323.5 million (11.0% of net sales), an increase of \$0.1 million in 2005 compared to \$323.4 million (10.9% of net sales) in 2004, principally reflecting increased profits in our MEXX Europe, JUICY COUTURE, moderate and mid-tier businesses, and licensed DKNY® JEANS businesses, as well as the favorable impact of the discontinuation of our KENNETH COLE womenswear license; primarily offset by reduced profits in our LIZ CLAIBORNE business, as a result of the lower sales discussed above, and in our ELLEN TRACY, CRAZY HORSE women's, CLAIBORNE men's, ENYCE and SIGRID OLSEN businesses;
- *WholesaleNon-Apparel* operating income increased \$22.8 million to \$101.5 million (15.6% of net sales) in 2005 compared to \$78.8 million (13.9% of net sales) in 2004, principally due to increased profits in our Cosmetics, LIZ CLAIBORNE, mid-tier, and LUCKY BRAND Handbags businesses and MONET, JUICY COUTURE and SIGRID OLSEN Jewelry businesses, as well as the addition of our TINT Jewelry and AXCESS Jewelry and Fashion Accessories businesses, partially offset by reduced profits in our LIZ CLAIBORNE Fashion Accessories and Jewelry businesses;
- *Retail* operating income was \$68.2 million (5.6% of net sales) decreasing by \$4.9 million in 2005 compared to \$73.1 million (6.9% of net sales) in 2004, principally reflecting reduced profits in our Outlet, and LIZ CLAIBORNE Europe businesses, partially offset by increased profits in our LUCKY BRAND DUNGAREES and MEXX Canada, and JUICY COUTURE businesses; and
- *Corporate* operating income, primarily consisting of licensing operating income, increased \$4.7 million to \$32.1 million in 2005 compared to \$27.4 million in 2004.

Viewed on a geographic basis, *Domestic* operating income decreased by \$8.1 million, or 1.9%, to \$417.8 million, primarily reflecting decreased profits in our LIZ CLAIBORNE and ELLEN TRACY businesses, partially offset by increased profits in our LUCKY BRAND DUNGAREES Retail, JUICY COUTURE and Cosmetics businesses, as well as our moderate and mid-tier department store businesses. *International* operating income increased \$30.7 million, or 40.0% to \$107.5 million; the international increase reflected increased profitability at our European wholesale apparel and Canadian retail businesses.

Other (Expense) Income, Net

In 2005, other (expense) income, net was \$2.3 million of expense, primarily comprised of \$1.8 million of minority interest expense. (See "Financial Position, Capital Resources and Liquidity — Commitments and Capital Expenditures," below, for discussion of the purchase of the remaining Lucky Brand minority interest).

Net other income (expense) in 2004 was \$9.6 million of income, consisted primarily of a pretax gain of \$11.9 million (\$8.0 million after tax) on the sale of all 1.5 million shares of Class A stock of Kenneth Cole Productions, Inc. ("KCP"), partially offset by \$3.7 million of minority interest expense (which related to the 15 percent minority interest in Lucky Brand Dungarees, Inc. and the 1.8 percent minority interest in Segrets, Inc.).

Interest Expense, Net

Net interest expense in 2005 was \$31.8 million, compared to \$32.2 million in 2004, both of which were principally related to borrowings incurred to finance our strategic initiatives, including acquisitions. Net interest includes \$2.6 million and \$1.4 million of interest income in 2005 and 2004, respectively.

Provision for Income Taxes

The income tax rate in 2005 increased to 35.4% from 34.7% in 2004 primarily due to a shift in earnings to jurisdictions with higher statutory tax rates.

Net Income

Net income increased in 2005 to \$317.4 million, or 6.5% of net sales, from \$313.6 million in 2004, or 6.8% of net sales. Diluted earnings per common share ("EPS") increased 3.2% to \$2.94 in 2005, up from \$2.85 in 2004. Our average diluted shares outstanding decreased by 2.0 million shares in 2005 on a year-over-year basis to 107.9 million as a result of the repurchase of common shares partially offset by the exercise of stock options and the effect of dilutive securities.

FORWARD OUTLOOK

We are currently conducting a review of our operations to assess options to best allocate our resources to those businesses with the maximum potential for growth in sales and earnings. We have already begun to identify additional streamlining and reinvestment opportunities in 2007, focusing on our wholesale and corporate expense structure and on the refinement of our retail portfolio.

In light of this ongoing review, we will not be providing 2007 guidance at this time. We currently plan to provide fiscal 2007 annual guidance in July upon completion of the review of our operations. In 2007, we will re-invest all of the \$70 million in savings realized from our 2006 streamlining initiatives, primarily in marketing and in-store activities supporting our key brands. We will also continue our retail expansion strategy and plan to open 100-125 specialty retail stores globally in 2007, with the majority of the store openings focused on the JUICY COUTURE, LUCKY BRAND, MEXX and KATE SPADE formats.

We have also reviewed our quarterly guidance policy and have determined that we will no longer provide quarterly guidance. We will, however, continue to provide annual guidance. We believe this approach is consistent with management's focus on sustainable long-term revenue and earnings growth generation. We remain committed to providing the investment community information regarding our corporate strategy and key drivers of long-term financial performance.

All of these forward-looking statements exclude the impact of any future acquisitions or additional stock repurchases. The foregoing forward-looking statements are qualified in their entirety by reference to the risks and uncertainties set forth under the heading "STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE" below.

FINANCIAL POSITION, CAPITAL RESOURCES AND LIQUIDITY

Cash Requirements. Our primary ongoing cash requirements are to fund growth in working capital (primarily accounts receivable and inventory), to fund projected sales increases, to invest in the technological upgrading of our distribution centers and information systems and other expenditures related to retail store expansion, in-store merchandise shops and normal maintenance activities. We also require cash to fund our acquisition program including payments related to earn-out provisions of recent acquisition agreements. In addition, we will require cash to fund any repurchase of Company stock under our previously announced share repurchase programs. On May 18, 2006, the Company's Board of Directors authorized the Company to purchase up to an additional \$250 million of its common stock for cash in open market purchases and privately negotiated transactions. As of February 16, 2007, we had \$229.2 million remaining in buyback authorization under the share repurchase program.

Sources of Cash. Our historical sources of liquidity to fund ongoing cash requirements include cash flows from operations, cash and cash equivalents and securities on hand, as well as borrowings through our commercial paper program and bank lines of credit (which include revolving and trade letter of credit facilities). On July 6, 2006, we completed the issuance of 350 million euro 5% Notes (the "Notes") due July 8, 2013. The net proceeds of the offering were used to refinance our outstanding 350 million euro 6.625% Notes that matured on August 7, 2006, which were originally issued on August 7, 2001 (see Note 11 of Notes to Consolidated Financial Statements). We anticipate that cash flows from operations, our commercial paper program and bank and letter of credit facilities will be sufficient to fund our next twelve months liquidity requirements and that we will be able to adjust the amounts available under these facilities if necessary (see "Commitments and Capital Expenditures" for more information on future requirements). Such sufficiency and availability may be adversely affected by a variety of factors, including, without limitation, retailer and consumer acceptance of our products, which may impact our financial performance, maintenance of our investment-grade credit rating, as well as interest rate and exchange rate fluctuations.

2006 VS. 2005

Cash and Debt Balances. We ended 2006 with \$195.1 million in cash and marketable securities, compared to \$343.2 million at year-end 2005, and with \$592.7 million of debt outstanding, compared to \$466.6 million at year-end 2005. This \$274.2 million increase in our net debt position on a year-over-year basis is primarily attributable to \$174.1 million in share repurchases, \$182.4 million in capital and in-store expenditures, \$266.8 million in acquisition-related payments and the effect of foreign currency translation on our Eurobond (which increased our debt balance by \$48.5 million), partially offset by cash flow from operations for the last twelve months of \$394.0 million. We ended the year with \$2.130 billion in stockholders' equity, giving us a total debt to total capital ratio of 21.8% at the end of 2006, compared to \$2.003 billion in stockholders' equity at the 2005 year-end with a total debt to total capital ratio of 18.9%. As of the end of 2006, we had \$229.2 million remaining on our share repurchase authorization.

Accounts receivable increased \$83.2 million, or 20.0%, at year-end 2006 compared to year-end 2005, primarily due to increased shipments in our domestic non-apparel businesses and the timing of shipments in the fourth quarter of 2006 and 2005, the inclusion of \$13.0 million of receivables from our acquired prAna, Mac & Jac and Kate Spade businesses, the impact of foreign currency exchange rates of \$15.3 million primarily related to the strengthening of the euro, partially offset by a \$5.9 million reduction in receivables in our domestic wholesale apparel businesses.

Inventories increased \$57.1 million, or 10.7%, at year-end 2006 compared to year-end 2005, primarily due to a \$35.2 million increase resulting from acquisitions, new business initiatives and the expansion of our specialty retail business, net of discontinued lines, a \$14.8 million increase resulting from the impact of foreign currency exchange rate fluctuations, primarily due to the strengthening of the euro in our international businesses, partially offset by decreases in our domestic better woman's apparel and domestic outlet businesses. Our average inventory turnover rate for 2006 was 4.3 times compared to 4.4 times in 2005.

Borrowings under our revolving credit facility and other credit facilities peaked at \$314.2 million during 2006; at year-end 2006, our borrowings under these facilities were \$104.4 million.

Net cash provided by operating activities was \$394.0 million in 2006, compared to \$440.6 million in 2005. This \$46.6 million decrease in cash flow was primarily due to reduced net income resulting from the impact of our streamlining initiatives, as well as changes in accounts receivable due to timing of shipments in our wholesale businesses, partially offset by changes in accounts payable due to the timing of payments and changes in accrued expenses primarily as a result of accruals relating to our streamlining initiatives, as well as increases in depreciation and amortization mostly due to retail expansion.

Net cash used in investing activities was \$435.4 million in 2006, compared to \$298.9 million in 2005. Net cash used in 2006 primarily reflected \$266.8 million in acquisition-related payments and \$182.4 million for capital and in-store expenditures, partially offset by proceeds from the sale of certain equity investments and the sale of our former distribution center in Alabama. Net cash used in 2005 reflected payments of \$158.9 million for capital and in-store expenditures, \$37.1 million to complete the acquisition of MEXX Canada, \$35.0 million for the acquisition of the additional 8.25 percent of minority interest in Lucky Brand and payments of \$29.3 million for the acquisition of C & C and \$32.4 million for the acquisition of prAna.

Net cash used in financing activities was \$89.8 million in 2006, compared to \$199.5 million provided in 2005. The \$109.7 million year-over-year decrease was primarily due to commercial paper outstanding at year-end, increased proceeds from exercise of stock options and decreased common stock repurchases.

2005 VS. 2004

Cash and Debt Balances. We ended 2005 with \$343.2 million in cash and marketable securities, compared to \$393.4 million at year-end 2004, and with \$466.6 million of debt outstanding, compared to \$540.6 million at year-end 2004. This \$23.8 million decrease in our net debt position on a year-over-year basis is primarily attributable to cash flow from operations for the year of \$440.6 million and the effect of foreign currency translation on our Eurobond, which reduced our debt balance by \$62.0 million, partially offset by the 45.3 million Canadian dollars (or \$37.1 million based on the exchange rate on such date) required final contingent payment to complete the purchase of MEXX Canada, the \$35.0 million payment to Lucky Brand shareholders to purchase an additional 8.25 percent interest in Lucky Brand, the \$29.3 million payment made related to the acquisition of C & C, the \$32.4 million payment made related to the acquisition of prAna, \$198.2 million in share repurchases, and \$158.9 million for capital and in-store expenditures. We ended the year with \$2.003 billion in stockholders' equity, giving us a total debt to total capital ratio of 18.9% compared to \$1.811 billion in stockholders' equity at the 2004 year-end with a total debt to total capital ratio of 23.0%. As of the end of 2005, we had \$153.3 million remaining on our share repurchase authorization.

Accounts receivable decreased \$16.2 million, or 3.8%, at year-end 2005 compared to year-end 2004, primarily due to the impact of foreign currency exchange rates which decreased international accounts receivable balances by \$20.8 million, primarily related to the weakening of the euro, as well as reductions in sales and to a lesser extent, timing of payments in our domestic wholesale apparel business, partially offset by volume related growth in our domestic wholesale non-apparel business.

Inventories decreased \$4.8 million, or 0.9%, at year-end 2005 compared to year-end 2004. Reductions of \$21.3 million in inventories in our comparable businesses as well as the impact of foreign currency exchange rate fluctuations of \$19.0 million in those businesses were partially offset by inventory increases of \$35.4 million in our new retail business expansion and new business initiatives, net of discontinued lines. Our average inventory turnover rate for 2005 was 4.4 times compared to 4.5 times in 2004.

Borrowings under our revolving credit facility and other credit facilities peaked at \$149.7 million during 2005; at year-end 2005, our borrowings under these facilities were \$48.4 million.

Net cash provided by operating activities was \$440.6 million in 2005, compared to \$457.3 million provided in 2004. This \$16.7 million decrease in cash flow was primarily due to a \$35.0 million use of cash for working capital in 2005 compared to a \$2.8 million source of cash for working capital in 2004, driven primarily by changes in accounts payable due to timing of payments and accrued expenses due to a reduction of certain employment-related obligations, partially offset by changes in our accounts receivable and inventory balances.

Net cash used in investing activities was \$298.9 million in 2005, compared to \$310.0 million in 2004. Net cash used in 2005 reflected payments of \$158.9 million for capital and in-store expenditures, \$37.1 million to complete the acquisition of MEXX Canada, \$35.0 million for the acquisition of the additional 8.25 percent of minority interest in Lucky Brand and payments of \$29.3 million for the acquisition of C & C and \$32.4 million for the acquisition of prAna. Net cash used in 2004 was primarily attributable to the \$192.4 million (160 million euro) required final contingent payment to complete the purchase of MEXX Europe and \$146.4 million for capital and in-store expenditures.

Net cash used in financing activities was \$199.5 million in 2005, compared to \$50.6 million provided in 2004. The \$148.9 million year-over-year increase was primarily due to the purchases of common stock as well as a decrease in short-term borrowings.

Commitments and Capital Expenditures

We may be required to make the following additional payments in connection with our acquisitions. If paid in cash, these payments will be funded with net cash provided by operating activities, our revolving credit and other credit facilities and/or the issuance of debt:

- The prAna acquisition agreement provides for contingent payments in fiscal years 2008, 2009 and 2010 that will be based upon a multiple of prAna's earnings in each year. We estimate that the aggregate contingent payments will be in the range of approximately \$35–40 million. The contingent payments will be accounted for as additional purchase price when paid.
- On January 16, 2007 and January 17, 2006, we purchased 1.5 percent and 1.9 percent, respectively, of the remaining outstanding shares of Lucky Brand for a payment of \$10.0 million each. The remaining 3.35 percent will be purchased as follows: 1.1 percent in January 2008 for \$10.0 million and the final 2.25 percent in June 2008 at a price equal to the value of the sellers' Lucky Brand shares based on a multiple of Lucky Brand's 2007 earnings. We estimate that this final payment will be \$19–23 million.
- The Juicy Couture acquisition agreement provides for a contingent payment to be determined as a multiple of Juicy Couture's earnings for one of the years ended 2005, 2006 or 2007. This payment will be made in either cash or shares of our common stock at the option of the Company. In March of 2005, the contingent payment agreement was amended to include an advance option for the sellers provided that (i) if the 2005 measurement year is not selected, the sellers may elect to receive up to 70 percent of the estimated contingent payment based upon 2005 results; and (ii) if the 2005 and 2006 measurement years are not selected, the sellers may elect to receive up to 85 percent of the estimated contingent payment based on the 2006 measurement year net of any 2005 advances. In April 2006, the sellers elected to receive a 70 percent advance against the contingent purchase price and were paid \$80.3 million on April 20, 2006. The payment was accounted for as additional purchase price and an increase to goodwill. We estimate that, if the 2006 measurement year is selected, the remaining contingent payment would be in the range of approximately \$22–24 million. The contingent payments will be accounted for as additional purchase price when paid.
- On January 26, 2006, we acquired 100 percent of the equity interests of Westcoast Contempo Fashions Limited and Mac & Jac Holdings Limited for an initial payment of 26.2 million Canadian dollars (or \$22.7 million). The Mac & Jac acquisition agreement provides for contingent payments in fiscal years 2006, 2008, 2009 and 2010 that will be based upon a multiple of Mac & Jac's earnings in each year. We estimate that the aggregate contingent payments will be in the range of approximately \$8–16 million. The contingent payments will be accounted for as additional purchase price when paid.
- The Kate Spade acquisition agreement provides for certain post-closing adjustments that we estimate will require payment of approximately \$1–2 million
- Under the Segrets acquisition agreement, we may elect, or be required, to purchase the remaining minority interest in Segrets. We estimate that if the eligible payment for Segrets is triggered in 2006, it would fall in the range of \$0.2–1.0 million and the payment will be made in either cash or shares of our common stock at the option of either the Company or the seller.

We lease all of our retail stores under leases with terms that are typically five or ten years. We amortize leasehold improvements, as well as rental abatements, construction allowances and other rental concessions classified as deferred rent, on a straight-line basis over the initial term of the lease or estimated useful lives of the assets, whichever is less. The initial lease term can include one renewal under limited circumstances if the renewal is reasonably assured, based on consideration of all of the following factors: (i) a written renewal at the Company's option or an automatic renewal, (ii) there is no minimum sales requirement that could impair our ability to renew, (iii) failure to renew would subject us to a substantial penalty and (iv) there is an established history of renewals in the format or location.

Our capital expenditures for 2007 are expected to approximate \$200 million. These expenditures primarily relate to our retail expansion strategy and plan to open 100–125 specialty retail stores globally, with the majority of store openings focused on the Juicy Couture, Lucky Brand, MEXX and Kate Spade formats, and the continued technological upgrading and expansion of our management information systems and distribution facilities (including certain building and equipment expenditures). Capital expenditures and working capital cash needs will be financed with net cash provided by operating activities and our revolving credit and other credit facilities.

In March 2005, awards were granted to a group of key executives under the Company's stockholder approved Section 162(m) Long Term Performance Plan (the "Performance Plan"). The initial Performance Plan Awards (the "Awards") provide for potential cash payouts based upon performance over a three-year performance period covering the Company's 2005, 2006, and 2007 fiscal years. Actual payouts of the Awards are dependent on the level of achievement against three performance goals: 25% of each Award payout is based on the Company's earnings per share growth, 25% is based on the Company's average three-year return on invested capital and 50% is based on total shareholder return as compared to a group of peer companies.

The following table summarizes as of December 30, 2006 our contractual cash obligations by future period (see Notes 2, 3, 10 and 11 of Notes to Consolidated Financial Statements):

CONTRACTUAL CASH OBLIGATIONS (IN THOUSANDS)	PAYMENTS DUE BY PERIOD				
	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS	TOTAL
Leases commitments	\$ 187,224	\$ 336,498	\$ 269,010	\$ 428,797	\$ 1,221,529
Capital lease obligations	8,549	12,695	10,727	10,280	42,251
Deferred compensation	13,740	—	—	—	13,740
Long term performance plan	—	1,807	1,807	—	3,614
Inventory purchase commitments	641,743	—	—	—	641,743
Eurobond	—	—	—	460,880	460,880
Eurobond interest*	23,044	46,088	46,088	46,088	161,308
Guaranteed minimum licensing royalties	13,000	26,000	26,000	13,000	78,000
Short-term borrowings and commercial paper**	100,783	357	122	417	101,679
Synthetic lease	—	—	32,806	—	32,806
Synthetic lease interest	1,955	3,910	3,702	—	9,567
Additional acquisition purchase price payments	36,000	35,000	44,000	—	115,000

*Interest on the Eurobond is fixed at 5% per annum and assumes an exchange rate of 1.3168 U.S. dollars per euro.

**Commercial paper is classified as long-term debt on the face of the balance sheet as we have the intent and ability to refinance it on a long-term basis; however, the obligation is due within one year. Interest on all short-term borrowings is estimated at a rate of 5.14%, or approximately \$5.2 million.

On July 6, 2006, we completed the issuance of 350 million euro (or \$446.9 million based on the exchange rate in effect on such date) 5% Notes (the "Notes") due July 8, 2013. The net proceeds of the offering were used to refinance our outstanding 350 million euro 6.625% Notes due August 7, 2006, which were originally issued on August 7, 2001. The Notes bear interest from and including July 6, 2006, payable annually in arrears on July 8 of each year beginning on July 8, 2007. The Notes have been listed on the Luxembourg Stock Exchange and received a credit rating of BBB from Standard & Poor's and Baa2 from Moody's Investor Services. These Notes are designated as a hedge of our net investment in MEXX (see

Note 12 of Notes to Consolidated Financial Statements). The Notes are classified as Long-term debt. The fair value of the Notes was 354.1 million euro as of December 30, 2006.

