Form 10-K

CLAIBORNE LIZ INC - liz

Filed: February 28, 2007 (period: December 30, 2006)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

(Mark One)

˛ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 30, 2006

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from__________ to__________.

Commission File Number 1-10689

LIZ CLAIBORNE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-2842791**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
1441 Broadway, New York, New York	**10018**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: 212-354-4900
Securities registered pursuant to Section 12(b) of the Act:

Title of class	Name of each exchange on which registered
Common Stock, par value $1 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ˛ No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ˛
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ˛ No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ˛
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ˛ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ˛
Based upon the closing sale price on the New York Stock Exchange composite tape on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, which quarter ended July 1, 2006, the aggregate market value of the registrant's Common Stock, par value $1 per share, held by non-affiliates of the registrant on such date was approximately $3,794,876,169. For purposes of this calculation, only executive officers and directors are deemed to be the affiliates of the registrant.
Number of shares of the registrant's Common Stock, par value $1 per share, outstanding as of February 16, 2007: 103,449,672 shares.

Documents Incorporated by Reference:

Registrant's Proxy Statement relating to its Annual Meeting of Stockholders to be held on May 17, 2007-Part III.

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PART I

Item 1. Business.

OVERVIEW AND NARRATIVE DESCRIPTION OF BUSINESS

General

Liz Claiborne, Inc. designs and markets an extensive portfolio of branded women's and men's apparel, accessories and fragrance products. Our diverse portfolio of quality brands, available domestically and internationally via wholesale and retail channels, consistently meets a wide range of consumers' fashion needs, from classic to contemporary, active to relaxed and denim to streetwear.

Our global reach is one of the broadest in the apparel industry, with merchandise available at more than 30,000 different retail locations worldwide. In addition to our wholesale distribution, we sell directly to customers throughout the world via 399 specialty retail formats, 625 concessions, 336 outlet and 13 e-commerce sites. Our brands include AX C ESS, BORA BORA, C & C CALIFORNIA, CLAIBORNE, CRAZY HORSE (which will be replaced in 2007 by LIZ & CO and CONCEPTS BY CLAIBORNE), CURVE, DANA BUCHMAN, ELISABETH, ELLEN TRACY, EMMA JAMES, ENYCE, FIRST ISSUE, INTUITIONS, JACK SPADE, J.H. COLLECTIBLES, JUICY COUTURE, KATE SPADE, KENSIE, KENSIEGIRL, LAUNDRY BY SHELLI SEGAL, LIZ, LIZ CLAIBORNE, LUCKY BRAND JEANS, MAC & JAC, MAMBO, MARVELLA, MEXX, MONET, MONET 2, prAna, REALITIES, SIGRID OLSEN, SOUL, SPARK, STAMP 10, TAPEMEASURE, TINT, TRIFARI, VILLAGER, and YZZA. In addition, Liz Claiborne, Inc. holds the exclusive, long-term license to produce and sell men's and women's collections of DKNY® JEANS and DKNY® ACTIVE in the Western Hemisphere. The Company also has the exclusive license to produce jewelry under the KENNETH COLE NEW YORK and REACTION KENNETH COLE brand names. 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.

Over the past five years, our sales have grown from $3.448 billion in 2001 to $4.994 billion in 2006. This growth has been largely a result of our acquisitions and organic growth. 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

categories. The following table sets forth select information with respect to our recent acquisitions:

Business:	Year Acquired:
MEXX (Europe)	2001
MEXX (Canada)	2002
ELLEN TRACY	2002
JUICY COUTURE	2003
ENYCE	2003
C & C CALIFORNIA	2005
prAna	2005
MAC & JAC	2006
KATE SPADE	2006

On December 13, 2006, we acquired Kate Spade LLC, a privately-held company that offers fashion accessories for women and men under the Kate Spade and Jack Spade trademarks.

On January 26, 2006, we acquired Westcoast Contempo Fashions Limited and Mac & Jac Holdings Limited, two privately-held companies that collectively offer men's and women's apparel and accessories under the MAC & JAC, KENSIE and KENSIEGIRL trademarks. We expect to continue to pursue our acquisition strategy, seeking out opportunities that are financially attractive and involve manageable execution risks. For a discussion of our recent acquisitions, see Note 2 of Notes to Consolidated Financial Statements.

International sales have come to represent an increasingly larger part of our total sales. Over the past five years, international sales as a percentage of our total sales have grown from 12.1% in 2001 to 27.9% in 2006. The growth in our international business has been the result of our acquisitions of MEXX Europe and MEXX Canada and the subsequent growth of these

acquired businesses and the impact of currency fluctuation, as well as the introduction of certain of our United States based brands into Europe and Canada.

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 extend our brands into other product categories within our core capabilities, our ability to grow our existing businesses including the creation of internally developed brands, as well as the continued expansion of our retail businesses, to our product designs and leveraging our competencies in technology and supply chain management for the benefit of existing and new (both acquired and internally developed) businesses. 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. We expect to continue these streamlining efforts in 2007. For a discussion of these changes, see "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview; Competitive Profile," below.

Our success in the future will depend on our ability to continue to design and execute 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. For a discussion of certain risks relating to our business, see "Item 1A – Risk Factors" below. For a discussion of certain risks that may arise in connection with the elimination of quota, see "Imports and Import Restrictions" below.

Our principal executive offices are located in New York City, although we maintain sales operations on a global basis, in Los Angeles, The Netherlands and Canada.

As used herein, the terms "Company", "we", "us" and "our" refer to Liz Claiborne, Inc., a Delaware corporation, together with its consolidated subsidiaries.