On October 13, 2004, we entered into a \$750 million, five-year revolving credit agreement (the "Agreement"), replacing the \$375 million, 364-day unsecured credit facility that was scheduled to mature in October 2004 and the existing \$375 million bank revolving credit facility which was scheduled to mature in October 2005. A portion of the funds available under the Agreement not in excess of \$250 million is available for the issuance of letters of credit. Additionally, at the request of the Company, the amount of funds available under the Agreement may be increased at any time or from time to time by an aggregate principal amount of up to \$250 million with only the consent of the lenders (which may include new lenders) participating in such increase. The Agreement includes a \$150 million multi-currency revolving credit line, which permits the Company to borrow in U.S. dollars, Canadian dollars and euro. The Agreement has two borrowing options, an "Alternative Base Rate" option, as defined in the Agreement, and a Eurocurrency rate option with a spread based on our long-term credit rating. The Agreement contains certain customary covenants, including financial covenants requiring us to maintain specified debt leverage and fixed charge coverage ratios, and covenants restricting our ability to, among other things, incur indebtedness, grant liens, make investments and acquisitions and sell assets. We believe we are in compliance with such covenants as of December 30, 2006. The funds available under the Agreement may be used to refinance existing debt, to provide working capital and for general corporate purposes of the Company, including, without limitation, the repurchase of capital stock and the support of the Company's \$750 million commercial paper program. Our ability to obtain funding through our commercial paper program is subject to, among other things, the Company maintaining an investment-grade credit rating. At December 30, 2006, the Company had \$82.1 million of commercial paper outstanding under the Agreement. The commercial paper is classified as Long-term debt as the Company has the intent and ability to refinance the commercial paper on a long-term basis.

As of December 30, 2006 and December 31, 2005, we had lines of credit aggregating \$617 million and \$567 million, respectively, which were primarily available to cover trade letters of credit. At December 30, 2006 and December 31, 2005, we had outstanding trade letters of credit of \$303 million and \$298 million, respectively. These letters of credit, which have terms ranging from one to ten months, primarily collateralize our obligations to third parties for the purchase of inventory. The fair value of these letters of credit approximates contract rates.

Our Canadian and European subsidiaries also have unsecured lines of credit totaling approximately \$182.0 million (based on the exchange rates as of December 30, 2006). As of December 30, 2006, a total of \$18.5 million of borrowings denominated in foreign currencies was outstanding at an average interest rate of 4.19%. These lines of credit bear interest at rates based on indices specified in the contracts plus a margin. These lines are guaranteed by the Company. The lines of credit are in effect for less than one year and mature at various dates in 2007. We intend to renew the lines under similar arrangements. The capital lease obligations in Europe expire in 2007 and 2008.

On November 21, 2006, the Company entered into a seven year capital lease with a financial institution totaling \$30.6 million. The purpose of the lease was to finance the equipment associated with its distribution facilities in Ohio and Rhode Island, which had been previously financed through our 2001 synthetic lease, which matured in 2006.

Off-Balance Sheet Arrangements

On May 22, 2001, we entered into an off-balance sheet financing arrangement (commonly referred to as a "synthetic lease") to acquire various land and equipment and construct buildings and real property improvements associated with warehouse and distribution facilities in Ohio and Rhode Island totaling \$63.7 million. The lease expired on November 22, 2006. On November 21, 2006, we entered into a new synthetic lease with a financial institution for a five-year period, with payments totaling \$32.8 million to refinance the land and buildings referred to above. The lessor is a wholly-owned subsidiary of a publicly traded corporation. The lessor is a sole member, whose ownership interest is without limitation as to profits, losses and distribution of the lessor's assets. Our lease represents less than 1% of the lessor's assets. The leases include guarantees by the Company for a substantial portion of the financing and options to purchase the facilities at original cost; the maximum guarantee is approximately \$27 million. The lessor's risk included an initial capital investment in excess of 10% of the total value of the lease, which is at risk during the entire term of the lease. The equipment portion of the original synthetic lease was sold to another financial institution and leased back to us through a seven-year capital lease totaling \$30.6 million. The lessor does not meet the definition of the variable interest entity under Financial Accounting Standard Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities" and therefore consolidation by the Company is not required.

Hedging Activities

At December 30, 2006, we had various Canadian currency collars outstanding with a notional amount of \$8.7 million, maturing through May 2007 and with contract rates ranging between 1.1205 and 1.1700 Canadian dollar per U.S. dollar, various Canadian currency collars outstanding with a notional amount of 45.3 million Hong Kong dollars, maturing through June 2007 and with contract rates ranging between 6.6313 and 6.8776 Hong Kong dollars per Canadian dollar and

various euro currency collars outstanding with a notional amount of 23.3 million Hong Kong dollars, maturing through October 2007 and with contract rates ranging between 9.9339 and 10.2000 Hong Kong dollars per euro. We had \$21 million in Canadian currency collars and 325 million Hong Kong dollars in euro currency collars at December 31, 2005. At December 30, 2006, we also had forward contracts maturing through December 2007 to sell 9.4 million Canadian dollars for \$8.2 million, to sell 15.7 million Canadian dollars for 106.0 million Hong Kong dollars and to sell 58.4 million euro for 589.0 million Hong Kong dollars. The notional value of the foreign exchange forward contracts was approximately \$97.5 million at December 30, 2006, as compared with approximately \$67.5 million at December 31, 2005. Unrealized (losses) gains for outstanding foreign exchange forward contracts and currency options were approximately \$(1.6) million at December 30, 2006 and \$0.7 million at December 31, 2005. The ineffective portion of these trades is recognized currently in earnings and was not material for the year ended December 30, 2006. In addition, for the fiscal year ended December 30, 2006, we recorded approximately \$1.0 million as expense in the Consolidated Statements of Income for derivative instruments that no longer qualified for hedge accounting treatment. Approximately \$1.3 million of income relating to cash flow hedges in Accumulated other comprehensive income (loss) will be reclassified into earnings in the next twelve months as the inventory is sold.

In connection with the variable rate financing under the 2001 synthetic lease agreement, we entered into two interest rate swap agreements with an aggregate notional amount of \$40.0 million that began in January 2003 and terminated in May 2006, in order to fix the interest component of rent expense at a rate of 5.56%. We entered into these arrangements to hedge against potential future interest rate increases. The ineffective portion of these swaps, recognized currently in earnings, was not material for the periods presented.

We hedge our net investment position in euro functional subsidiaries by designating the 350 million euro-denominated bonds in a net investment hedge. As a result, the foreign currency transaction gains and losses that are recognized on the euro-denominated bonds in accordance with paragraph 15 of SFAS No. 52 are accounted for as a component of Accumulated other comprehensive income (loss) rather than recognized in current income in accordance with paragraph 20(b) of SFAS No. 52. The unrealized (loss) gain recorded to Cumulative translation adjustment was \$(48.5) million and \$62.0 million for the years ended December 30, 2006 and December 31, 2005, respectively.

On February 11, 2004, we entered into interest rate swap agreements for the notional amount of 175 million euro in connection with our 350 million Eurobonds, both maturing August 7, 2006. This converted a portion of the fixed rate Eurobonds interest expense to floating rate at a spread over six month EURIBOR. This was designated as a fair value hedge. The first interest rate setting occurred on August 7, 2004 and was reset each six-month period thereafter until maturity. The increase in interest expense recorded at settlement of this swap was not material for the year ended December 30, 2006.

In May 2006, we entered into multiple forward starting swaps to lock the underlying interest rate on the notional amount of 175 million euro in connection with the July 6, 2006 issuance of the Notes (see Note 11 of Notes to Consolidated Financial Statements). These swaps were terminated on June 29, 2006 and we subsequently received payment of 1.0 million euro. This amount, net of tax, is recorded in Accumulated other comprehensive income (loss) and will be reclassified into earnings over the seven year term of the Notes. The amount reclassified out of Accumulated other comprehensive income (loss) was not material for the year ended December 30, 2006.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Significant accounting policies employed by the Company, including the use of estimates, are presented in the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

Use of Estimates

Estimates by their nature are based on judgments and available information. The estimates that we make are based upon historical factors, current circumstances and the experience and judgment of our management. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of our financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our most critical accounting policies, discussed below, pertain to revenue recognition, income taxes, accounts receivable — trade, net, inventories, net, the valuation of goodwill and intangible assets with indefinite lives, accrued expenses, derivative instruments and share-based compensation. In applying such policies, management must use some amounts that are based upon its informed judgments and best estimates. Because of

the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

For accounts receivable, we estimate the net collectibility, considering both historical and anticipated trends as well as an evaluation of economic conditions and the financial positions of our customers. For inventory, we review the aging and salability of our inventory and estimate the amount of inventory that we will not be able to sell in the normal course of business. This distressed inventory is written down to the expected recovery value to be realized through off-price channels. If we incorrectly anticipate these trends or unexpected events occur, our results of operations could be materially affected. We utilize various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method uses the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. Should any of the assumptions used in these projections differ significantly from actual results, material impairment losses could result where the estimated fair values of these assets become less than their carrying amounts. For accrued expenses related to items such as employee insurance, workers' compensation and similar items, accruals are assessed based on outstanding obligations, claims experience and statistical trends; should these trends change significantly, actual results would likely be impacted. Derivative instruments in the form of forward contracts and options are used to hedge the exposure to variability in probable future cash flows associated with inventory purchases and sales collections primarily associated with our European and Canadian entities. If fluctuations in the relative value of the currencies involved in the hedging activities were to move dramatically, such movement could have a significant impact on our results. Changes in such estimates, based on more accurate information, may affect amounts reported in future periods. We are not aware of any reasonably likely events or circumstances, which would result in different amounts being reported that would materially affect our financial condition or results of operations.

Revenue Recognition

Revenue is recognized from our wholesale, retail and licensing operations. Revenue within our wholesale operations is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of returns, discounts and allowances. Returns and allowances require pre-approval from management. Discounts are based on trade terms. Estimates for end-of-season allowances are based on historic trends, seasonal results, an evaluation of current economic conditions and retailer performance. We review and refine these estimates on a monthly basis based on current experience, trends and retailer performance. Our historical estimates of these costs have not differed materially from actual results. Retail store revenues are recognized net of estimated returns at the time of sale to consumers. Proceeds received from the sale of gift cards are recorded as a liability and recognized as sales when redeemed by the holder. Licensing revenues are recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees.

Income Taxes

Income taxes are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the worldwide provisions for income taxes. In the ordinary course of a global business, the ultimate tax outcome is uncertain for many transactions. It is our policy to establish provisions for taxes that may become payable in future years as a result of an examination by tax authorities. We establish the provisions based upon management's assessment of exposure associated with permanent tax differences, tax credits and interest expense applied to temporary difference adjustments. The tax provisions are analyzed periodically (at least quarterly) and adjustments are made as events occur that warrant adjustments to those provisions. In fiscal 2006, a 1% change in the effective tax rate would have impacted Net Income by \$4.1 million.

Accounts Receivable — Trade, Net

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria. Accounts receivable — trade, net, as shown on the Consolidated Balance Sheets, is net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the financial statements, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of our customers and an evaluation of the impact of economic conditions. An allowance for discounts is based on those discounts relating to open invoices where trade discounts have been extended to customers. Costs associated with potential returns of products as well as allowable customer markdowns and operational charge backs, net of expected recoveries, are included as a reduction to net sales and are part of the provision for allowances included in Accounts receivable — trade, net. These provisions result from seasonal negotiations with our customers as well as historic deduction trends net of expected recoveries and the evaluation of current market conditions. Should circumstances change or economic or

distribution channel conditions deteriorate significantly, we may need to increase our provisions. Our historical estimates of these costs have not differed materially from actual results.

Inventories, Net

Inventories are stated at lower of cost (using the first-in, first-out method) or market. We continually evaluate the composition of our inventories assessing slow-turning, ongoing product as well as prior seasons' fashion product. Market value of distressed inventory is valued based on historical sales trends for this category of inventory of our individual product lines, the impact of market trends and economic conditions and the value of current orders in-house relating to the future sales of this type of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. We review our inventory position on a monthly basis and adjust our estimates based on revised projections and current market conditions. If economic conditions worsen, we incorrectly anticipate trends or unexpected events occur, our estimates could be proven overly optimistic, and required adjustments could materially adversely affect future results of operations. Our historical estimates of these costs and our provisions have not differed materially from actual results.

Goodwill and Other Intangibles, Net

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill and intangible assets with indefinite lives are not amortized, but rather tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

A two-step impairment test is performed on goodwill. In the first step, we compare the fair value of each reporting unit to its carrying value. Our reporting units are consistent with the reportable segments identified in Note 20 of Notes to Consolidated Financial Statements. We determine the fair value of our reporting units using the market approach as is typically used for companies providing products where the value of such a company is more dependent on the ability to generate earnings than the value of the assets used in the production process. Under this approach, we estimate the fair value based on market multiples of revenues and earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step in order to determine the implied fair value of the reporting unit's goodwill and compare it to the carrying value of the reporting unit's goodwill. The activities in the second step include valuing the tangible and intangible assets of the impaired reporting unit, determining the fair value of the impaired reporting unit's goodwill based upon the residual of the summed identified tangible and intangible assets and the fair value of the enterprise as determined in the first step, and determining the magnitude of the goodwill impairment based upon a comparison of the fair value residual goodwill and the carrying value of goodwill of the reporting unit. If the carrying value of the reporting unit's goodwill exceeds the implied fair value, then we must record an impairment loss equal to the difference.

The fair value of purchased intangible assets with indefinite lives, primarily trademarks and trade names, are estimated and compared to the carrying value. We estimate the fair value of these intangible assets based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. We recognize an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Owned trademarks that have been determined to have indefinite lives are not subject to amortization and are reviewed at least annually for potential value impairment as mentioned above. Trademarks having definite lives are amortized over their estimated useful lives. Acquired trademarks are valued using the relief-from-royalty method. Trademarks that are licensed by the Company from third parties are amortized over the individual terms of the respective license agreements, which range from 5 to 15 years. Intangible merchandising rights are amortized over a period of four years. Customer relationships are amortized assuming gradual attrition over time. Existing relationships are being amortized over periods ranging from 5 to 25 years.

The recoverability of the carrying values of all long-lived assets with definite lives is reevaluated when changes in circumstances indicate the assets' value may be impaired. Impairment testing is based on a review of forecasted operating cash flows and the profitability of the related business. For the three year period ended December 30, 2006, there were no material adjustments to the carrying values of any long-lived assets resulting from these evaluations.

The excess of the low range of the fair value over the carrying value for goodwill for each of the reporting units ranged from approximately \$68.4 million to approximately \$629.0 million. In order to evaluate the sensitivity of the fair value calculations on the goodwill impairment test, we applied a hypothetical 10% decrease to the fair values of each reporting

unit. This hypothetical 10% decrease would result in excess fair value over carrying value for each of the reporting units ranging from approximately \$61.6 million to approximately \$566.1 million.

Accrued Expenses

Accrued expenses for employee insurance, workers' compensation, profit sharing, contracted advertising, professional fees and other outstanding Company obligations are assessed based on claims experience and statistical trends, open contractual obligations, and estimates based on projections and current requirements. If these trends change significantly, then actual results would likely be impacted. Our historical estimates of these costs and our provisions have not differed materially from actual results.

Derivative Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the Consolidated Balance Sheets as either an asset or liability and measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings in either income (loss) from continuing operations or Accumulated other comprehensive income (loss), depending on whether the derivative qualifies for hedge accounting treatment. Hedge accounting requires that the Company tests for effectiveness at inception of each hedge and at the end of each reporting period.

We use foreign currency forward contracts and options for the purpose of hedging the specific exposure to variability in forecasted cash flows associated primarily with inventory purchases mainly with our European and Canadian entities. These instruments are designated as cash flow hedges. To the extent the hedges are highly effective, the effective portion of the changes in fair value are included in Accumulated Other Comprehensive income (loss), net of related tax effects, with the corresponding asset or liability recorded in the Consolidated Balance Sheets. The ineffective portion of the cash flow hedge is recognized primarily as a component of Cost of goods sold in current period earnings or, in the case of the swaps, if any, to SG&A expenses. Amounts recorded in Accumulated other comprehensive income (loss) are reflected in current period earnings when the hedged transaction affects earnings. If fluctuations in the relative value of the currencies involved in the hedging activities were to move dramatically, such movement could have a significant impact on our results of operations. We are not aware of any reasonably likely events or circumstances, which would result in different amounts being reported that would materially affect our financial condition or results of operations.

Hedge accounting requires that at the beginning of each hedge period, we justify an expectation that the hedge will be highly effective. This effectiveness assessment involves an estimation of the probability of the occurrence of transactions for cash flow hedges. The use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and underlying hedged items are recorded in earnings.

We hedge our net investment position in euro functional subsidiaries by borrowing directly in foreign currency and designating a portion of foreign currency debt as a hedge of net investments. The foreign currency transaction gain or loss recognized for a foreign currency denominated debt instrument that is designated as the hedging instrument in a net investment hedge is recorded to Cumulative translation adjustment. We also use derivative instruments to hedge the changes in the fair value of the debt due to interest rates and the change in fair value is recognized currently in Interest expense, net together with the change in fair value of the hedged item attributable to interest rates.

Occasionally, we purchase short-term foreign currency contracts and options outside of the cash flow hedging program to neutralize quarter-end balance sheet and other expected exposures. These derivative instruments do not qualify as cash flow hedges under SFAS No. 133 and are recorded at fair value with all gains or losses, which have not been significant, recognized as a component of SG&A expenses in current period earnings immediately.

Share-Based Compensation

On July 3, 2005, we adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based awards including stock options as well as restricted stock. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Prior to adopting SFAS No. 123(R), we applied Accounting Principles Board ("APB") Opinion No. 25, and related Interpretations, in accounting for its share-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in prior periods. In accordance with SFAS No. 123(R), judgment is required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted.

Inflation

The rate of inflation over the past few years has not had a significant impact on our sales or profitability.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." SFAS No. 159 allows companies the choice to measure financial instruments and certain other items at fair value. This allows the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is effective for fiscal years beginning after November 15, 2007. We are currently reviewing the impact of SFAS 159 on our financial statements.

In September 2006, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides guidance on the consideration of effects of the prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. We adopted SAB No. 108 in the fourth quarter of 2006 and the adoption of SAB No. 108 did not impact our consolidated financial results.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of adopting SFAS No. 157 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit and retiree medical plans as an asset or liability in its statement of financial position and to recognize through comprehensive income changes in that funded status in the year in which they occur. The adoption of SFAS No. 158 did not have a material impact on the consolidated financial statements.

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This interpretation requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the 2007 fiscal year with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. We adopted FIN 48 for the first quarter of 2007. Based on our preliminary review we expect a cumulative effect charge to retained earnings in the range of \$18–24 million.

On October 6, 2005, the FASB issued FASB Staff Position ("FSP") No. FAS 13-1 "Accounting for Rental Costs Incurred during a Construction Period." The FASB has concluded that rental costs incurred during and after a construction period are for the right to control the use of a leased asset and must be recognized as rental expense. Such costs were previously capitalizable as construction costs if the company had a policy to do so. The FSP is effective for reporting periods beginning after December 15, 2005. We adopted FSP No. FAS 13-1 on January 1, 2006. The impact of this FSP decreased net income by approximately \$4 million for the fiscal year ending December 30, 2006.

STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

Statements contained herein and in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases, and in oral statements made by, or with the approval of, authorized personnel that relate to the Company's future performance, including, without limitation, statements with respect to the Company's anticipated results of operations or level of business for fiscal 2007, any fiscal quarter of 2007 or any other future period, including those herein under the heading "Forward Outlook" or otherwise, are forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements, which are indicated by words or phrases such as "intend," "anticipate," "plan," "estimate," "project," "management expects," "the Company believes," "we are optimistic that we can," "current visibility indicates that we forecast" or "currently envisions" and similar phrases are based on current expectations only, and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Included among the factors that could cause actual results to materially differ are risks with respect to the following:

Risks Associated with Competition and the Marketplace

The apparel and related product markets are highly competitive, both within the United States and abroad. Our ability to compete successfully within the marketplace depends on a variety of factors, including:

- The continuing challenging retail and macroeconomic environment, including the levels of consumer confidence and discretionary spending, and levels of customer traffic within department stores, malls and other shopping and selling environments, and a continuation of the deflationary trend for apparel products;

- Our ability to successfully continue to evolve our supply chain system, including our product development, sourcing, logistics and technology functions, to reduce product cycle-time and costs and meet customer demands;
- Our ability to effectively anticipate, gauge and respond to changing consumer demands and tastes, across multiple product lines, shopping channels and geographies;
- Our ability to translate market trends into appropriate, saleable product offerings relatively far in advance, while minimizing excess inventory positions, including our ability to correctly balance the level of its fabric and/or merchandise commitments with actual customer orders;
- Consumer and customer demand for, and acceptance and support of, our products (especially by our largest customers) which are in turn dependent, among other things, on product design, quality, value and service;
- Risks associated with the possible failure of our unaffiliated manufacturers to manufacture and deliver products in a timely manner, to meet quality standards or to comply with our policies regarding labor practices or applicable laws or regulations;
- Our ability to adapt to and compete effectively in the current quota environment, including changes in sourcing patterns resulting from the elimination of quota on apparel products, as well as lowered barrier to entry;
- Risks associated with our dependence on sales to a limited number of large United States department store customers, including risks related to our ability to respond effectively to:
 - these customers' buying patterns, including their purchase and retail floor space commitments for apparel in general (compared with other product categories they sell), and our products specifically (compared with products offered by our competitors, including with respect to customer and consumer acceptance, pricing, and new product introductions);
 - these customers' strategic and operational initiatives, including their continued focus on further development of their "private label" initiatives;
 - these customers' desire to have us provide them with exclusive and/or differentiated designs and product mixes;
 - these customers' requirements for vendor margin support;
 - any credit risks presented by these customers, especially given the significant proportion of our accounts receivable they represent; and
 - the effect that any potential consolidation among one or more of these larger customers, such as the merger between Federated Department Stores, Inc. and The May Department Store Company, might have on the foregoing and/or other risks;
- Risks associated with maintaining and enhancing favorable brand recognition, which may be affected by consumer attitudes towards the desirability of fashion products bearing a "mega brand" label and which are widely available at a broad range of retail stores; and
- Risks associated with our operation and expansion of retail business, including the ability to successfully find appropriate sites, negotiate favorable leases, design and create appealing merchandise, appropriately manage inventory levels, install and operate effective retail systems, apply appropriate pricing strategies, and integrate such stores into our overall business mix.

Management and Employee Risks

- Our ability to attract and retain talented, highly qualified executives and other key personnel in design, merchandising, sales, marketing, production, systems and other functions;
- Our ability to hire and train qualified retail management and associates;
- Risks associated with any significant disruptions in our relationship with our employees, including union employees, and any work stoppages by our employees, including union employees;
- Risks associated with providing for the succession of senior management; and
- Risks associated with realignment of responsibilities among the Company's management team.

Economic, Social and Political Factors

Also impacting us and our operations are a variety of economic, social and political factors, including the following:

- Risks associated with war, the threat of war, and terrorist activities, including reduced shopping activity as a result of public safety concerns and disruption in the receipt and delivery of merchandise;
- Changes in national and global microeconomic and macroeconomic conditions in the markets where we sell or source our products, including the levels of consumer confidence and discretionary spending, consumer income growth, personal debt levels, rising energy costs and energy shortages, and fluctuations in foreign currency exchange rates, interest rates and stock market volatility, and currency devaluations in countries in which we source product;
- Changes in social, political, legal and other conditions affecting foreign operations;
- Risks of increased sourcing costs, including costs for materials and labor, including as a result of the elimination of quota on apparel products;
- Any significant disruption in our relationships with our suppliers, manufacturers as well as work stoppages by any of our suppliers or service providers;

- The enactment of new legislation or the administration of current international trade regulations, or executive action affecting international textile agreements, including the United States' reevaluation of the trading status of certain countries, and/or retaliatory duties, quotas or other trade sanctions, which, if enacted, would increase the cost of products purchased from suppliers in such countries, and the January 1, 2005 elimination of quota, which may significantly impact sourcing patterns; and
- Risks related to our ability to establish, defend and protect its trademarks and other proprietary rights and other risks relating to managing intellectual property issues.

Risks Associated with Acquisitions and New Product Lines and Markets

We, as part of its growth strategy, from time to time acquire new product lines and/or enters new markets, including through licensing arrangements. These activities (which also include the development and launch of new product categories and product lines), are accompanied by a variety of risks inherent in any such new business venture, including the following:

- Ability to identify appropriate acquisition candidates and negotiate favorable financial and other terms, against the background of increasing market competition (from both strategic and financial buyers) for the types of acquisitions we have been making;
- Risks that the new product lines or market activities may require methods of operations and marketing and financial strategies different from those employed in our other businesses, including risks associated with acquisitions with significant foreign operations. In addition, these businesses may involve buyers, store customers and/or competitors different from our historical buyers, store customers and competitors;
- Risks associated with selling our Liz & Co. and Concepts by Claiborne brands outside of better department stores.
- Possible difficulties, delays and/or unanticipated costs in integrating the business, operations, personnel, and/or systems of an acquired business;
- Risks that projected or satisfactory level of sales, profits and/or return on investment for a new business will not be generated;
- Risks involving our ability to retain and appropriately motivate key personnel of an acquired business;
- Risks that expenditures required for capital items or working capital will be higher than anticipated;
- Risks associated with unanticipated events and unknown or uncertain liabilities;
- Uncertainties relating to our ability to successfully integrate an acquisition, maintain product licenses, or successfully launch new products and lines;
- Certain new businesses may be lower margin businesses and may require us to achieve significant cost efficiencies; and
- With respect to businesses where we act as licensee, the risks inherent in such transactions, including compliance with terms set forth in the applicable license agreements, including among other things the maintenance of certain levels of sales, and the public perception and/or acceptance of the licensor's brands or other product lines, which are not within our control.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have exposure to interest rate volatility primarily relating to interest rate changes applicable to our revolving credit facility and other credit. These loans bear interest at rates which vary with changes in prevailing market rates.

We do not speculate on the future direction of interest rates. As of December 30, 2006 and December 31, 2005, our exposure to changing market rates was as follows:

DOLLARS IN MILLIONS	DECEMBER 30, 2006	DECEMBER 31, 2005
Variable rate debt	\$ 100.6	\$ 48.4
Average interest rate	5.14%	3.0%
Notional amount of interest rate swap	\$ 0	\$ 206.2
Current implied interest rate	0%	5.69%

A ten percent change in the average interest rates of the variable debt would have resulted in a \$1.4 million change in interest expense during 2006.

We finance our capital needs through available cash and marketable securities, operating cash flows, letters of credit, synthetic lease and bank revolving credit facilities, other credit facilities and commercial paper issuances. Our floating rate bank revolving credit facility, bank lines and commercial paper program expose us to market risk for changes in interest rates. As of December 30, 2006, we have not employed interest rate hedging to mitigate such risks with respect to our floating rate

facilities. We believe that our Eurobond offering, which is a fixed rate obligation, partially mitigates the risks with respect to our variable rate financing.

The acquisition of Mexx, which transacts business in multiple currencies, has increased our exposure to exchange rate fluctuations. We mitigate the risks associated with changes in foreign currency rates through foreign exchange forward contracts and collars to hedge transactions denominated in foreign currencies for periods of generally less than one year and to hedge expected payment of intercompany transactions with our non-U.S. subsidiaries, which now include Mexx. Gains and losses on contracts, which hedge specific foreign currency denominated commitments, are recognized in the period in which the transaction is completed.

At December 30, 2006 and December 31, 2005, we had outstanding foreign currency collars with net notional amounts aggregating to \$17.5 million and \$63.0 million, respectively. We had forward contracts aggregating to \$97.5 million at December 30, 2006 and \$67.5 million at December 31, 2005. Unrealized gains (losses) for outstanding foreign currency options and foreign exchange forward contracts were approximately (\$1.6) million at December 30, 2006 and \$0.7 million at December 31, 2005. A sensitivity analysis to changes in the foreign currencies when measured against the U.S. dollar indicates if the U.S. dollar uniformly weakened by 10% against all of the hedged currency exposures, the fair value of instruments would decrease by \$11.4 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the hedged currency exposures, the fair value of these instruments would increase by \$10.9 million. Any resulting changes in the fair value of the hedged instruments would be partially offset by changes in the underlying balance sheet positions. The sensitivity analysis assumes a parallel shift in foreign currency exchange rates. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in foreign currency. We do not hedge all transactions denominated in foreign currency.

The table below presents the amount of contracts outstanding, the contract rate and unrealized gain or (loss), as of December 30, 2006:

CURRENCY IN THOUSANDS	U.S. DOLLAR AMOUNT	HONG KONG DOLLAR AMOUNT	CONTRACT RATE	UNREALIZED GAIN (LOSS)
FORWARD CONTRACTS:				
Euro		589,000	0.0973 to 0.1067	\$ (1,368)
Canadian Dollars	\$ 8,190		0.8702 to 0.8728	—
Canadian Dollars		105,980	0.1480 to 0.1482	180
FOREIGN EXCHANGE COLLAR CONTRACTS:				
Euro		23,250	0.0980 to 0.1007	\$ (506)
Canadian Dollars	\$ 8,659		0.8547 to 0.8925	—
Canadian Dollars		45,345	0.1454 to 0.1508	107

The table below presents the amount of contracts outstanding, the contract rate and unrealized gain or (loss), as of December 31, 2005:

CURRENCY IN THOUSANDS	U.S. DOLLAR AMOUNT	HONG KONG DOLLAR AMOUNT	CONTRACT RATE	UNREALIZED GAIN (LOSS)
FORWARD CONTRACTS:				
Euro		193,750	0.1037 to 0.1094	\$ 498
Canadian Dollars	\$ 16,723		0.8549 to 0.8592	—
Canadian Dollars		199,806	0.1491 to 0.1508	—
FOREIGN EXCHANGE COLLAR CONTRACTS:				
Euro		325,362	0.0992 to 0.1143	\$ 208
Canadian Dollars	\$ 21,072		0.8403 to 0.8881	—

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a – 15(f) under the Securities and Exchange Act of 1934. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of the Company's internal control over financial reporting as of December 30, 2006 based upon criteria for effective internal control over financial reporting described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation, management determined that the Company's internal control over financial reporting was effective as of December 30, 2006 based on the criteria in Internal Control — Integrated Framework issued by COSO.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 30, 2006 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their attestation report which appears herein.

Dated February 28, 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Liz Claiborne, Inc. is responsible for the preparation, objectivity and integrity of the consolidated financial statements and other information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include some amounts that are based on management's informed judgments and best estimates.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited these consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and have expressed herein their unqualified opinion on those financial statements.

The Audit Committee of the Board of Directors, which oversees all of the Company's financial reporting process on behalf of the Board of Directors, consists solely of independent directors, meets with the independent registered accountants, internal auditors and management periodically to review their respective activities and the discharge of their respective responsibilities. Both the independent registered accountants and the internal auditors have unrestricted access to the Audit Committee, with or without management, to discuss the scope and results of their audits and any recommendations regarding the system of internal controls.


William L. McComb
Chief Executive Officer


Michael Scarpa
Chief Operating Officer
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Liz Claiborne, Inc.

We have audited the accompanying consolidated balance sheets of Liz Claiborne, Inc. and subsidiaries (the "Company") as of December 30, 2006 and December 31, 2005, and the related consolidated statements of income, retained earnings, comprehensive income and changes in capital accounts and cash flows for each of the three years in the period ended December 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Liz Claiborne, Inc. and subsidiaries as of December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, in 2005 the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," as revised, effective July 3, 2005.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expresses an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

New York, New York
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Liz Claiborne, Inc.

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control over Financial Reporting*, that Liz Claiborne, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 30, 2006 of the Company and our report dated February 28, 2007 expresses an unqualified opinion on those financial statements.

New York, New York
February 28, 2007

Consolidated Balance Sheets

IN THOUSANDS EXCEPT SHARE DATA	DECEMBER 30, 2006	DECEMBER 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 185,645	\$ 328,527
Marketable securities	9,451	14,638
Accounts receivable — trade, net	499,012	415,849
Inventories, net	593,445	536,296
Deferred income taxes	60,627	47,688
Other current assets	121,937	113,539
Total current assets	1,470,117	1,456,537
PROPERTY AND EQUIPMENT, NET	581,992	494,693
GOODWILL, NET	1,007,859	858,565
INTANGIBLES, NET	413,962	332,017
OTHER ASSETS	21,838	10,224
TOTAL ASSETS	\$ 3,495,768	\$3,152,036
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short term borrowings	\$ 22,266	\$ 48,729
Accounts payable	281,413	250,768
Accrued expenses	336,773	288,370
Income taxes payable	33,470	19,872
Total current liabilities	673,922	607,739
LONG-TERM DEBT	541,877	413,227
OBLIGATIONS UNDER CAPITAL LEASES	28,592	4,606
OTHER NON-CURRENT LIABILITIES	63,565	66,692
DEFERRED INCOME TAXES	54,571	54,170
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
MINORITY INTEREST	3,260	2,896
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, authorized shares — 50,000,000, issued shares — none	—	—
Common stock, \$1 par value, authorized shares — 250,000,000, issued shares — 176,437,234	176,437	176,437
Capital in excess of par value	249,573	187,689
Retained earnings	3,354,081	3,122,487
Accumulated other comprehensive income (loss)	(56,156)	(33,738)
	3,723,935	3,452,875
Common stock in treasury, at cost — 73,281,103 shares in 2006 and 71,451,550 shares in 2005	(1,593,954)	(1,450,169)
Total stockholders' equity	2,129,981	2,002,706
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,495,768	\$ 3,152,036

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Income

IN THOUSANDS EXCEPT PER COMMON SHARE DATA	FISCAL YEARS ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
NET SALES	\$ 4,994,318	\$ 4,847,753	\$ 4,632,828
Cost of goods sold	2,606,853	2,549,396	2,490,266
GROSS PROFIT	2,387,465	2,298,357	2,142,562
Selling, general & administrative expenses	1,951,388	1,773,627	1,630,122
Restructuring (gain) expense	—	(610)	9,694
OPERATING INCOME	436,077	525,340	502,746
Other income (expense), net	5,357	(2,264)	9,602
Interest expense, net	(34,898)	(31,798)	(32,151)
INCOME BEFORE PROVISION FOR INCOME TAXES	406,536	491,278	480,197
Provision for income taxes	151,851	173,912	166,628
NET INCOME	\$ 254,685	\$ 317,366	\$ 313,569
NET INCOME PER WEIGHTED AVERAGE SHARE, BASIC	\$ 2.50	\$ 2.98	\$ 2.90
NET INCOME PER WEIGHTED AVERAGE SHARE, DILUTED	\$ 2.46	\$ 2.94	\$ 2.85
WEIGHTED AVERAGE SHARES, BASIC	101,989	106,354	108,128
WEIGHTED AVERAGE SHARES, DILUTED	103,483	107,919	109,886
DIVIDENDS PAID PER COMMON SHARE	\$.23	\$.23	\$.23

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Retained Earnings, Comprehensive Income and Changes In Capital Accounts

IN THOUSANDS EXCEPT SHARE DATA	COMMON STOCK		RETAINED EARNINGS				TREASURY SHARES		TOTAL
	NUMBER OF SHARES	AMOUNT	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED COMPENSATION	NUMBER OF SHARES	AMOUNT	
BALANCE, JANUARY 3, 2004	176,437,234	\$ 176,437	\$ 124,823	\$ 2,539,742	\$ (50,207)	\$ (21,593)	66,865,854	\$ (1,191,231)	\$ 1,577,971
Net income	—	—	—	313,569	—	—	—	—	313,569
Other comprehensive income (loss), net of tax:									
Translation adjustment	—	—	—	—	(6,325)	—	—	—	(6,325)
Gains (losses) on cash flow hedging derivatives, net of income tax provision of \$1,335	—	—	—	—	1,933	—	—	—	1,933
Realized gains on available-for-sale securities, net of income tax provision of \$(2,372)	—	—	—	—	(4,201)	—	—	—	(4,201)
Adjustment to unrealized gains on available-for-sale securities, net of income tax benefit of \$(2,739)	—	—	—	—	(4,850)	—	—	—	(4,850)
Total comprehensive income									300,126
Exercise of stock options and related tax benefits	—	—	36,456	—	—	—	(2,359,171)	30,091	66,547
Cash dividends declared	—	—	—	(24,343)	—	—	—	—	(24,343)
Purchase of Common Stock	—	—	—	—	—	—	3,411,500	(116,817)	(116,817)
Issuance of common stock under restricted stock and employment agreements, net	—	—	14,903	—	—	(15,200)	(215,118)	8,602	8,305
BALANCE, JANUARY 1, 2005	176,437,234	\$ 176,437	\$ 176,182	\$ 2,828,968	\$ (63,650)	\$ (36,793)	67,703,065	\$ (1,269,355)	\$ 1,811,789
Net income	—	—	—	317,366	—	—	—	—	317,366
Other comprehensive income (loss), net of tax:									
Translation adjustment	—	—	—	—	19,968	—	—	—	19,968
Gains (losses) on cash flow hedging derivatives, net of income tax provision of \$4,666	—	—	—	—	8,515	—	—	—	8,515
Adjustment to unrealized gains on available-for-sale securities, net of income tax provision of \$783	—	—	—	—	1,429	—	—	—	1,429
Total comprehensive income									347,278
Exercise of stock options and related tax benefits	—	—	26,113	—	—	—	(1,318,382)	14,610	40,723
Excess tax benefits related to stock options	—	—	897	—	—	—	—	—	897
Cash dividends declared	—	—	—	(23,847)	—	—	—	—	(23,847)
Purchase of common stock	—	—	—	—	—	—	5,442,500	(198,208)	(198,208)
Issuance of common stock under restricted stock and employment agreements, net	—	—	17,332	—	—	3,958	(375,633)	2,784	24,074
Reclassification of unamortized restricted stock expense	—	—	(32,835)	—	—	32,835	—	—	—
BALANCE, DECEMBER 31, 2005	176,437,234	\$ 176,437	\$ 187,689	\$ 3,122,487	\$ (33,738)	\$ —	71,451,550	\$ (1,450,169)	\$ 2,002,706

Consolidated Statements of Retained Earnings, Comprehensive Income and Changes In Capital Accounts (continued)

	COMMON STOCK					TREASURY SHARES		TOTAL
	NUMBER OF SHARES	AMOUNT	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	NUMBER OF SHARES	AMOUNT	
IN THOUSANDS EXCEPT SHARE DATA								
BALANCE, DECEMBER 31, 2005	176,437,234	\$176,437	\$187,689	\$3,122,487	\$(33,738)	71,451,550	\$(1,450,169)	\$ 2,002,706
Net income	—	—	—	254,685	—	—	—	254,685
Other comprehensive income (loss), net of tax:								
Translation adjustment	—	—	—	—	(20,722)	—	—	(20,722)
Gains (losses) on cash flow hedging derivatives, net of income tax provision of \$(782)	—	—	—	—	(1,120)	—	—	(1,120)
Adjustment to unrealized gains on available-for-sale securities, net of income tax provision of \$(344)	—	—	—	—	(576)	—	—	(576)
Total comprehensive income								232,267
Exercise of stock options and related tax benefits	—	—	38,470	—	—	(2,275,662)	23,629	62,099
Excess tax benefits related to stock options	—	—	10,319	—	—	—	—	10,319
Cash dividends declared	—	—	—	(23,091)	—	—	—	(23,091)
Purchase of common stock	—	—	—	—	—	4,688,000	(174,071)	(174,071)
Issuance of common stock under restricted stock and employment agreements, net	—	—	(9,591)	—	—	(582,785)	6,657	(2,934)
Amortization — share-based compensation	—	—	22,686	—	—	—	—	22,686
BALANCE, DECEMBER 30, 2006	176,437,234	\$176,437	\$249,573	\$3,354,081	\$(56,156)	73,281,103	\$(1,593,954)	\$ 2,129,981

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

IN THOUSANDS	FISCAL YEARS ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 254,685	\$ 317,366	\$ 313,569
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	140,403	127,508	115,634
Streamlining initiatives; asset write-down	2,831	—	—
Loss on asset disposals	19,996	—	—
Deferred income taxes	(9,848)	1,824	4,424
Share-based compensation	22,686	23,688	11,826
Tax benefit on exercise of stock options	7,852	5,779	11,397
Gain on sale of securities	(3,583)	—	(11,934)
Gain on sale of property and equipment	(1,789)	—	—
Restructuring (gain) expense	—	(610)	9,694
Other, net	275	(23)	(97)
Changes in assets and liabilities, exclusive of acquisitions:			
(Increase) decrease in accounts receivable — trade, net	(56,788)	1,677	(32,510)
Increase in inventories, net	(26,557)	(3,472)	(47,274)
Increase in other current and non-current assets	(3,189)	(23,488)	(2,440)
Increase (decrease) in accounts payable	14,981	(3,861)	28,373
Increase in accrued expenses	19,109	5,280	55,833
Increase (decrease) in income taxes payable	12,973	(11,116)	769
Net cash provided by operating activities	394,037	440,552	457,264
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment instruments	(154)	(4,611)	(134)
Proceeds from sales of securities	8,054	—	40,934
Purchases of property and equipment	(168,667)	(140,295)	(134,320)
Sale of property and equipment	5,711	—	—
Payments for acquisitions, net of cash acquired	(266,775)	(139,815)	(197,221)
Payments for in-store merchandise shops	(13,762)	(18,574)	(12,107)
Other, net	160	4,448	(7,146)
Net cash used in investing activities	(435,433)	(298,847)	(309,994)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short term borrowings	(30,214)	(7,389)	37,203
Principal payments under capital lease obligations	(3,338)	(5,871)	(1,805)
Commercial paper, net	82,075	—	—
Proceeds from exercise of common stock options	62,099	34,944	55,150
Purchase of common stock	(174,071)	(198,208)	(116,817)
Dividends paid	(23,091)	(23,847)	(24,343)
Excess tax benefits related to stock options	2,467	897	—
Proceeds from issuance of 5% euro Notes, net	445,099	—	—
Repayment of 6.625% euro Notes	(449,505)	—	—
Other, net	(1,292)	—	—
Net cash used in financing activities	(89,771)	(199,474)	(50,612)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(11,715)	659	(4,524)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(142,882)	(57,110)	92,134
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	328,527	385,637	293,503
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 185,645	\$ 328,527	\$ 385,637

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTE 1: Significant Accounting Policies**NATURE OF OPERATIONS**

Liz Claiborne, Inc. is engaged primarily in the design and marketing of a broad range of apparel, accessories and fragrances.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Liz Claiborne, Inc. and its wholly-owned and majority-owned subsidiaries (the “Company”). All intercompany balances and transactions have been eliminated in consolidation.

FISCAL YEAR

The Company’s fiscal year ends on the Saturday closest to December 31. The 2006, 2005 and 2004 fiscal years each reflected a 52-week period.

USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company’s financial condition and the results of operations and require management’s most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company’s most critical accounting policies, discussed below, pertain to revenue recognition, income taxes, accounts receivable — trade, net, inventories, net, the valuation of goodwill and intangible assets with indefinite lives, accrued expenses, derivative instruments and share-based compensation. In applying such policies, management must use some amounts that are based upon its informed judgments and best estimates. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

Revenue Recognition

The Company recognizes revenue from its wholesale, retail and licensing operations. Revenue within the Company’s wholesale operations is recognized at the time title passes and risk of loss is transferred to customers. Wholesale revenue is recorded net of returns, discounts and allowances. Returns and allowances require pre-approval from management. Discounts are based on trade terms. Estimates for end-of-season allowances are based on historic trends, seasonal results, an evaluation of current economic conditions and retailer performance. The Company reviews and refines these estimates on a monthly basis based on current experience, trends and retailer performance. The Company’s historical estimates of these costs have not differed materially from actual results. Retail store revenues are recognized net of estimated returns at the time of sale to consumers. Proceeds received from the sale of gift cards are recorded as a liability and recognized as sales when redeemed by the holder. Licensing revenues are recorded based upon contractually guaranteed minimum levels and adjusted as actual sales data is received from licensees.

Income Taxes

Income taxes are accounted for under Statement of Financial Accounting Standards (“SFAS”) No. 109, “Accounting for Income Taxes.” In accordance with SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the worldwide provisions for income taxes. In the ordinary course of a global business, the ultimate tax outcome is uncertain for many transactions. It is the Company’s policy to establish provisions for taxes that may become payable in future years as a result of an examination by tax authorities. The Company establishes the provisions based upon management’s assessment of exposure associated with permanent tax differences, tax credits and interest expense applied to temporary difference adjustments. The tax provisions are analyzed periodically (at least quarterly) and adjustments are made as events occur that warrant adjustments to those provisions.

Accounts Receivable — Trade, Net

In the normal course of business, the Company extends credit to customers that satisfy pre-defined credit criteria. Accounts receivable — trade, net, as shown on the Consolidated Balance Sheets, is net of allowances and anticipated discounts. An allowance for doubtful accounts is determined through analysis of the aging of accounts receivable at the date of the

financial statements, assessments of collectibility based on an evaluation of historic and anticipated trends, the financial condition of the Company’s customers, and an evaluation of the impact of economic conditions. An allowance for discounts is based on those discounts relating to open invoices where trade discounts have been extended to customers. Costs associated with potential returns of products as well as allowable customer markdowns and operational charge backs, net of expected recoveries, are included as a reduction to net sales and are part of the provision for allowances included in Accounts receivable — trade, net. These provisions result from seasonal negotiations with the Company’s customers as well as historic deduction trends net of expected recoveries and the evaluation of current market conditions. The Company’s historical estimates of these costs have not differed materially from actual results.

Inventories, Net

Inventories are stated at lower of cost (using the first-in, first-out method) or market. The Company continually evaluates the composition of its inventories assessing slow-turning, ongoing product as well as prior seasons’ fashion product. Market value of distressed inventory is valued based on historical sales trends for this category of inventory of the Company’s individual product lines, the impact of market trends and economic conditions, and the value of current orders in-house relating to the future sales of this type of inventory. Estimates may differ from actual results due to quantity, quality and mix of products in inventory, consumer and retailer preferences and market conditions. The Company’s historical estimates of these costs and its provisions have not differed materially from actual results.

Goodwill and Other Intangibles, Net

In accordance with SFAS No. 142, “Goodwill and Other Intangible Assets,” goodwill and intangible assets with indefinite lives are not amortized, but rather tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

A two-step impairment test is performed on goodwill. In the first step, the Company compares the fair value of each reporting unit to its carrying value. The Company’s reporting units are consistent with the reportable segments identified in Note 20 of Notes to Consolidated Financial Statements. The Company determines the fair value of its reporting units using the market approach as is typically used for companies providing products where the value of such a company is more dependent on the ability to generate earnings than the value of the assets used in the production process. Under this approach, the Company estimates the fair value based on market multiples of revenues and earnings for comparable companies. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired, and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step in order to determine the implied fair value of the reporting unit’s goodwill and compare it to the carrying value of the reporting unit’s goodwill. The activities in the second step include valuing the tangible and intangible assets of the impaired reporting unit, determining the fair value of the impaired reporting unit’s goodwill based upon the residual of the summed identified tangible and intangible assets and the fair value of the enterprise as determined in the first step, and determining the magnitude of the goodwill impairment based upon a comparison of the fair value residual goodwill and the carrying value of goodwill of the reporting unit. If the carrying value of the reporting unit’s goodwill exceeds the implied fair value, then the Company must record an impairment loss equal to the difference.

The fair value of purchased intangible assets with indefinite lives, primarily trademarks and trade names, are estimated and compared to the carrying value. The Company estimates the fair value of these intangible assets based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a firm would be willing to pay a royalty in order to exploit the related benefits of these types of assets. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. The Company bases its fair value estimates on assumptions it believes to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. The Company recognizes an impairment loss when the estimated fair value of the intangible asset is less than the carrying value.

Owned trademarks that have been determined to have indefinite lives are not subject to amortization and are reviewed at least annually for potential value impairment as mentioned above. Trademarks having definite lives are amortized over their estimated useful lives. Acquired trademarks are valued using the relief-from-royalty method. Trademarks that are licensed by the Company from third parties are amortized over the individual terms of the respective license agreements, which range from 5 to 15 years. Intangible merchandising rights are amortized over a period of four years. Customer relationships are amortized assuming gradual attrition over time. Existing relationships are being amortized over periods ranging from 5 to 25 years.

The recoverability of the carrying values of all long-lived assets with definite lives is reevaluated when changes in circumstances indicate the assets’ value may be impaired. Impairment testing is based on a review of forecasted operating cash flows

and the profitability of the related business. For the three year period ended December 30, 2006, there were no material adjustments to the carrying values of any long-lived assets resulting from these evaluations.

Accrued Expenses

Accrued expenses for employee insurance, workers' compensation, profit sharing, contracted advertising, professional fees, and other outstanding Company obligations are assessed based on claims experience and statistical trends, open contractual obligations, and estimates based on projections and current requirements. If these trends change significantly, then actual results would likely be impacted.

Derivative Instruments

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, requires that each derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the Consolidated Balance Sheets as either an asset or liability and measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings in either income (loss) from continuing operations or Accumulated other comprehensive income (loss), depending on whether the derivative qualifies for hedge accounting treatment. Hedge accounting requires that the Company test for effectiveness at inception of each hedge and at the end of each reporting period.

The Company uses foreign currency forward contracts and options for the purpose of hedging the specific exposure to variability in forecasted cash flows associated primarily with inventory purchases mainly with the Company's European and Canadian entities. These instruments are designated as cash flow hedges. To the extent the hedges are highly effective, the effective portion of the changes in fair value are included in Accumulated other comprehensive income (loss), net of related tax effects, with the corresponding asset or liability recorded in the Consolidated Balance Sheets. The ineffective portion of the cash flow hedge is recognized primarily as a component of Cost of goods sold in current period earnings or, in the case of the swaps, if any, to Selling, general & administrative expenses ("SG&A"). Amounts recorded in Accumulated other comprehensive income (loss) are reflected in current period earnings when the hedged transaction affects earnings. If fluctuations in the relative value of the currencies involved in the hedging activities were to move dramatically, such movement could have a significant impact on the Company's results of operations.

The Company hedges its net investment position in euro functional subsidiaries by borrowing directly in foreign currency and designating a portion of foreign currency debt as a hedge of net investments. The foreign currency transaction gain or loss recognized for a foreign currency denominated debt instrument that is designated as the hedging instrument in a net investment hedge is recorded to Cumulative translation adjustment. The Company also uses derivative instruments to hedge the changes in the fair value of the debt due to interest rates, and the change in fair value is recognized currently in Interest expense, net together with the change in fair value of the hedged item attributable to interest rates.

Occasionally, the Company purchases short-term foreign currency contracts and options outside of the cash flow hedging program to neutralize quarter-end balance sheet and other expected exposures. These derivative instruments do not qualify as cash flow hedges under SFAS No. 133 and are recorded at fair value with all gains or losses, which have not been significant, recognized as a component of SG&A expenses in current period earnings immediately.

Share-Based Compensation

On July 3, 2005, the Company adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of employee share-based awards including stock options as well as restricted stock. Determining the fair value of options at the grant date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility and the expected dividends. Prior to adopting SFAS No. 123(R), the Company applied Accounting Principles Board ("APB") Opinion No. 25, and related Interpretations, in accounting for its share-based compensation plans. All employee stock options were granted at or above the grant date market price. Accordingly, no compensation cost was recognized for fixed stock option grants in prior periods. In accordance with SFAS No. 123(R), judgment is required in estimating the amount of share-based awards expected to be forfeited prior to vesting. If actual forfeitures differ significantly from these estimates, share-based compensation expense could be materially impacted.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Fair Value of Financial Instruments

The fair value of cash and cash equivalents, receivables, short-term borrowings and accounts payable approximates their carrying value due to their short-term maturities. The fair value of variable rate long-term debt instruments approximates the carrying value and is estimated based on the current rates offered to the Company for debt of similar maturities. Fixed-rate long-term debt is carried at its value on date of issuance. Fair values for derivatives are either obtained from counter parties or developed using dealer quotes or cash flow models.

Cash and Cash Equivalents

All highly-liquid investments with an original maturity of three months or less at the date of purchase are classified as cash equivalents.

Marketable Securities

Investments are stated at market. The estimated fair value of the marketable securities is based on quoted prices in an active market. Gains and losses on investment transactions are determined using the specific identification method and are recognized in income based on settlement dates. Unrealized gains and losses on securities held for sale are included in Accumulated other comprehensive income (loss) until realized. Interest is recognized when earned. All marketable securities are considered available-for-sale. Management evaluates securities held with unrealized losses for other-than-temporary impairment at least on a quarterly basis. Consideration is given to (a) the length of time and the extent to which the fair value has been less than cost; (b) the financial condition and near-term prospects of the issuer; and (c) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Property and Equipment, Net

Property and equipment is stated at cost less accumulated depreciation and amortization. Buildings and building improvements are depreciated using the straight-line method over their estimated useful lives of 20 to 39 years. Machinery and equipment and furniture and fixtures are depreciated using the straight-line method over their estimated useful lives of three to seven years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful lives of the assets. Leased property meeting certain capital lease criteria is capitalized and the present value of the related lease payments is recorded as a liability. Amortization of capitalized leased assets is computed on the straight-line method over the shorter of the estimated useful life or the initial lease term. The Company recognizes a liability for the fair value of a conditional asset retirement obligation ("ARO") if the fair value can be reasonably estimated. The Company's AROs are primarily associated with the removal and disposal of leasehold improvements at the end of a lease term when the Company is contractually obligated to restore the facility back to a condition specified in the lease agreement. Amortization of AROs is recorded on a straight-line basis over the life of the lease term.

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries have been translated at year-end exchange rates. Revenues and expenses have been translated at average rates of exchange in effect during the year. Resulting translation adjustments have been included in Accumulated other comprehensive income (loss). Gains and losses on translation of intercompany loans with foreign subsidiaries of a long-term investment nature are also included in this component of Stockholders' Equity.

Cost of Goods Sold

Cost of goods sold for wholesale operations include the expenses incurred to acquire and produce inventory for sale, including product costs, freight-in, import costs, third-party inspection activities, buying agent commissions and provisions for shrinkage. For retail operations, in-bound freight from the Company's warehouse to its own retail stores is also included. Warehousing activities including receiving, storing, picking, packing and general warehousing charges are included in SG&A and, as such, the Company's gross profit may not be comparable to others who may include these expenses as a component of Cost of goods sold.

Advertising, Promotion and Marketing

All costs associated with advertising, promoting and marketing of Company products are expensed during the periods when the activities take place. Costs associated with cooperative advertising programs involving agreements with customers, whereby customers are required to provide documentary evidence of specific performance and when the amount of consideration paid by the Company for these services are at or below fair value, are charged to SG&A. Costs associated with customer cooperative advertising allowances without specific performance guidelines are reflected as a reduction of sales revenue. Cooperative advertising expenses with specific agreements with customers were \$42.6 million in 2006, \$33.0 million in 2005 and \$36.7 million in 2004. Advertising and promotion expenses were \$132.7 million in 2006, \$124.9 million in 2005 and \$130.3 million in 2004. Marketing expenses, including in-store and other Company-sponsored activities, were \$58.6 million in 2006, \$55.7 million in 2005 and \$46.1 million in 2004.

Shipping and Handling Costs

Shipping and handling costs, which are mostly comprised of warehousing activities, are included as a component of SG&A in the Consolidated Statements of Income. In fiscal years 2006, 2005 and 2004 shipping and handling costs approximated \$233.0 million, \$219.2 million and \$209.7 million, respectively.

Cash Dividend and Common Stock Repurchase

On January 30, 2007, the Company's Board of Directors declared a quarterly cash dividend on the Company's common stock at the rate of \$0.05625 per share, to be paid on March 15, 2007 to stockholders of record at the close of business on February 23, 2007. On May 18, 2006, the Company's Board of Directors authorized the Company to purchase up to an additional \$250 million of its common stock for cash in open market purchases and privately negotiated transactions. As of December 30, 2006, the Company had \$229.2 million remaining in buyback authorization under its share repurchase program.

Prior Years' Reclassification

Certain items previously reported in Note 8: Accrued Expenses, have been reclassified to conform to the current year's classifications. None of the reclassifications were material.

NOTE 2: Acquisitions

On December 13, 2006, the Company acquired 100 percent of the equity interest of Kate Spade LLC ("Kate Spade"). Based in New York City, Kate Spade is a designer, marketer, wholesaler and retailer of fashion accessories for women and men through its Kate Spade® and JACK SPADE® brands. The Company believes the addition of Kate Spade further diversifies its portfolio and provides considerable opportunity for growth in its direct to consumer business. The purchase price totaled approximately \$124 million, plus fees and an additional \$1–2 million for certain post-closing adjustments and assumption of liabilities that were accounted for as additional purchase price. On a preliminary basis, the Company allocated \$68.2 million of purchase price to the value of trademarks and trade names associated with the business; \$3.5 million has been allocated to the value of customer relationships and \$44.7 million to goodwill. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to our consolidated results.

On January 26, 2006, the Company acquired 100 percent of the equity interest of Westcoast Contempo Fashions Limited and Mac & Jac Holdings Limited, which collectively design, market and sell the Mac & Jac, Kensie and Kensiegirl apparel lines ("Mac & Jac"). Based in Vancouver, Canada and founded in 1985, Mac & Jac is a designer, marketer, wholesaler and retailer of premium apparel for women and men through its Mac & Jac brands. The Company believes the acquisition of Mac & Jac's brand names and multi-brand, multi-channel, multi-geography approach complements its portfolio diversification strategy, as well as offer the opportunity for expanded distribution in the U.S. department store and specialty store channels. The purchase price totaled 26.2 million Canadian dollars (or \$22.7 million), which includes the retirement of debt at closing and fees, contingent payments to be determined based upon a multiple of Mac & Jac's earnings in fiscal years 2006, 2008, 2009, and 2010. The Company utilizes various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. The Company allocated \$13.9 million of purchase price to the value of trademarks and trade names associated with the business and \$5.6 million has been allocated to the value of customer relationships. The trademarks and trade names are deemed to have an indefinite life and are subject to an annual test for impairment. The value of customer relationships is being amortized over 12 years. The Company currently estimates that the aggregate of the contingent payments will be in the range of approximately \$8–16 million and will be accounted for as additional purchase price when paid. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to the consolidated results of the Company.

On November 18, 2005, the Company acquired 100 percent of the equity interest of Skylark Sport Marketing Corporation, doing business as prAna ("prAna"). Based in California and established in 1993, prAna is a designer, marketer and wholesaler of climbing, yoga and outdoor/active lifestyle apparel and accessories. The purchase price totaled \$45.8 million, consisting of an initial payment and the assumption of debt and fees (including \$13.5 million paid in 2006 primarily consisting of tax-related purchase price adjustments) and contingent payments to be determined based upon a multiple of prAna's earnings in fiscal years 2008, 2009 and 2010. The Company currently estimates that the aggregate of the contingent payments will be in the range of approximately \$35–40 million. The contingent payments will be accounted for as additional purchase price when paid. The Company utilizes various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. The Company allocated \$16.7 million of purchase price to the value of trademarks and trade names associated with the business, and \$11.4 million has been allocated to the value of customer relationships. The trademarks and trade names as well as goodwill of \$13.5 million are deemed to have an indefinite life and are subject to an annual test for

impairment. The value of customer relationships is being amortized over 8 years. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to the consolidated results of the Company.

On January 6, 2005, the Company acquired 100 percent of the equity interest of C & C California, Inc. ("C & C"). Based in California and founded in 2002, C & C is a designer, marketer and wholesaler of premium apparel for women, men and children through its C & C California brand. C & C sells its products primarily through select specialty stores as well as through international distributors in Canada, Europe and Asia. The purchase price consisted of payments totaling \$29.2 million, including fees, and contingent payments to be determined based upon a multiple of C & C's earnings in fiscal years 2007, 2008 and 2009. On May 2, 2006, the Company and the sellers of C & C agreed to settle the contingent payment agreement based on a projection of earnings for 2007, 2008 and 2009. This payment, which totaled \$16.3 million, was made in cash and was accounted for as additional purchase price. The Company utilizes various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method considers the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. The Company allocated \$7.6 million of purchase price to the value of trademarks and trade names associated with the business, and \$10.6 million has been allocated to the value of customer relationships. The trademarks and trade names have been classified as having finite lives and will be amortized over their estimated useful life of 20 years. Goodwill of \$25.6 million is not amortized and is subject to an annual test for impairment. The value of customer relationships is being amortized over periods ranging from 10 to 20 years. Unaudited pro forma information related to this acquisition is not included, as the impact of this transaction is not material to the consolidated results of the Company.

Unaudited pro forma information on an aggregate basis for the above acquisitions is not included, as the impact of these transactions is not material to the consolidated results of the Company.

On April 7, 2003, the Company acquired 100 percent of the equity interest of Juicy Couture, Inc. (formerly, Travis Jeans, Inc.) ("Juicy Couture"), a privately held fashion apparel company. The total purchase price consisted of: (a) a payment, including the assumption of debt and fees, of \$53.1 million, and (b) a contingent payment to be determined as a multiple of Juicy Couture's earnings for one of the years ended 2005, 2006 or 2007. The selection of the measurement year for the contingent payment is at either party's option. In March of 2005, the contingent payment agreement was amended to include an advance option for the sellers providing that (i) if the 2005 measurement year is not selected, the sellers may elect to receive up to 70 percent of the estimated contingent payment based upon 2005 results; (ii) if the 2005 and 2006 measurement years are not selected, the sellers are eligible to elect to receive up to 85 percent of the estimated contingent payment based on the 2006 measurement year net of any 2005 advances. In April 2006, the sellers elected to receive a 70 percent advance against the contingent purchase price and were paid \$80.3 million on April 20, 2006. The payment was accounted for as additional purchase price and an increase to goodwill. The Company estimates that if the 2006 measurement year is selected, the remaining contingent payment would be in the range of \$22–24 million. The contingent payment will be accounted for as additional purchase price when paid. The Company utilizes various valuation methods to determine the fair value of acquired tangible and intangible assets. For inventory, the method uses the expected selling prices of finished goods and intangible assets acquired are valued using a discounted cash flow model. The Company allocated \$27.3 million of purchase price to the value of trademarks and trade names associated with the business. The trademarks and trade names have been classified as having indefinite lives and are subject to an annual test for impairment.

On July 9, 2002, the Company acquired 100 percent of the equity interest of Mexx Canada, Inc., a privately held fashion apparel and accessories company ("Mexx Canada"). The total purchase price consisted of: (a) an initial cash payment made at the closing date of \$15.2 million; (b) a second payment made at the end of the first quarter 2003 of 26.4 million Canadian dollars (or \$17.9 million); and (c) a contingent payment to be determined as a multiple of Mexx Canada's earnings and cash flow performance for the year ended either 2004 or 2005. In December 2004, the 2004 measurement year was selected by the seller for the calculation of the contingent payment. The contingency was settled on April 26, 2005 for 45.3 million Canadian dollars (or \$37.1 million). The contingent payment was accounted for as additional purchase price and an increase in goodwill.

On June 8, 1999, the Company acquired 85.0 percent of the equity interest of Lucky Brand Dungarees, Inc. ("Lucky Brand"), whose core business consists of the Lucky Brand Dungarees line of women and men's denim-based sportswear. The acquisition was accounted for using the purchase method of accounting. The total purchase price consisted of a cash payment made at the closing date of approximately \$85 million and a payment made in April 2003 of \$28.5 million. An additional payment of \$12.7 million was made in 2000 for tax-related purchase price adjustments. On January 28, 2005, the Company entered into an agreement to acquire the remaining 15 percent of Lucky Brand shares that were owned by the sellers of Lucky Brand for aggregate consideration of \$65.0 million, and a contingent payment for the final 2.25 percent based upon a multiple of Lucky Brand's 2007 earnings. On January 16, 2007, January 17, 2006 and January 28, 2005, the Company paid \$10.0 million, \$10.0 million and \$35.0 million, respectively, for 1.5 percent, 1.9 percent and 8.25 percent, respectively, of the equity interest of Lucky Brand. The excess of the amount paid over the related amount of minority

interest has been recorded to goodwill. In January 2008, the Company will acquire 1.1 percent of the equity interest of Lucky Brand for a payment of \$10.0 million. The Company has recorded the present value of fixed amounts owed (\$19.5 million) as an increase in Accrued expenses and Other Non-Current Liabilities. As of December 30, 2006, the excess of the liability recorded over the related amount of minority interest has been recorded as goodwill. In June 2008, the Company will acquire the remaining 2.25 percent minority share for an amount based on a multiple of Lucky Brand's 2007 earnings, which management estimates will be in the range of \$19–23 million.

NOTE 3: Licensing Commitments

In August 1999, the Company consummated exclusive license agreements with Kenneth Cole Productions, Inc. ("KCP") to manufacture, design, market and distribute women's apparel products in North America under the trademarks "Kenneth Cole New York," "Reaction Kenneth Cole" and "Unlisted.com." The license agreement expired by its terms on December 31, 2004.

In December 2002, the Company consummated an exclusive license agreement with KCP to design, manufacture, market and distribute women's jewelry in the United States under the trademarks "Kenneth Cole New York" and "Reaction Kenneth Cole." Under the agreement, the Company was obligated to pay a royalty equal to a percentage of net sales of licensed products. The initial term of the license agreement expired on December 31, 2006 and the Company is currently in discussions with the licensor for the renewal of the agreement for an additional term.

In July 1998, the Company consummated an exclusive license agreement with Candie's, Inc. to manufacture, market, distribute and sell a line of fragrances for men and women using "Candie's" marks and logos. Under the agreement, the Company was obligated to pay a royalty equal to a percentage of net sales of the "Candie's" products. The license agreement expired by its terms on January 31, 2006.

The Company has an exclusive license agreement with an affiliate of Donna Karan International, Inc. to design, produce, market and sell men's and women's sportswear, jeanswear and activewear products in the Western Hemisphere under the "DKNY® Jeans" and "DKNY® Active" marks and logos. Under the agreement, the Company is obligated to pay a royalty equal to a percentage of net sales of the "DKNY® Jeans" and "DKNY® Active" products. The initial term of the license agreement runs through December 31, 2012; the Company has an option to renew for an additional 15-year period if certain sales thresholds are met.

In 1999, the Company had entered into an additional exclusive license agreement to design, produce, market and sell in the Western Hemisphere a line of women's career and casual sportswear for the "better" market under the trademark City DKNY®. Under the agreement, the Company was obligated to pay a royalty equal to a percentage of net sales of the licensed products. The license agreement expired by its terms on December 31, 2005.

Certain of the above licenses are subject to minimum guarantees totaling \$78.0 million and running through 2012; there is no maximum limit on the license fees.

NOTE 4: Marketable Securities

In March 2006, the Company sold 341,246 shares of certain equity investments, which were previously considered available for sale, for total proceeds of \$8.1 million and a realized gain of \$3.6 million. On December 14, 2004, the Company sold all 1.5 million shares of the Class A stock of KCP, which were previously considered available for sale, and recorded a pretax gain of \$11.9 million. Amounts previously recognized in Accumulated other comprehensive income (loss) were reclassified to Other income (expense), net upon the sale of the securities.

In June 2000, the Company purchased an equity index mutual fund as a long-term investment for \$8.5 million. Based on the continued recovery of the market value of this equity index mutual fund and the Company's ability and intent to hold this investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider this investment to be other-than-temporarily impaired at December 30, 2006 and therefore, no impairment has been recorded.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 30, 2006:

IN THOUSANDS	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE	GROSS UNREALIZED LOSSES
DESCRIPTION OF SECURITIES						
Equity investments	\$ —	\$ —	\$9,026	\$ (186)	\$9,026	\$ (186)
Other investments	—	—	425	(33)	425	(33)
Total	\$ —	\$ —	\$9,451	\$ (219)	\$9,451	\$ (219)

The following is a summary of available-for-sale marketable securities at December 30, 2006 and December 31, 2005:

IN THOUSANDS	COST	UNREALIZED		ESTIMATED FAIR VALUE
		GAINS	LOSSES	
DECEMBER 30, 2006				
Equity investments	\$ 9,212	\$ —	\$ (186)	\$ 9,026
Other investments	458	—	(33)	425
Total	\$ 9,670	\$ —	\$ (219)	\$ 9,451
DECEMBER 31, 2005				
Equity investments	\$13,530	\$ 2,023	\$ (1,261)	\$14,292
Other investments	434	—	(88)	346
Total	\$13,964	\$ 2,023	\$ (1,349)	\$14,638

Gross realized gains on sales of available-for-sale securities were \$3,583, \$0 and \$11,934 in 2006, 2005 and 2004, respectively. Such amounts were reflected in Other income (expense), net. The net adjustments to unrealized holding gains and losses on available-for-sale securities for the years ended December 30, 2006 and December 31, 2005 were a loss of \$576 (net of \$318 in taxes) and a gain of \$1,429 (net of \$778 in taxes) respectively, which were included in Accumulated other comprehensive income (loss).

NOTE 5: Inventories, Net

Inventories consist of the following:

IN THOUSANDS	DECEMBER 30, 2006	DECEMBER 31, 2005
Raw materials	\$ 34,521	\$ 34,512
Work in process	13,566	9,298
Finished goods	545,358	492,486
Total	\$593,445	\$536,296

NOTE 6: Property and Equipment, Net

Property and equipment consist of the following:

IN THOUSANDS	DECEMBER 30, 2006	DECEMBER 31, 2005
Land and buildings	\$ 141,451	\$ 140,961
Machinery and equipment	407,511	358,914
Furniture and fixtures	276,685	216,911
Leasehold improvements	460,784	397,946
	1,286,431	1,114,732
Less: Accumulated depreciation and amortization	704,439	620,039
Total property and equipment, net	\$ 581,992	\$ 494,693

Depreciation and amortization expense of property and equipment including property under capital leases was \$118.0 million, \$107.0 million and \$92.5 million for fiscal years 2006, 2005 and 2004, respectively. Total of machinery and equipment under capital leases included above was \$50.7 million and \$26.8 million at December 30, 2006 and December 31, 2005, respectively. Depreciation expense of property and equipment under capital leases was \$5.6 million, \$5.3 million and \$4.5 million for fiscal years 2006, 2005 and 2004, respectively.

NOTE 7: Goodwill and Intangibles, Net

The following tables disclose the carrying value of all the intangible assets:

IN THOUSANDS	ESTIMATED LIVES	DECEMBER 30, 2006	DECEMBER 31, 2005
AMORTIZED INTANGIBLE ASSETS:			
GROSS CARRYING AMOUNT:			
Licensed trademarks	5–15 years	\$ 32,449	\$ 32,449
Owned trademarks & tradenames	20 years	7,600	7,600
Customer relationships	5–25 years	49,351	40,184
Merchandising rights	3–4 years	57,695	49,460
Subtotal		\$ 147,095	\$ 129,693
ACCUMULATED AMORTIZATION:			
Licensed trademarks		\$ (14,330)	\$ (11,697)
Owned trademarks & tradenames		(752)	(372)
Customer relationships		(6,800)	(2,960)
Merchandising rights		(29,563)	(18,590)
Subtotal		\$ (51,445)	\$ (33,619)
NET:			
Licensed trademarks		\$ 18,119	\$ 20,752
Owned trademarks & tradenames		6,848	7,228
Customer relationships		42,551	37,224
Merchandising rights		28,132	30,870
Total amortized intangible assets, net		\$ 95,650	\$ 96,074
UNAMORTIZED INTANGIBLE ASSETS:			
Owned trademarks & tradenames		\$ 318,312	\$ 235,943
Total intangible assets		\$ 413,962	\$ 332,017

The Company completed its annual impairment tests as of the first day of the third quarters of each of fiscal 2006 and fiscal 2005. No impairment was recognized at either date. Intangible amortization expense for 2006, 2005 and 2004 amounted to \$19.6 million, \$18.0 million and \$19.8 million, respectively.

The estimated intangible amortization expense for the next five years is as follows:

FISCAL YEAR	(IN MILLIONS) AMORTIZATION EXPENSE
2007	\$ 18.6
2008	16.3
2009	13.3
2010	9.1
2011	7.6

The changes in carrying amount of goodwill for the twelve months ended December 30, 2006 are as follows:

IN THOUSANDS	WHOLESALE APPAREL	WHOLESALE NON-APPAREL	TOTAL
BALANCE, DECEMBER 31, 2005	\$848,970	\$9,595	\$ 858,565
Acquisition of Kate Spade	44,692	—	44,692
Additional purchase price — Juicy Couture	80,345	—	80,345
Additional purchase price — C & C	16,981	—	16,981
Additional purchase price — prAna	9,960	—	9,960
Other	(3,189)	—	(3,189)
Translation difference	505	—	505
BALANCE, DECEMBER 30, 2006	\$998,264	\$9,595	\$ 1,007,859

There is no goodwill related to the Company's retail segment.

NOTE 8: Accrued Expenses

Accrued expenses consisted of the following:

IN THOUSANDS	DECEMBER 30, 2006	DECEMBER 31, 2005
Payroll, bonuses and other employment related obligations	\$ 49,912	\$ 54,072
Taxes, other than taxes on income	31,174	23,526
Employee benefits	81,594	74,479
Lease obligations	22,047	10,278
Current portion — deferred Lucky Brand purchase price	9,975	9,933
Advertising	29,971	27,596
Streamlining initiatives	21,579	1,016
Interest	11,811	11,020
Fair value of derivatives	2,002	495
Deferred royalty income	623	429
Other	76,785	75,526
	\$336,773	\$288,370

NOTE 9: Income Taxes

Earnings before income taxes consisted of the following:

IN THOUSANDS	FISCAL YEAR ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
United States	\$326,699	\$384,398	\$ 402,715
International	\$ 79,837	\$106,880	\$ 77,482

The provisions for income taxes are as follows:

IN THOUSANDS	FISCAL YEAR ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
CURRENT:			
Federal	\$105,336	\$113,052	\$ 118,425
Foreign	35,220	32,440	23,671
State & local	23,379	25,269	20,488
Total Current	\$163,935	\$170,761	\$162,584
DEFERRED:			
Federal	\$ (3,969)	\$ (6,823)	\$ 8,904
Foreign	(8,224)	10,091	(5,652)
State & local	109	(117)	792
Total Deferred	(12,084)	3,151	4,044
	\$151,851	\$173,912	\$166,628

Liz Claiborne, Inc. and its U.S. subsidiaries file a consolidated federal income tax return. Deferred income tax benefits and deferred income taxes represent the tax effects of revenues, costs and expenses, which are recognized for tax purposes in different periods from those used for financial statement purposes. The current income tax provision does not reflect the deferred tax liability from the Company's acquisition of Mexx of approximately \$475,000 and the valuation allowance against the net operating loss carryforwards acquired as part of the acquisition of Mexx for the year ended December 28, 2002.

The effective income tax rate differs from the statutory federal income tax rate as follows:

	FISCAL YEAR ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
Federal tax provision at statutory rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal benefit	3.8	3.3	2.8
Other, net	(1.4)	(2.9)	(3.1)
	37.4%	35.4%	34.7%

The components of net deferred taxes arising from temporary differences as of December 30, 2006 and December 31, 2005 are as follows:

IN THOUSANDS	DECEMBER 30, 2006		DECEMBER 31, 2005	
	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY	DEFERRED TAX ASSET	DEFERRED TAX LIABILITY
Inventory valuation	\$ 3,001	\$ —	\$ 2,534	\$ —
Restructuring	5,495	—	4,812	—
Deferred compensation	—	(28,763)	—	(21,110)
Nondeductible accruals	6,724	—	17,287	—
Amortization of intangibles	—	63,281	—	45,862
Unrealized investment losses	804	529	(180)	—
Amortization of compensation expense on stock awards	22,359	—	15,072	—
Net operating loss carryforwards	22,432	—	8,081	—
Depreciation	—	19,876	—	24,864
Other, net	(188)	(352)	1,482	4,554
Valuation allowance	—	—	(1,400)	—
	\$ 60,627	\$ 54,571	\$ 47,688	\$ 54,170

As of December 30, 2006, foreign subsidiaries had a net operating loss carryforwards of approximately \$76,477,000 available to reduce future foreign taxable income. A deferred tax asset has been established. No valuation allowance is needed for 2006 because it is more likely than not that these assets will be used to reduce future tax payments. The 2005 valuation allowance has been reduced due to the liquidation of the company involved.

As of December 31, 2005, Mexx had net operating loss carryforwards of approximately \$25,545,000 available to reduce future foreign taxable income. A deferred tax asset has been established; however, a valuation allowance of \$1,400,000 has reduced the deferred tax assets because it is more likely than not that certain of these assets will not be used to reduce future tax payments. The valuation allowance increased \$104,000 from the prior year, as management now believes that it is more likely certain deferred tax assets will not be used to reduce future tax payments.

Foreign earnings and profits have been retained indefinitely by subsidiary companies for reinvestment. As of December 30, 2006 and December 31, 2005, the amounts were \$195 million and \$146 million, respectively.

The income tax rate in 2006 increased to 37.4% from 35.4% in 2005. Taxes on earnings were affected by the impact of discrete tax events as well as a shift in earnings to jurisdictions with higher statutory tax rates.

The Company is periodically examined by various federal, state and foreign tax jurisdictions. The tax years under examination vary by jurisdiction. We regularly consider the likelihood of assessments in each of the taxing jurisdictions and have established tax allowances, which represent management's best estimate of the potential assessments. The resolution of tax matters could differ from the amount reserved. While that difference could be material to the results of operation and cash flows for any affected period, it is not expected to have a material impact on the consolidated statement of financial position or the consolidated statement of cash flows.

NOTE 10: Commitments, Contingencies and Other Matters

The Company leases office, showroom, warehouse/distribution and retail space and computers and other equipment under various noncancelable operating lease agreements, which expire through 2025. Rental expense for 2006, 2005 and 2004 was approximately \$194,824,000, \$158,493,000 and \$151,621,000, respectively. The above rental expense amounts exclude associated costs such as real estate taxes and common area maintenance.

The Company leases all its retail stores under leases with terms that are typically five or ten years. The Company amortizes leasehold improvements as well as rental abatements, construction allowances and other rental concessions classified as

deferred rent, on a straight-line basis over the initial term of the lease or estimated useful lives of the assets, whichever is less. The initial lease term can include one renewal under limited circumstances if the renewal is reasonably assured, based on consideration of all of the following factors: (i) a written renewal at the Company's option or an automatic renewal, (ii) there is no minimum sales requirement that could impair the Company's ability to renew, (iii) failure to renew would subject the Company to a substantial penalty, and (iv) there is an established history of renewals in the format or location. At December 30, 2006, the minimum aggregate rental commitments are as follows:

IN MILLIONS	INTEREST AND PRINCIPAL							INTEREST	LONG-TERM PRINCIPAL
	2007	2008	2009	2010	2011	THERE-AFTER	TOTAL		
Capital Leases	\$ 8.5	\$ 7.2	\$ 5.5	\$ 5.4	\$ 5.4	\$ 10.3	\$ 42.3	\$ 5.2	\$ 28.6
Operating Leases	187.2	173.8	162.7	142.8	126.2	428.8	1,221.5	—	—

Certain rental commitments have renewal options extending through the fiscal year 2036. Some of these renewals are subject to adjustments in future periods. Many of the leases call for additional charges, some of which are based upon various escalations, and, in the case of retail leases, the gross sales of the individual stores above base levels. The Company has no material sublease or contingent rentals.

At December 30, 2006 and December 31, 2005, the Company had entered into short-term commitments for the purchase of raw materials and for the production of finished goods totaling approximately \$641,743,000 and \$613,912,000, respectively.

In the normal course of business, the Company extends credit, on open account, to its retail customers, after a credit analysis is performed based on a number of financial and other criteria. Federated Department Stores, Dillard's Department Stores and Kohl's Corporation accounted for approximately 22 percent, 6 percent and 6 percent, respectively, of wholesale sales (before allowances) in 2006; Federated Department Stores, Dillard's Department Stores and Kohl's Corporation accounted for approximately 24 percent, 8 percent and 6 percent, respectively, of wholesale sales (before allowances) in 2005; Federated Department Stores, May Department Stores and Dillard's Department Stores accounted for approximately 14 percent, 12 percent and 9 percent, respectively, of wholesale sales (before allowances) in 2004. The Company does not believe that this concentration of sales and credit risk represents a material risk of loss with respect to its financial position as of December 30, 2006.

On May 22, 2001, the Company entered into an off-balance sheet financing arrangement (commonly referred to as a "synthetic lease") to acquire various land and equipment and construct buildings and real property improvements associated with warehouse and distribution facilities in Ohio and Rhode Island totaling \$63.7 million. The lease expired on November 22, 2006. On November 21, 2006, the Company entered into a new synthetic lease with a financial institution for a five-year period, with payments totaling \$32.8 million to refinance the land and buildings referred to above. The lessor is a wholly owned subsidiary of a publicly traded corporation. The lessor is a sole member, whose ownership interest is without limitation as to profits, losses and distribution of the lessor's assets. Our lease represents less than 1% of the lessor's assets. The leases include guarantees by the Company for a substantial portion of the financing and options to purchase the facilities at original cost; the maximum guarantee is approximately \$27 million. The lessor's risk included an initial capital investment in excess of 10% of the total value of the lease, which is at risk during the entire term of the lease. The equipment portion of the original synthetic lease was sold to another financial institution and leased back to us through a seven-year capital lease totaling \$30.6 million. The lessor does not meet the definition of a variable interest entity under Financial Accounting Standard Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities" and therefore consolidation by the Company is not required.

In March 2005, awards were granted to a group of key executives under the Company's stockholder approved Section 162(m) Long Term Performance Plan (the "Performance Plan"). The initial Performance Plan Awards (the "Awards") provide for potential cash payouts based upon performance over a three-year performance period covering the Company's 2005, 2006, and 2007 fiscal years. Actual payouts against the Awards are dependent on the level of achievement of three performance goals: 25% of each Award payout is based on the Company's earnings per share growth, 25% is based on the Company's average three-year return on invested capital and 50% is based on total shareholder return as compared to a group of peer companies.

See Notes 2 of Notes to Consolidated Financial Statements for information regarding contingent payments related to acquisitions made by the Company.

The Company is a party to several pending legal proceedings and claims. Although the outcome of such actions cannot be determined with certainty, management is of the opinion that the final outcome of any of these actions should not have a materially adverse effect on the Company's results of operations or financial position (see Note 24 of Notes to Consolidated Financial Statements).

NOTE 11: Debt and Lines of Credit

On July 6, 2006, the Company completed the issuance of 350 million euro (or \$446.9 million based on the exchange rate in effect on such date) 5% Notes (the "Notes") due July 8, 2013. The net proceeds of the offering were used to refinance the Company's outstanding 350 million euro 6.625% Notes due August 7, 2006, which were originally issued on August 7, 2001. The Notes bear interest from and including July 6, 2006, payable annually in arrears on July 8 of each year beginning on July 8, 2007. The Notes have been listed on the Luxembourg Stock Exchange and received a credit rating of BBB from Standard & Poor's and Baa2 from Moody's Investor Services. These Notes are designated as a hedge of the Company's net investment in Mexx. The Notes are classified as Long-term debt. The fair value of the Notes was 354.1 million euro as of December 30, 2006.

On October 13, 2004, the Company entered into a \$750 million, five-year revolving credit agreement (the "Agreement"), replacing the \$375 million, 364-day unsecured credit facility that was scheduled to mature in October 2004 and the existing \$375 million bank revolving credit facility which was scheduled to mature in October 2005. A portion of the funds available under the Agreement not in excess of \$250 million is available for the issuance of letters of credit. Additionally, at the request of the Company, the amount of funds available under the Agreement may be increased at any time or from time to time by an aggregate principal amount of up to \$250 million with only the consent of the lenders (which may include new lenders) participating in such increase. The Agreement includes a \$150 million multi-currency revolving credit line, which permits the Company to borrow in U.S. dollars, Canadian dollars and euro. The Agreement has two borrowing options, an "Alternative Base Rate" option, as defined in the Agreement, and a Eurocurrency rate option with a spread based on the Company's long-term credit rating. The Agreement contains certain customary covenants, including financial covenants requiring the Company to maintain specified debt leverage and fixed charge coverage ratios, and covenants restricting the Company's ability to, among other things, incur indebtedness, grant liens, make investments and acquisitions, and sell assets. The Company believes it is in compliance with such covenants as of December 30, 2006. The funds available under the Agreement may be used to refinance existing debt, to provide working capital and for general corporate purposes of the Company, including, without limitation, the repurchase of capital stock and the support of the Company's \$750 million commercial paper program. The Company's ability to obtain funding through its commercial paper program is subject to, among other things, the Company maintaining an investment-grade credit rating. At December 30, 2006, the Company had \$82.1 million of commercial paper outstanding under the Agreement. The commercial paper is classified as Long-term debt as the Company has the intent and ability to refinance the commercial paper on a long-term basis.

As of December 30, 2006 and December 31, 2005, the Company had lines of credit aggregating \$617 million and \$567 million, respectively, which were primarily available to cover trade letters of credit. At December 30, 2006 and December 31, 2005, the Company had outstanding trade letters of credit of \$303 million and \$298 million, respectively. These letters of credit, which have terms ranging from one to ten months, primarily collateralize the Company's obligations to third parties for the purchase of inventory. The fair value of these letters of credit approximates contract rates.

The Company's Canadian and European subsidiaries also have unsecured lines of credit totaling approximately \$182 million (based on the exchange rates as of December 30, 2006). As of December 30, 2006, a total of \$18.5 million of borrowings denominated in foreign currencies was outstanding at an average interest rate of 4.19%. These lines of credit bear interest at rates based on indices specified in the contracts plus a margin. These lines are guaranteed by the Company. The lines of credit are in effect for less than one year and mature at various dates in 2007. The Company intends to renew these lines under similar arrangements. The capital lease obligations in Europe expire in 2007 and 2008.

On November 21, 2006, the Company entered into a seven year capital lease with a financial institution totaling \$30.6 million. The purpose of the lease was to finance the equipment associated with its distribution facilities in Ohio and Rhode Island, which had been previously financed through our 2001 synthetic lease, which matured in 2006.

NOTE 12: Derivative Instruments

At December 30, 2006, the Company had various Canadian currency collars outstanding with a notional amount of \$8.7 million, maturing through May 2007 and with contract rates ranging between 1.1205 and 1.1700 Canadian dollars per U.S. dollar, various Canadian currency collars outstanding with a notional amount of 45.3 million Hong Kong dollars, maturing through June 2007 and with contract rates ranging between 6.6313 and 6.8776 Hong Kong dollars per Canadian dollar and

various euro currency collars outstanding with a notional amount of 23.3 million Hong Kong dollars, maturing through October 2007 and with contract rates ranging between 9.9339 and 10.2000 Hong Kong dollars per euro. The Company had \$21 million in Canadian currency collars and 325 million Hong Kong dollars in euro currency collars at December 31, 2005. At December 30, 2006, the Company also had forward contracts maturing through December 2007 to sell 9.4 million Canadian dollars for \$8.2 million, to sell 15.7 million Canadian dollars for 106.0 million Hong Kong dollars and to sell 58.4 million euro for 589.0 million Hong Kong dollars. The notional value of the foreign exchange forward contracts was approximately \$97.5 million at December 30, 2006, as compared with approximately \$67.5 million at December 31, 2005. Unrealized (losses) gains for outstanding foreign exchange forward contracts and currency options were approximately \$(1.6) million at December 30, 2006 and \$0.7 million at December 31, 2005. The ineffective portion of these trades is recognized currently in earnings and was not material for the year ended December 30, 2006. In addition, for the fiscal year ended December 30, 2006, the Company recorded approximately \$1.0 million as expense in the Consolidated Statements of Income for derivative instruments that no longer qualified for hedge accounting treatment. Approximately \$1.3 million of income relating to cash flow hedges in Accumulated other comprehensive income (loss) will be reclassified into earnings in the next twelve months as the inventory is sold.

In connection with the variable rate financing under the 2001 synthetic lease agreement, the Company entered into two interest rate swap agreements with an aggregate notional amount of \$40.0 million that began in January 2003 and terminated in May 2006, in order to fix the interest component of rent expense at a rate of 5.56%. The Company entered into these arrangements to hedge against potential future interest rate increases. The ineffective portion of these swaps, recognized currently in earnings, was not material for the periods presented.

The Company hedges its net investment position in euro functional subsidiaries by designating the 350 million euro-denominated bonds as the hedging instrument in a net investment hedge. As a result, the foreign currency transaction gains and losses that are recognized on the euro-denominated bonds in accordance with paragraph 15 of SFAS No. 52 are accounted for as a component of Accumulated other comprehensive income (loss) rather than recognized in current income in accordance with paragraph 20(b) of SFAS No. 52. The unrealized (loss) gain recorded to Cumulative translation adjustment was \$(48.5) million and \$62.0 million for the years ended December 30, 2006 and December 31, 2005, respectively.

On February 11, 2004, the Company entered into interest rate swap agreements for the notional amount of 175 million euro in connection with its 350 million Eurobonds that matured on August 7, 2006. This converted a portion of the fixed rate Eurobonds interest expense to floating rate at a spread over six month EURIBOR. This was designated as a fair value hedge. The first interest rate setting occurred on August 7, 2004 and was reset each six-month period thereafter until maturity. The increase in interest expense recorded at settlement of this swap was not material for the year ended December 30, 2006.

In May 2006, the Company entered into multiple forward starting swaps to lock the underlying interest rate on the notional amount of 175 million euro in connection with the July 6, 2006 issuance of the Notes (see Note 11 of Notes to Consolidated Financial Statements). These swaps were terminated on June 29, 2006 and the Company subsequently received payment of 1.0 million euro. This amount, net of tax is recorded in Accumulated other comprehensive income (loss) and will be reclassified into earnings over the seven year term of the Notes. The amount reclassified out of Accumulated other comprehensive income (loss) was not material for the year ended December 30, 2006.

NOTE 13: Streamlining Initiatives

2006 Actions

In February 2006 and October 2006, the Company announced initiatives to streamline its operations to increase efficiency in managing its multi-brand, multi-channel and multi-geography portfolio and more closely align its businesses with customer and consumer needs. These efforts include the redeployment of resources in order to better capitalize on compelling growth opportunities across a number of our brands. For the year ended December 30, 2006, the Company recorded \$86.7 million (\$54.4 million after-tax) related to this initiative, including \$46 million of payroll and related costs, \$11 million of lease termination costs, \$23 million of fixed asset write-downs and disposals and \$7 million of other costs. Approximately \$23 million of these charges were non-cash.

The Company is currently conducting a review of its operations to assess options to best allocate its resources to those businesses with the maximum potential for growth in sales and earnings. The Company has already begun to identify additional streamlining and reinvestment opportunities in 2007, focusing on its wholesale and corporate expense structure and on the refinement of its retail portfolio.

For the year ended December 30, 2006, these expenses, primarily recorded in SG&A in the Consolidated Statements of Income, impacted business segments as follows:

IN THOUSANDS	YEAR ENDED DECEMBER 30, 2006
Wholesale Apparel	\$59,124
Wholesale Non-Apparel	5,950
Retail	21,627
Total	\$86,701

A summary rollforward of streamlining initiatives is as follows:

IN THOUSANDS	PAYROLL AND RELATED COSTS	LEASE TERMINATION COSTS	FIXED ASSET WRITE-DOWNS	OTHER COSTS	TOTAL
2006 provision	\$45,887	\$10,592	\$23,126	\$7,096	\$86,701
2006 fixed asset write-downs	—	—	(23,105)	—	(23,105)
Translation difference	458	35	(21)	(51)	421
2006 spending	(30,402)	(5,102)	—	(6,934)	(42,438)
BALANCE AT DECEMBER 30, 2006	\$15,943	\$5,525	\$—	\$111	\$21,579

2004 Actions

In December 2004, the Company recorded a net pretax restructuring charge of \$9.8 million (\$6.5 million after-tax) comprised of \$5.7 million associated with the Company's European operations and \$4.1 million attributable to costs associated with the closure of the Company's Secaucus, New Jersey distribution center. In 2005, the Company recorded pretax restructuring gains of \$610,000 (\$394,000 after-tax) representing the reversal of amounts provided in December 2004 no longer required. All operational activities associated with the restructuring have been completed.

A summary of the changes in the restructuring reserves is as follows:

IN THOUSANDS	STORE CLOSURE COSTS	OPERATING AND ADMINISTRATIVE EXIT COSTS	ESTIMATED OCCUPANCY COSTS AND ASSET WRITE DOWNS	TOTAL
BALANCE AT JANUARY 3, 2004	\$1,739	\$200	\$30	\$1,969
2004 provision	—	9,799	—	9,799
2004 spending	(1,634)	(200)	(30)	(1,864)
2004 reserve reduction	(105)	—	—	(105)
Translation difference	—	67	—	67
BALANCE AT JANUARY 1, 2005	\$—	\$9,866	\$—	\$9,866
2005 spending	—	(7,804)	—	(7,804)
2005 reserve reduction	—	(610)	—	(610)
Translation difference	—	(436)	—	(436)
BALANCE AT DECEMBER 31, 2005	\$—	\$1,016	\$—	\$1,016
2006 spending	—	(1,035)	—	(1,035)
Translation difference	—	19	—	19
BALANCE AT DECEMBER 30, 2006	\$—	\$—	\$—	\$—

NOTE 14: Other Income (Expense), Net

Other income (expense), net consists of the following:

IN THOUSANDS	FISCAL YEAR ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
Minority interest	\$ (1,213)	\$ (1,813)	\$ (3,738)
Other investment gain	3,583	—	\$ 11,934
Other	2,987	(451)	1,406
	\$ 5,357	\$ (2,264)	\$ 9,602

NOTE 15: Share-based Compensation

On July 3, 2005, the Company adopted SFAS No. 123(R) "Share-Based Payment" requiring the recognition of compensation expense in the Consolidated Statements of Income related to the fair value of its employee share-based awards including stock options as well as restricted stock. SFAS No. 123(R) revises SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25 "Accounting for Stock Issued to Employees." SFAS No. 123(R) is supplemented by Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107 "Share-Based Payment." SAB No. 107 expresses the SEC staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations including the valuation of share-based payment arrangements.

Since July 3, 2005, the Company is recognizing the cost of all employee stock options on a straight-line attribution basis over their respective vesting periods, net of estimated forfeitures. The Company has selected the modified prospective method of transition; accordingly, prior periods have not been restated. Prior to adopting SFAS No. 123(R), the Company applied APB Opinion No. 25 and related Interpretations in accounting for its share-based compensation plans; all employee stock options were granted at or above the grant date market price; and accordingly, no compensation cost was recognized for fixed stock option grants prior to the adoption of SFAS No. 123(R).

The Company has issued stock options and restricted shares as well as shares with performance features to employees under share-based compensation plans. Stock options are issued at the current market price, subject to a three-year vesting period with a contractual term of 7–10 years. As of December 30, 2006, the Company has not changed the terms of any outstanding awards.

Compensation expense for restricted stock awards is measured at fair value on the date of grant based on the number of shares granted and the quoted market price of the Company's common stock. Such value is recognized as expense over the vesting period of the award, net of estimated forfeitures.

The following table details the effect on net income and earnings per share "as reported" as if compensation expense had been recorded for the years ended December 31, 2005 and January 1, 2005 based on the fair value method under SFAS No. 123, "Accounting for Stock-Based Compensation" ("pro forma"). The reported and pro forma net income and earnings per share for the year ended December 30, 2006 as well as for the period of July 3, 2005 through December 31, 2005 is the same since share-based compensation expense is calculated under the provisions of SFAS No. 123(R).

IN THOUSANDS EXCEPT PER SHARE DATA	FISCAL YEAR ENDED		
	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
NET INCOME:			
As reported	\$ 254,685	\$ 317,366	\$ 313,569
Add: Share-based employee compensation expense included in reported net income, net of taxes (\$8,484, \$8,385 and \$4,104 for fiscal years 2006, 2005 and 2004, respectively)	14,201	15,303	7,722
Less: Total share-based employee compensation expense determined under fair value based method for all awards*, net of tax	(14,201)	(23,235)	(29,271)
Pro forma	\$ 254,685	\$ 309,434	\$ 292,020
Basic earnings per share:			
As reported	\$ 2.50	\$ 2.98	\$ 2.90
Pro forma	\$ 2.50	\$ 2.91	\$ 2.72
Diluted earnings per share:			
As reported	\$ 2.46	\$ 2.94	\$ 2.85
Pro forma	\$ 2.46	\$ 2.88	\$ 2.67

*"All awards" refers to awards granted, modified, or settled in fiscal periods beginning after December 15, 1994 — that is, awards for which the fair value was required to be measured under SFAS No. 123, net of tax (\$8,484, \$12,733 and \$15,555 for fiscal years 2006, 2005 and 2004, respectively).

The Company changed the valuation model used for estimating the fair value of options granted in the first quarter of 2005, from a Black-Scholes option-pricing model to a Binomial lattice-pricing model. This change was made in order to provide a better estimate of fair value since the Binomial model is a more flexible analysis to value employee stock options than the Black-Scholes model. The flexibility of the simulated Binomial model stems from the ability to incorporate inputs that change over time, such as volatility and interest rates, and to allow for actual exercise behavior of option holders.

VALUATION ASSUMPTIONS:	DECEMBER 30, 2006 (BINOMIAL LATTICE)	DECEMBER 31, 2005 (BINOMIAL LATTICE)	JANUARY 1, 2005 (BLACK-SCHOLES)
Weighted-average fair value of options granted	\$ 10.05	\$ 12.91	\$ 12.44
Expected volatility	23.1% to 39.5%	28.8% to 42%	34%
Weighted-average volatility	23.9%	29.4%	N/A
Expected term (in years)	4.6	5.2	5.0
Dividend yield	0.59%	0.55%	0.60%
Risk-free rate	4.4% to 5.1%	3.2% to 4.6%	3.1%
Expected annual forfeiture	7.9%	9.3%	4.9%

Expected volatilities are based on a term structure of implied volatility, which assumes changes in volatility over the life of an option. The Company utilizes historical optionee behavioral data to estimate the option exercise and termination rates that are used in the valuation model. The expected term represents an estimate of the period of time options are expected to remain outstanding. The expected term provided in the above table represents an option weighted-average expected term based on the estimated behavior of distinct groups of employees who received options in 2006. The range of risk-free rates is based on a forward curve of interest rates at the time of option grant.

Stock Plans

In March 1992, March 2000, March 2002, and March 2005, the Company adopted the “1992 Plan,” the “2000 Plan,” the “2002 Plan” and the “2005 Plan,” respectively, under which options (both nonqualified options and incentive stock options) to acquire shares of common stock may be granted to officers, other key employees, consultants and, in the case of the 1992, 2000 and 2005 plans, outside directors, in each case as selected by the Company’s Compensation Committee (the “Committee”). Payment by option holders upon exercise of an option may be made in cash or, with the consent of the Committee, by delivering previously acquired shares of Company common stock or any other method approved by the Committee. If previously acquired shares are tendered as payment, the shares are subject to a six-month holding period, as well as specific authorization by the Committee. To date, this type of exercise has not been approved or transacted. The Committee has the authority under the plan to allow for a cashless exercise option, commonly referred to as a “broker-assisted exercise.” Under this method of exercise, the participating employee must make a valid exercise of their stock options through a designated broker. Based on the exercise and information provided by the Company, the broker sells the shares on the open market. The employee receives cash upon settlement, some of which is used to pay the purchase price. Neither the stock-for-stock nor broker-assisted cashless exercise option are generally available to executive officers or directors of the Company. Stock appreciation rights may be granted in connection with all or any part of any option granted under the plans, and may also be granted without a grant of a stock option. The grantee of a stock appreciation right has the right to receive either in cash or in shares of common stock (in the Committee’s discretion), an amount equal to the appreciation in the fair market value of the covered shares from the date of grant to the date of exercise. Options and stock appreciation rights are exercisable over a period of time designated by the Committee and are subject to such other terms and conditions as the Committee determines. Vesting schedules will be accelerated upon a change of control of the Company. Options and stock appreciation rights may generally not be transferred during the lifetime of a holder.

Awards under the 2000, 2002 and 2005 Plans may also be made in the form of stock options, dividend equivalent rights, restricted stock, unrestricted stock and performance shares, and in the case of the 2005 Plan, restricted stock units. Exercise prices for awards under the 2000, 2002 and 2005 Plans are determined by the Committee; to date, all stock options have been granted at an exercise price not less than the closing market value of the underlying shares on the date of grant.

The 2000 Plan provides for the issuance of up to 10,000,000 shares of common stock with respect to options, stock appreciation rights and other awards. At December 30, 2006, there were available for future grant 1,689,933 shares under the 2000 Plan. No incentive stock options may be granted under the 2000 Plan after March 9, 2010. Upon shareholder approval of the 2000 Plan in May 2000, the Company ceased issuing grants under the 1992 Plan; awards made thereunder prior to its termination remain in effect in accordance with their terms.

The 2002 Plan provides for the issuance of up to 9,000,000 shares of common stock with respect to options, stock appreciation rights and other awards. As of December 30, 2006 there were available for future grant 2,665,638 shares under the 2002 Plan. The 2002 plan expires in 2012.

The 2005 Plan provides for the issuance of up to 5,000,000 shares of common stock with respect to options, stock appreciation rights and other awards. As of December 30, 2006 there were available for future grant 4,581,656 shares under the 2005 Plan. The 2005 plan expires in 2015, but no performance-based awards may be granted after the fifth anniversary of the 2005 Plan’s adoption.

Since January 1990, the Company has delivered treasury shares upon the exercise of stock options. The difference between the cost of the treasury shares, on a first-in, first-out basis, and the exercise price of the options has been reflected in Stockholders’ Equity. If the exercise price of the options is higher than the cost of the treasury shares, the amount is reflected in capital in excess of par value. If the exercise price of the options is lower than the cost of the treasury shares, the amount is reflected in Retained earnings.

Stock Options

Changes in common shares under option for the three fiscal years in the period ended December 30, 2006 are summarized as follows:

	2006		2005		2004	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Beginning of year	7,923,930	\$ 30.70	9,012,733	\$ 29.40	9,183,382	\$ 25.55
Granted	840,124	38.89	765,705	40.72	2,788,082	37.21
Exercised	(2,275,662)	27.29	(1,318,382)	26.28	(2,359,171)	23.38
Cancelled	(599,176)	36.71	(536,126)	34.05	(599,560)	30.26
End of year	5,889,216	\$ 32.58	7,923,930	\$ 30.70	9,012,733	\$ 29.40
Vested or expected to vest	5,698,375	\$ 32.33				
Exercisable at end of year	3,765,381	\$ 29.19	4,263,920	\$ 27.06	2,921,598	\$ 24.38
Weighted average fair value of options granted during the year		\$ 10.05		\$ 12.91		\$ 12.44

As of December 30, 2006, the aggregate intrinsic value of options outstanding was \$64.5 million, the aggregate intrinsic value of options vested or expected to vest was \$63.8 million and the aggregate intrinsic value of options exercisable was \$53.7 million. The weighted average remaining contractual term of options outstanding as of December 30, 2006 and December 31, 2005 was 5.8 years and 6.9 years, respectively. The weighted average remaining contractual term of options exercisable and options vested or expected to vest as of December 30, 2006 was 5.5 years and 5.8 years, respectively. The total intrinsic value of options exercised during the fiscal years ended December 30, 2006, December 31, 2005 and January 1, 2005 were \$29.1 million, \$19.1 million and \$34.5 million, respectively.

A summary of the activity for nonvested stock option awards as of December 30, 2006 and changes during the twelve-month period is presented below:

	AWARDS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER AWARD
NONVESTED AT DECEMBER 31, 2005	3,660,010	\$ 11.85
Granted	840,124	10.05
Vested	(1,931,220)	11.29
Cancelled	(445,079)	12.07
NONVESTED AT DECEMBER 30, 2006	2,123,835	\$ 11.60

As of December 30, 2006, there was \$6.5 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the stock option plans. That cost is expected to be recognized over a weighted average period of 1.2 years. The total fair value of shares vested during the years ended December 30, 2006 and December 31, 2005 was \$21.8 million and \$28.0 million, respectively. The following table represents, as of December 30, 2006, the share-based compensation expense to be recognized in future periods:

FISCAL YEAR	(IN THOUSANDS)
	COMPENSATION EXPENSE ON STOCK OPTIONS
2007	\$3,729,423
2008	1,903,711
2009	844,055
	\$6,477,189

The following table summarizes information about options outstanding at December 30, 2006:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OUTSTANDING AT DEC. 30, 2006	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AT DEC. 30, 2006	WEIGHTED AVERAGE EXERCISE PRICE
\$15.75 – \$26.00	1,515,051	4.4 years	\$23.82	1,515,051	\$23.82
26.01 – 36.00	1,353,205	5.8 years	29.48	1,345,705	29.45
36.01 – 37.25	2,153,005	7.1 years	37.09	753,564	37.22
37.26 – 50.14	867,955	5.8 years	41.48	151,061	40.54
\$15.75 – \$50.14	5,889,216	5.8 years	\$32.58	3,765,381	\$29.19

Restricted Stock

From 2001 through 2004, the Committee granted a total of 233,966 shares of restricted stock under the 2000 Plan to a group of key executives. In 2005, the Committee granted an additional 10,000 shares under the 2002 Plan to a key executive. As of December 30, 2006, 81,925 of these shares remained outstanding. These shares are subject to restrictions on transfer and risk of forfeiture until earned by continued service and vest as follows: 20 percent on each of the third, fourth and fifth grant date anniversary, and the remaining 40 percent on the sixth grant date anniversary, with acceleration of vesting upon the achievement of certain financial and non-financial goals. The unearned compensation is being amortized over a period equal to the anticipated vesting period.

In November 2003, pursuant to the terms of his amended employment agreement, the Committee granted to Paul Charron, former Chairman and CEO: (a) 48,892 restricted shares, which shares vested in full on the first anniversary of grant; (b) performance shares with a three year performance cycle of 2003–2005 and with the actual number of shares to be paid out at the end of such cycle based upon the Company's achievement against EPS and total shareholder return targets for such period, with potential payouts ranging from zero shares to 405,288 shares; and (c) options to acquire 33,481 shares of Common Stock. In March 2004, pursuant to the amended agreement, the Committee granted to the CEO: (a) 49,847 restricted shares, which shares vest in three equal installments on the first three anniversaries of grant; (b) performance shares with a three year performance cycle of 2004–2006 and with the actual number of shares to be paid out at the end of such cycle based upon the Company's achievement against EPS and total shareholder return targets for such period, with potential payouts ranging from zero shares to 409,820 shares; and (c) options to acquire 180,132 shares of Common Stock. In March 2005, pursuant to the amended agreement, the Committee granted to the CEO: (a) 45,032 restricted shares, which shares vest in three equal installments on the first three anniversaries of grant or upon retirement from the Company on or after December 31, 2006; and (b) options to acquire 178,205 shares of Common Stock. In March 2006, pursuant to the amended agreement, the Committee granted to the CEO: (a) 48,917 restricted shares, which shares vest in three equal installments on the first three anniversaries of grant or upon retirement from the Company on or after December 31, 2006; and (b) options to acquire 241,774 shares of Common Stock. The CEO retired at the end of 2006 when his contract expired. Upon his retirement, all restricted shares previously awarded vested as of December 30, 2006 and released, net

of shares withheld for taxes, at that time. Additionally, based on performance targets achieved, performance shares granted in 2003 with a performance period of 2003 through 2005 were determined to equal 119,391 shares by the Committee and were released, net of shares withheld for taxes, in January 2007. The net shares continue to be subject to certain holding requirements, as defined in Mr. Charron's employment agreement and post-retirement consulting arrangement. As it relates to the performance shares granted in 2004, the performance period ended on December 31, 2006 and it has been determined that none of the performance criteria have been satisfied.

In November 2006, William L. McComb joined the Company as its Chief Executive Officer and a member of its Board of Directors. Pursuant to the terms of his employment agreement, the Committee granted to Mr. McComb: (a) options to purchase 185,200 shares of the Company's common stock that will vest 25% on the first anniversary of the grant date, 25% on the second anniversary and 50% on the third anniversary; (b) "premium priced" options (options with an exercise price equal to 120% of the closing price on the date of grant) to purchase 63,150 shares of the Company's common stock that will vest 25% on the first anniversary of the grant date, 25% on the second anniversary and 50% on the third anniversary; (c) 76,355 restricted shares, which shares vest in three equal installments on the first three anniversaries of grant; and (d) 62,500 restricted shares which shares vested in full on the fifth anniversary of grant. The Company shares received upon exercise of the options, as well as the Other Restricted Shares, are subject to certain transfer restrictions that will lapse in full on December 31, 2010.

The Company's non-employee Directors receive an annual grant of shares of Common Stock as part of their annual retainer for serving on the Board of Directors. In 2003, the value of the Directors' stock grant was \$15,000, which stock was granted pursuant to the Liz Claiborne Outside Directors' 1991 Stock Ownership Plan (the "Directors' Stock Plan"). In addition, pursuant to the Director's Stock Plan, each non-employee Director received an award of options to purchase 6,000 shares of Common Stock. The Directors' Stock Plan was amended in December 2003 to eliminate the award of options to non-employee Directors. With the elimination of stock option grants under the Directors' Stock Plan, for 2004 and 2005 the value of the annual equity retainer was increased to \$75,000, with Common stock valued at \$15,000 granted pursuant to the Directors' Stock Plan and with Common Stock valued at \$60,000 granted under the 2000 Plan. Commencing with 2006, the value of the annual equity retainer was increased to \$100,000. On January 24, 2006, the Company adopted the Liz Claiborne, Inc. Outside Directors' Deferral Plan (the "Deferral Plan"), which amended and restated the Directors' Plan by eliminating equity grants under the Directors' Plan, including the annual grant of shares of Common Stock. The last grant under the Directors' Stock Plan was on January 10, 2006. Consistent with the adoption of the Deferral Plan, future retainer share grants to non-employee Directors will be made pursuant to the 2000 Plan, the 2002 Plan or the 2005 Plan. Retainer shares are non-transferable until the first anniversary of the grant, with 25 percent becoming transferable on each of the first and second anniversary of the grant and 50 percent becoming transferable on the third anniversary, subject to certain exceptions.

In 2004, the Committee granted 724,000 restricted shares to a group of key executives. As of December 30, 2006, 411,000 of these shares remained outstanding. These shares are subject to restrictions on transfer and subject to risk of forfeiture until earned by continued employment. The restrictions expire in January 2010. The expiration of restrictions may be accelerated if the total return on the Company's common stock exceeds that of a predetermined group of competitors or upon the occurrence of certain other events. The unearned compensation is being amortized over a period equal to the anticipated vesting period.

In 2005, the Committee granted 524,050 restricted shares to a group of employees who, in previous years, would have been entitled to a grant of stock options. As of December 30, 2006, 381,125 of these shares remained outstanding. These shares are subject to restrictions on transfer and subject to risk of forfeiture until earned by continued employment and vest 50 percent on each of the second and third grant date anniversary. The unearned compensation is being amortized over a period equal to the anticipated vesting period.

In January 2006, the Committee granted 166,500 shares of restricted stock to a group of key executives. As of December 30, 2006, 166,500 shares remained outstanding. Shares vest in equal installments based upon achievement of certain financial performance metrics during the third and fourth quarters of 2006, with one-half of the shares vesting on or before March 31, 2007 and one-half vesting on January 1, 2008, subject to continued employment with the Company and confirmation by the Committee that the performance metrics were achieved. As of December 30, 2006, it is expected that these shares will partially vest.

In 2006, the Committee granted 592,150 restricted shares to a group of domestic and international employees who, in previous years, would have been entitled to a grant of stock options. As of December 30, 2006, 523,700 of these shares remained outstanding. These shares are subject to restrictions on transfer and subject to risk of forfeiture until earned by continued employment and vest 50 percent on each of the second and third grant date anniversary. The unearned compensation is being amortized over a period equal to the anticipated vesting period.

Changes in restricted shares for the three fiscal years in the period ended December 30, 2006 are summarized as follows:

	2006		2005		2004	
	SHARES	WEIGHTED AVERAGE GRANT PRICE	SHARES	WEIGHTED AVERAGE GRANT PRICE	SHARES	WEIGHTED AVERAGE GRANT PRICE
Beginning of year	1,228,619	\$37.88	875,734	\$34.65	253,956	\$27.26
Granted	968,342	36.92	585,730	40.56	926,555	35.01
Vested	(161,573)	35.84	(21,026)	35.36	(205,619)	26.66
Cancelled	(316,895)	37.36	(211,819)	32.14	(99,158)	35.68
End of year	1,718,493	\$37.63	1,228,619	\$37.88	875,734	\$34.65

A summary of the activity for nonvested restricted stock awards for the year ended December 30, 2006 and changes during the twelve month period is presented below:

	AWARDS	WEIGHTED AVERAGE GRANT DATE FAIR VALUE PER AWARD
NONVESTED AT DECEMBER 31, 2005	1,228,619	\$37.88
Granted	968,342	36.92
Vested	(161,573)	35.84
Cancelled	(316,895)	37.36
NONVESTED AT DECEMBER 30, 2006	1,718,493	\$37.63
EXPECTED TO VEST	1,281,616	\$37.44

As of December 30, 2006, there was \$23.8 million of total unrecognized compensation cost related to nonvested share-based compensation awards granted under the restricted stock plans. That cost is expected to be recognized over a weighted average period of 2.2 years. The total fair value of shares vested during the years ended December 30, 2006, December 31, 2005 and January 1, 2005 was \$5.8 million, \$0.7 million and \$5.5 million, respectively. The following table represents as of December 30, 2006, the share-based compensation expense to be recognized in future periods:

FISCAL YEAR	(IN THOUSANDS)
	COMPENSATION EXPENSE ON RESTRICTED STOCK
2007	\$14,026
2008	6,087
2009	2,613
2010	659
2011	436
	\$23,821

NOTE 16: Profit-sharing Retirement, Savings and Deferred Compensation Plans

The Company maintains a qualified defined contribution plan (the "401(k)/Profit Sharing Plan") for eligible U.S. employees of the Company and adopting affiliates, which has two component parts: a cash or deferred arrangement under section 401(k) of the Internal Revenue Code, and employee matching contributions including a discretionary profit sharing

component. To be eligible to participate in either component of the 401(k)/Profit Sharing Plan, employees must be at least age 21 and not covered by a collective bargaining agreement; there are additional eligibility and vesting rules for each of the 401(k)/Profit Sharing Plan components. As of January 1, 2002, full-time employees may begin to make pretax contributions and receive employer-matching contributions to the 401(k) component of the 401(k)/Profit Sharing Plan after six months of employment with the Company, while part-time employees must complete a 12-month period in which they are credited with 1,000 hours of service. An employee becomes eligible for the profit sharing component upon completion of 12 months and 1,000 hours of service. Once eligible, a participant must be credited with 1,000 hours of service during a plan year and be employed by the Company, or one of its affiliates, on the last day of the calendar year to share in the profit sharing contribution for that year.

Company 401(k) matching contributions vest (i.e., become non-forfeitable) on a schedule of 20 percent for the first two years of elapsed service with the Company and its affiliates and 20 percent for each year of service thereafter. Profit sharing contributions, if any, are made annually at the discretion of the Board of Directors, and vest 100 percent after five years of elapsed service.

Effective January 1, 2003, under the 401(k) component of the 401(k)/Profit Sharing Plan, participants may contribute from 1 percent to 50 percent of their salaries on a pretax basis to their 401(k) account, subject to applicable IRS limitations. The 401(k)/Profit Sharing Plan provides for automatic enrollment at a contribution rate of 3 percent when an eligible employee first becomes entitled to participate in the 401(k) portion of the 401(k)/Profit Sharing Plan, unless the employee elects otherwise. Participants' pretax contributions are matched at the rate of \$0.50 for each dollar contributed by the participant that does not exceed 6 percent of eligible compensation.

The Company's aggregate 401(k)/Profit Sharing Plan contribution expense for 2006, 2005 and 2004, which is included in SG&A expenses, was approximately \$7,404,000, \$11,213,000 and \$10,660,000, respectively.

The Company has a non-qualified supplemental retirement plan for certain key employees whose benefits under the 401(k)/Profit Sharing Plan are expected to be constrained by the operation of certain Internal Revenue Code limitations. The supplemental plan provides a benefit equal to the difference between the contribution that would be made for a key employee under the tax-qualified plan absent such limitations and the actual contribution under that plan. The supplemental plan also allows certain key employees to defer up to 50 percent of their base salary and up to 100 percent of their annual bonus. Supplemental benefits attributable to participant deferrals are fully vested at all times and the balance of a participant's benefits vests on the same basis as the matching contribution under the 401(k)/Profit Sharing Plan. This supplemental plan is not funded. As of January 1, 2002, the Company established an irrevocable "rabbi" trust to which the Company plans to make periodic contributions to provide a source of funds to assist in meeting its obligations under the supplemental plan. The principal of the trust and earnings thereon, are to be used exclusively for the participants under the plan, subject to the claims of the Company's general creditors. The Company's expenses related to this plan, which are included in SG&A expenses, were approximately \$57,000, \$44,000 and \$40,000 in 2006, 2005 and 2004, respectively. In December 2005, the Board approved dividing the supplemental plan into two plans for purposes of segregating the deferrals (adjusted for investment gains and losses) of salary and bonuses deferred prior to January 1, 2005 from the deferrals (adjusted for investment gains and losses) of salary and bonuses earned or vested after December 31, 2004.

The Company established for Paul Charron, former Chairman and CEO, an unfunded deferred compensation arrangement which accrues over a ten-year period as of the first day of each fiscal year beginning in 1996, based on an amount equal to 15 percent of the sum of the senior executive's base salary and bonus. The then accrued amount plus earnings became fully vested at the end of the 2004 fiscal year. Amounts credited in 2005 and 2006 became fully vested on December 31, 2006. This arrangement also provided for the deferral of an amount equal to the portion of the executive's base salary that exceeds \$1 million. The deferred amount plus earnings is fully vested at all times and is classified as current liabilities.

NOTE 17: Stockholder Rights Plan

In December 1998, the Company adopted a new Stockholder Rights Plan to replace the then expiring plan originally adopted in December 1988. Under the new Plan, one preferred stock purchase right is attached to each share of common stock outstanding. The rights are nominally exercisable under certain circumstances, to buy 1/100 share of a newly created Series A Junior Participating Preferred Stock for \$150. If any person or group (referred to as an "Acquiring Person") becomes the beneficial owner of 15 percent or more of the Company's common stock (20 percent or more in the case of certain acquisitions by institutional investors), each right, other than rights held by the Acquiring Person which become void, will become exercisable for common stock having a market value of twice the exercise price of the right. If anyone becomes an Acquiring Person and afterwards the Company or 50 percent or more of its assets is acquired in a merger, sale or other business combination, each right (other than voided rights) will become exercisable for common stock of the acquirer having a market value of twice the exercise price of the right. The rights, which expire on December 21, 2008, and do not have voting rights, may be amended by the Company's Board of Directors and redeemed by the Company at \$0.01 per right at any time before any person or group becomes an Acquiring Person.

NOTE 18: Earnings Per Common Share

The following is an analysis of the differences between basic and diluted earnings per common share (“EPS”) in accordance with SFAS No. 128, “Earnings per Share.”

IN THOUSANDS EXCEPT PER SHARE DATA	FISCAL YEARS ENDED								
	DECEMBER 30, 2006			DECEMBER 31, 2005			JANUARY 1, 2005		
	NET INCOME	WEIGHTED AVERAGE SHARES	NET INCOME PER COMMON SHARE	NET INCOME	WEIGHTED AVERAGE SHARES	NET INCOME PER COMMON SHARE	NET INCOME	WEIGHTED AVERAGE SHARES	NET INCOME PER COMMON SHARE
Basic	\$254,685	101,989	\$2.50	\$317,366	106,354	\$2.98	\$313,569	108,128	\$2.90
Effect of dilutive securities:									
Stock options and restricted stock grants	—	1,494	0.04	—	1,565	0.04	—	1,758	0.05
Diluted	\$254,685	103,483	\$2.46	\$317,366	107,919	\$2.94	\$313,569	109,886	\$2.85

Options to purchase 63,000, 2,957,000 and 16,000 shares of common stock were outstanding as of the years ended 2006, 2005 and 2004, respectively, but were not included in the computation of diluted EPS for the years then ended because the options were anti-dilutive.

NOTE 19: Consolidated Statements of Cash Flows Supplementary Disclosures

During fiscal 2006, 2005 and 2004, the Company made income tax payments of approximately \$140,973,000, \$174,193,000 and \$144,632,000, respectively. The Company made interest payments of approximately \$36,729,000, \$32,980,000 and \$32,770,000 in 2006, 2005 and 2004, respectively. On November 21, 2006, the Company entered into a seven year capital lease with a financial institution totaling \$30.6 million. The purpose of the lease was to finance the equipment associated with its distribution facilities in Ohio and Rhode Island, which had been previously financed through our 2001 synthetic lease, which matured in 2006. There were no other non-cash activities in the years ended December 30, 2006 and December 31, 2005.

NOTE 20: Segment Reporting

The Company operates the following business segments: Wholesale Apparel, Wholesale Non-Apparel and Retail. The Wholesale Apparel segment consists of women’s, men’s and children’s apparel designed and marketed worldwide under various trademarks owned by the Company or licensed by the Company from third-party owners, including wholesale sales of women’s, men’s and children’s apparel designed and marketed in Europe, Canada, the Asia-Pacific Region and the Middle East under the Mexx brand names. The Wholesale Non-Apparel segment includes handbags, small leather goods, fashion accessories, jewelry and cosmetics designed and marketed worldwide under certain owned or licensed trademarks. The Retail segment consists of the Company’s worldwide retail operations that sell most of these apparel and non-apparel products to the public through the Company’s specialty retail stores, outlet stores, concession stores and e-commerce sites. The Company also presents its results on a geographic basis based on selling location, between Domestic (wholesale customers, Company specialty retail and outlet stores located in the United States and e-commerce sites) and International (wholesale customers and Company specialty retail and outlet and concession stores located outside of the United States). The Company, as licensor, also licenses to third parties the right to produce and market products bearing certain Company-owned trademarks; the resulting royalty income is not allocated to any of the specified operating segments, but is rather included in the line “Sales from external customers” under the caption “Corporate/ Eliminations.”

The Company evaluates performance and allocates resources based on operating profits or losses. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies in its 2006 Annual Report on Form 10-K. Intersegment sales are recorded at cost. There is no intercompany profit or loss on intersegment sales; however, the wholesale segments are credited with their proportionate share of the operating profit generated by the Retail segment. The profit credited to the wholesale segments from the Retail segment is eliminated in consolidation.

The Company’s segments are business units that either offer different products or distribute similar products through different distribution channels. Additional categorization across the segments is impractical and not relevant in that the segments are each managed separately because they either contract to manufacture and distribute distinct products with different production processes or distribute similar products through different distribution channels.

IN THOUSANDS	DECEMBER 30, 2006				
	WHOLESALE APPAREL	WHOLESALE NON-APPAREL	RETAIL	CORPORATE/ ELIMINATIONS	TOTALS
NET SALES:					
Total net sales	\$ 3,067,614	\$ 735,943	\$ 1,361,912	\$ (171,151)	\$ 4,994,318
Intercompany sales	(182,538)	(34,439)	—	216,977	—
Sales from external customers	\$ 2,885,076	\$ 701,504	\$ 1,361,912	\$ 45,826	\$ 4,994,318
% to total	57.8%	14.0%	27.3%	0.9%	100.0%
Depreciation and amortization expense	\$ 86,813	\$ 5,697	\$ 46,568	\$ 1,325	\$ 140,403
OPERATING INCOME:					
Total operating income (loss)	\$ 269,454	\$ 114,060	\$ 41,463	\$ 11,100	\$ 436,077
Intercompany segment operating (income) loss	(15,326)	(10,889)	—	26,215	—
Segment operating income from					
external customers	\$ 254,128	\$ 103,171	\$ 41,463	\$ 37,315	\$ 436,077
% of sales	8.8%	14.7%	3.0%	81.4%	8.7%
Segment assets	\$ 2,564,208	\$ 354,879	\$ 806,061	\$ 128,161	\$ 3,853,309
Expenditures for long-lived assets	235,734	93,934	113,419	22	443,109
IN THOUSANDS	DECEMBER 31, 2005				
	WHOLESALE APPAREL	WHOLESALE NON-APPAREL	RETAIL	CORPORATE/ ELIMINATIONS	TOTALS
NET SALES:					
Total net sales	\$ 3,107,559	\$ 675,610	\$ 1,207,388	\$ (142,804)	\$ 4,847,753
Intercompany sales	(160,245)	(24,737)	—	184,982	—
Sales from external customers	\$ 2,947,314	\$ 650,873	\$ 1,207,388	\$ 42,178	\$ 4,847,753
% to total	60.8%	13.4%	24.9%	0.9%	100.0%
Depreciation and amortization expense	\$ 79,573	\$ 5,558	\$ 41,055	\$ 1,322	\$ 127,508
OPERATING INCOME:					
Total operating income (loss)	\$ 355,890	\$ 111,092	\$ 68,160	\$ (9,802)	\$ 525,340
Intercompany segment operating (income) loss	(32,335)	(9,542)	—	41,877	—
Segment operating income from					
external customers	\$ 323,555	\$ 101,550	\$ 68,160	\$ 32,075	\$ 525,340
% of sales	11.0%	15.6%	5.6%	76.0%	10.8%
Segment assets	\$ 2,502,783	\$ 149,397	\$ 759,871	\$ 151,924	\$ 3,563,975
Expenditures for long-lived assets	239,108	5,000	88,155	347	332,610

IN THOUSANDS	JANUARY 1, 2005				
	WHOLESALE APPAREL	WHOLESALE NON-APPAREL	RETAIL	CORPORATE/ ELIMINATIONS	TOTALS
NET SALES:					
Total net sales	\$ 3,119,195	\$ 584,676	\$ 1,065,826	\$ (136,869)	\$ 4,632,828
Intercompany sales	(153,677)	(19,802)	—	173,479	—
Sales from external customers	\$ 2,965,518	\$ 564,874	\$ 1,065,826	\$ 36,610	\$ 4,632,828
% to total	64.0%	12.2%	23.0%	0.8%	100.0%
Depreciation and amortization expense	\$ 72,976	\$ 5,425	\$ 36,015	\$ 1,218	\$ 115,634
OPERATING INCOME:					
Total operating income (loss)	\$ 365,624	\$ 90,319	\$ 73,110	\$ (26,307)	\$ 502,746
Intercompany segment operating (income) loss	(42,200)	(11,544)	—	53,744	—
Segment operating income from external customers	\$ 323,424	\$ 78,775	\$ 73,110	\$ 27,437	\$ 502,746
% of sales	10.9%	13.9%	6.9%	74.9%	10.9%
Segment assets	\$ 2,411,354	\$ 128,650	\$ 686,884	\$ 152,360	\$ 3,379,248
Expenditures for long-lived assets	207,437	2,761	150,133	—	360,331

GEOGRAPHIC DATA

IN THOUSANDS	DECEMBER 30, 2006		DECEMBER 31, 2005		JANUARY 1, 2005	
	DOMESTIC	INTER-NATIONAL	DOMESTIC	INTER-NATIONAL	DOMESTIC	INTER-NATIONAL
Sales from external customers	\$ 3,599,383	\$ 1,394,935	\$ 3,586,048	\$ 1,261,705	\$ 3,502,565	\$ 1,130,263
% to total	72.1%	27.9%	74.0%	26.0%	75.6%	24.4%
Depreciation and amortization expense	91,221	49,182	82,875	44,633	84,698	30,936
Segment operating income	360,810	75,267	417,838	107,502	425,955	76,791
% of sales	10.0%	5.4%	11.7%	8.5%	12.2%	6.8%
Segment assets	2,625,874	1,227,435	2,367,081	1,196,894	2,240,972	1,138,276
Expenditures for long-lived assets	342,690	100,419	231,043	101,567	88,996	271,335

A reconciliation of segment assets to consolidated assets follows:

IN THOUSANDS	DECEMBER 30, 2006	DECEMBER 31, 2005	JANUARY 1, 2005
Total segment assets	\$ 3,853,309	\$ 3,563,975	\$ 3,379,248
Intercompany receivables	(24,657)	(32,835)	(24,691)
Investments in wholly-owned subsidiaries	(291,067)	(291,068)	(249,523)
Other	(41,817)	(88,036)	(75,282)
Total consolidated assets	\$ 3,495,768	\$ 3,152,036	\$ 3,029,752

NOTE 21: Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is comprised of the effects of foreign currency translation and changes in unrealized gains and losses on securities as detailed below:

IN THOUSANDS	DECEMBER 30, 2006	DECEMBER 31, 2005
Cumulative translation adjustment	\$ (55,271)	\$ (34,549)
(Losses) gains on cash flow hedging derivatives, net of taxes of \$495 and \$(287)	(743)	377
Unrealized (losses) gains on securities, net of taxes of \$99 and \$(245)	(142)	434
Accumulated other comprehensive income (loss), net of tax	\$ (56,156)	\$ (33,738)

The losses on cash flow hedging derivatives are reclassified to current year gain or loss each year due to the short lives of these instruments.

NOTE 22: Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), "The Fair Value Option for Financial Assets and Financial Liabilities — including an Amendment of FASB Statement No. 115." SFAS No. 159 allows companies the choice to measure financial instruments and certain other items at fair value. This allows the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is effective for fiscal years beginning after November 15, 2007. The Company is currently reviewing the impact of SFAS No. 159 on our financial statements.

In September 2006, the SEC issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides guidance on the consideration of effects of the prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company adopted SAB No. 108 in the fourth quarter of 2006 and the adoption of SAB No. 108 did not impact the Company's consolidated financial results.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements", which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS No. 157 on the consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106 and 132(R)." SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of defined benefit and retiree medical plans as an asset or liability in its statement of financial position and to recognize through comprehensive income changes in that funded status in the year in which they occur. The adoption of SFAS No. 158 did not have a material impact on the consolidated financial statements.

On July 13, 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. This interpretation requires recognition in the financial statements of the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the 2007 fiscal year with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. The Company adopted Fin 48 for the first quarter of 2007. Based on our preliminary review, we expect a cumulative effect charge to retained earnings in the range of \$18–24 million.

On October 6, 2005, the FASB issued FASB Staff Position ("FSP") No. FAS 13-1 "Accounting for Rental Costs Incurred during a Construction Period." The FASB has concluded that rental costs incurred during and after a construction period are for the right to control the use of a leased asset and must be recognized as rental expense. Such costs were previously capitalizable as construction costs if the company had a policy to do so. The FSP is effective for reporting periods beginning after December 15, 2005. The Company adopted FSP No. FAS 13-1 on January 1, 2006. The impact of this FSP, decreased net income by approximately \$4 million for the fiscal year ending December 30, 2006.

NOTE 23: Related Party Transactions

During 2006, 2005 and 2004, the Company paid the law firm, Kramer, Levin, Naftalis & Frankel LLP, of which Kenneth P. Kopelman (a Director of the Company) is a partner, approximately \$2.0 million, \$3.9 million and \$2.0 million, respectively, for fees incurred in connection with legal services provided to the Company. The 2006 amount represents less than one percent of such firm's 2006 fee revenue. The foregoing transactions between the Company and this entity were effected on an arm's-length basis, with services provided at fair market value.

During 2006, 2005 and 2004, the Company leased a certain office facility from Amex Property B.V. ("Amex"), a company whose principal owner is Rattan Chadha, former President and Chief Executive Officer of Mexx, under a 20-year lease agreement. The space houses the principal headquarters of Mexx Group B.V. in Voorschoten, Netherlands. The rental paid to Amex during fiscal years 2006, 2005 and 2004 was 570,000, 584,000 and 599,000 euro, respectively (or \$716,000, \$728,000 and \$746,000, respectively, based on the exchange rates in effect during such periods).

The Company believes that each of the transactions described above was effected on terms no less favorable to the Company than those that would have been realized in transactions with unaffiliated entities or individuals.

NOTE 24: Legal Proceedings

Our previously owned Augusta, Georgia facility became listed during 2004 on the State of Georgia's Hazardous Site Inventory of environmentally impacted sites due to the detection of certain chemicals at the site. In November 2005, the Georgia Department of Natural Resources requested that the Company submit a compliance status report and compliance status certification regarding the site. The Company submitted the requested materials in the second quarter of 2006. In October 2006, the Company received a letter from the Department of Natural Resources requesting that the Company provide additional information and perform additional tests to complete the compliance status report, which was previously submitted. Additional testing has been completed and the Company is currently preparing its response to this request, which it intends to submit prior to the second quarter.

The Company is a party to several pending legal proceedings and claims. Although the outcome of any such actions cannot be determined with certainty, management is of the opinion that the final outcome of any of these actions should not have a material adverse effect on the Company's results of operations or financial position.

NOTE 25: Unaudited Quarterly Results

Unaudited quarterly financial information for 2006 and 2005 is set forth in the table below:

	MARCH		JUNE		SEPTEMBER		DECEMBER	
	2006	2005	2006	2005	2006	2005	2006	2005
IN THOUSANDS EXCEPT PER SHARE DATA								
Net sales	\$ 1,171,201	\$ 1,212,407	\$ 1,125,038	\$ 1,099,104	\$ 1,369,511	\$ 1,336,654	\$ 1,328,568	\$ 1,199,588
Gross profit	544,013	558,230	548,496	529,460	649,125	634,448	645,832	576,219
Net income	46,937 ⁽¹⁾	71,418	39,415 ⁽²⁾	54,140	95,170 ⁽³⁾	113,515 ⁽⁴⁾	73,163 ⁽⁵⁾	78,293
Basic earnings per share	\$.45 ⁽¹⁾	\$.66	\$.38 ⁽²⁾	\$.51	\$.94 ⁽³⁾	\$ 1.07 ⁽⁴⁾	\$.72 ⁽⁵⁾	\$.75
Diluted earnings per share	\$.45 ⁽¹⁾	\$.65	\$.38 ⁽²⁾	\$.50	\$.93 ⁽³⁾	\$ 1.06 ⁽⁴⁾	\$.71 ⁽⁵⁾	\$.74
Dividends paid per common share	\$.06	\$.06	\$.06	\$.06	\$.06	\$.06	\$.06	\$.06

(1) Includes the after tax effect of net expenses related to streamlining initiatives of \$14,938 (\$23,341 pretax) or \$0.14 per share.

(2) Includes the after tax effect of net expenses related to streamlining initiatives of \$4,828 (\$8,100 pretax) or \$0.05 per share.

(3) Includes the after tax effect of net expenses related to streamlining initiatives of \$3,526 (\$5,562 pretax) or \$0.03 per share.

(4) Includes the after tax effect of the reimbursement of improperly collected markdown allowances of \$7,972 (\$12,340 pretax) or \$0.07 per share, the after tax effect of certain workforce reductions and real estate consolidations of \$5,725 (\$8,862 pretax) or \$0.05 per share and a restructuring gain of \$143 (\$221 pretax) or \$0.001 per share.

(5) Includes the after tax effect of net expenses related to streamlining initiatives of \$21,213 (\$33,886 pretax) or \$0.21 per share and the after tax effect of the reduction of incentive compensation of \$7,512 (\$12,000 pretax) or \$0.07 per share.

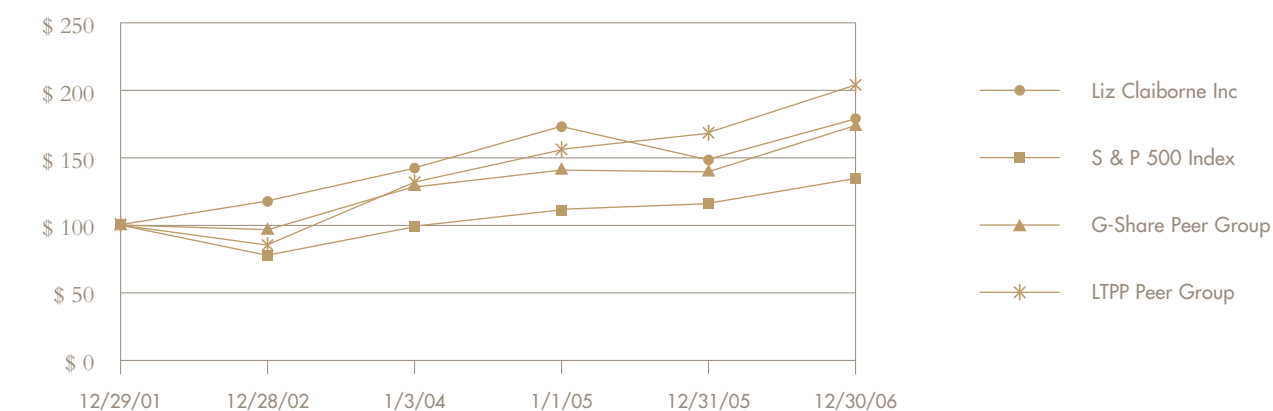
(6) Includes the after tax effect of a restructuring gain of \$251 (\$389 pretax) or \$0.002 per share, the after tax effect of receipt of a lease termination payment from a landlord (net of related costs) of \$1,977 (\$3,061 pretax) or \$0.02 per share, and the release of tax reserves no longer required of \$2,500 or \$0.02 per share.

COMMON STOCK DATA

Our Common Stock trades on the New York Stock Exchange ("NYSE") under the symbol LIZ. The table below sets forth the high and low closing sale prices of the Common Stock (based on the NYSE composite tape) for the periods indicated.

YEAR	CALENDAR PERIOD	HIGH	LOW	YEAR	CALENDAR PERIOD	HIGH	LOW
2006	1st Quarter	\$ 41.00	\$ 33.76	2005	1st Quarter	\$ 43.71	\$ 38.79
	2nd Quarter	40.76	36.90		2nd Quarter	41.30	35.43
	3rd Quarter	39.74	34.06		3rd Quarter	42.70	38.39
	4th Quarter	44.34	39.50		4th Quarter	39.24	34.56

On February 16, 2007, the closing sale price of our Common Stock was \$46.15. As of February 16, 2007, the approximate number of record holders of Common Stock was 5,504.

PERFORMANCE GRAPH**Comparison of Cumulative Five Year Total Return**

	2001	2002	2003	2004	2005	2006
Liz Claiborne, Inc.	100	117.94	142.48	173.02	147.69	180.23
S&P 500 Index	100	76.65	98.83	109.92	115.32	133.53
G-Share Peer Group	100	97.59	128.27	143.21	141.03	174.59
LTPP Peer Group	100	87.17	130.19	156.46	167.13	204.21

The line graph above compares the cumulative total stockholder return on the Company's Common Stock over a 5-year period with the return on (i) the Standard & Poor's 500 Stock Index ("S&P 500 Index"); (ii) an index comprised of the Company and the following 21 competitors comprising the peer group for the Growth Share program (the "G-Share Peer Group"): Ann Taylor Stores Corporation; The Gap, Inc.; Gucci Group N.V. (which was acquired by Pinault-Printemps-Redoute in May 2004); Guess, Inc.; Haggard Corp. (which was acquired by Infinity Associates in November 2005); Hartmarx Corporation; Jones Apparel Group, Inc.; Kellwood Company; Limited Brands, Inc.; Oshkosh B'Gosh, Inc. (which was acquired by Carters Inc. in July 2005); Oxford Industries, Inc.; Phillips-Van Heusen Corporation; Polo Ralph Lauren Corporation; Quiksilver, Inc.; Russell Corporation (which was acquired by Berkshire Hathaway in August 2006); The Talbots, Inc.; Tarrant Apparel Group; Tommy Hilfiger Corporation (which was acquired by Apax Partners in May 2006); Tropical Sportswear Int'l Corporation (which was liquidated in February 2005); V.F. Corporation; and The Warnaco Group, Inc.; and (iii) an index comprised of the Company and the following 22 competitors comprising the peer group for the Long Term Performance Plan (the "LTPP Peer Group"): Abercrombie & Fitch Co.; Ann Taylor Stores Corporation; Coach, Inc.; Dillard's, Inc.; Federated Department Stores, Inc.; The Gap, Inc.; Jones Apparel Group, Inc.; Kellwood Company; Limited Brands, Inc.; The May Department Stores Company (which was acquired by Federated Department Stores in August 2005); The Neiman Marcus Group, Inc. (which was acquired by Newton Acquisition Merger Sub Inc. in October 2005); NIKE, Inc.; Nordstrom, Inc.; Phillips-Van Heusen Corporation; Polo Ralph Lauren Corporation; Quiksilver, Inc.; Russell Corporation (which was acquired by Berkshire Hathaway in August 2006); Saks Incorporated; The Talbots, Inc.; Tiffany & Co.; Tommy Hilfiger Corporation (which was acquired by Apax Partners in May 2006); and VF Corporation. Returns for companies in the G-Share Peer Group and the LTPP Peer Group that have been acquired or liquidated are reflected in the graph below through the end of the year of such acquisition.

In accordance with S.E.C. disclosure rules, the measurements are indexed to a value of \$100 at December 29, 2001 (the last trading day before the beginning of the Company's 2002 fiscal year) and assume that all dividends were reinvested.

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² Member, Compensation Committee

³ Member, Nominating and Governance Committee

⁴ Member, Finance Committee

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Michael Scarpa

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Jeff Fardell

President, Mexx Europe

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Senior Vice President, Corporate Affairs
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Senior Vice President, Customer Service and Systems
and Chief Information Officer

Pamela Thomas-Graham

Group President, Better, Moderate and Mid-Tier Brands

Mark Walsh

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Fritz Winans

Managing Director, Asian Development

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Dana Buchman

Juicy Couture

Gela Nash Taylor
Pamela Skaist Levy

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Andy Spade

Kate Spade

Lucky Brand Jeans

Gene Montesano
Barry Perlman

Mac & Jac

Eric Karls

Lani Karls

Prana

Demian Kloer

Jeff "Beaver" Theodosakis

Pam Theodosakis

Sigrid Olsen

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Mac & Jac
Eric Karls
Lani Karls

Prana
Demian Kloer
Jeff "Beaver" Theodosakis
Pam Theodosakis

Sigrid Olsen
Sigrid Olsen

CHIEF ACCOUNTING OFFICER

Elaine H. Goodell

CORPORATE SECRETARY

Nicholas Rubino

INVESTOR RELATIONS

Robert J. Vill

REGISTRAR & TRANSFER AGENT

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286
1-800-524-4458
1-212-815-3700 (Outside the U.S.)
1-888-269-5221 (Hearing Impaired-TDD Phone)

E-Mail Address: Shareowners@bankofny.com

The Bank of New York's Stock Transfer Website:

<http://www.stockbny.com>

Send Certificates for Transfer and Address Changes To:

Receive and Deliver Department
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Church Street Station
New York, NY 10286

**INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP
2 World Financial Center
New York, New York 10281

FORM 10-K

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stock-holders without charge upon written request to Liz Claiborne Inc., Investor Relations Department, One Claiborne Avenue, North Bergen, New Jersey 07047, or by visiting www.lizclaiborneinc.com

CERTIFICATIONS

Liz Claiborne Inc. has filed with the United States Securities and Exchange Commission all required certifications of the Chief Executive Officer (CEO) and Chief Financial Officer regarding the quality of Liz Claiborne Inc.'s public disclosure for each of the periods ended December 30, 2006. In addition, Liz Claiborne Inc.'s CEO provided to the New York Stock Exchange (NYSE) the annual CEO certification regarding Liz Claiborne Inc.'s compliance with the NYSE's corporate governance listing standards.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 10:00 a.m., local time, on Thursday, May 17, 2007 at the offices of Liz Claiborne Inc., 1441 Broadway, New York, New York.

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