Business Segments

We operate the following business segments: Wholesale Apparel, Wholesale Non-Apparel and Retail. We also license to third parties the right to produce and market products bearing certain Company-owned trademarks. See Note 20 of Notes to Consolidated Financial Statements and "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations."

We present our results based on our business segments indicated above, as well as on the following geographic basis based on selling location:

- Domestic: wholesale customers, our specialty retail and outlet stores located in the United States and our e-commerce sites, as well as licensing revenue; and
- International: wholesale customers and our specialty retail and outlet stores and concession stores located outside of the United States, primarily in our MEXX Europe and MEXX Canada operations, as well as licensing revenue.

Wholesale Apparel. This segment consists of women's, men's and children's apparel designed, marketed, produced and sold worldwide under various trademarks that we own or license from third-party owners. Substantially all products in each sportswear collection are sold at retail as separate items. Products in the Wholesale Apparel segment are offered in a wide range of apparel markets, including the "active", "better" priced, "bridge" (which includes the market between "better" priced and "designer" priced), "contemporary", "denim/streetwear", and the moderate department store and mid-tier markets. In addition to wholesale distribution, certain of the brands in this segment are sold direct to consumer, including through Company-operated retail stores. See Retail , below. This segment includes the following businesses, each of which presented between two and six seasonal collections during 2006.

Active:

Our DKNY® ACTIVE business offers junior's, men's and women's activewear under the DKNY® ACTIVE trademark and logo for sale at department and specialty stores in the Western Hemisphere, pursuant to the exclusive license we hold to design, produce, market and sell these products. See Note 3 of Notes to Consolidated Financial Statements.

Our prAna business, acquired in November 2005, offers men's and women's sportswear, performance tops and bottoms, and accessories, primarily sold in outdoor and specialty retailers throughout the United States and in Canada, Europe and Japan. For a discussion of our acquisition of prAna, see Note 2 of Notes to Consolidated Financial Statements.

Better:

Our LIZ CLAIBORNE business offers women's career and casual sportswear, in misses and petite sizes, including knitwear, twill and denim products, for sale at department and specialty stores. This business also offers a line of women's performance wear under the LIZ GOLF trademark.

Our LIZ CLAIBORNE WOMAN business offers classic careerwear, weekend casual and wardrobe basics in large sizes (including petite proportions), for sale at department and specialty stores.

Our CLAIBORNE business offers men's business-casual and sportswear, for sale at department stores, our own outlet stores and online. See Retail below.

Our INTUITIONS business offers vintage-inspired women's sportswear for sale exclusively at Dillard's department stores.

Our MEXX business, which is headquartered in The Netherlands, offers a wide range of men's, women's and children's fashion apparel under several trademarks including MEXX (men's and women's fashion sportswear), MEXX SPORT (performance sportswear), and XX BY MEXX (coordinated contemporary separates), for sale outside of the United States, principally in Europe and Canada.

Our MAC & JAC business, acquired in January 2006, offers modern, fashionable, high-quality apparel for women and men under the MAC & JAC trademarks, primarily through select specialty and department stores in the United States and Canada. For a discussion of our acquisition of MAC & JAC, see Note 2 of Notes to Consolidated Financial Statements.

Our SIGRID OLSEN business, which we own by virtue of our ownership of 99.2% of Segrets, Inc ("Segrets"), offers a range of women's sportswear in misses, large and petite sizes. Commencing with the Spring 2006 season, products previously offered under our SIGRID OLSEN COLLECTION, SIGRID OLSEN SPORT and SO BLUE BY SIGRID OLSEN trademarks are offered under our SIGRID OLSEN trademark. SIGRID OLSEN products are primarily sold through upscale department stores and specialty stores.

During 2006, we also offered a line of women's modern career and casual sportswear under our CITY UNLTD. trademark for sale through department and specialty stores.

Bridge:

Our DANA BUCHMAN business offers elegant and sophisticated women's sportswear, in misses, large and petite sizes, for sale at upscale department stores and specialty stores.

Our ELLEN TRACY business offers elegant and sophisticated women's sportswear under several of our trademarks, including ELLEN TRACY, LINDA ALLARD ELLEN TRACY and COMPANY ELLEN TRACY, for sale at upscale department stores and specialty stores.

Contemporary:

Our C & C CALIFORNIA business offers women's, men's and children's casual apparel, predominately women's fashion t-shirts, for sale primarily through select upscale specialty stores and department stores throughout the United States and through distributors in Asia, Canada and Europe. For a discussion of our acquisition of C & C CALIFORNIA, see Note 2 of Notes to Consolidated Financial Statements.

Our JUICY COUTURE business offers upscale women’s, men’s and children’s contemporary apparel under various JUICY COUTURE trademarks. JUICY COUTURE products are sold predominately through select upscale specialty stores and department stores throughout the United States and through distributors in Asia, Canada and Europe. For a discussion of our acquisition of JUICY COUTURE, see Note 2 of Notes to Consolidated Financial Statements.

Our LAUNDRY business offers women’s sportswear and dresses under the LAUNDRY BY SHELLI SEGAL trademark, for sale at department and specialty stores.

Our KENSIE and KENSIEGIRL businesses, acquired in connection with our acquisition of MAC & JAC in January 2006, offer modern, fashionable, high-quality contemporary apparel for women under the KENSIE trademark and for juniors under the KENSIEGIRL trademark, primarily through select specialty and department stores in the United States and Canada. For a discussion of our acquisition of MAC & JAC, see Note 2 of Notes to Consolidated Financial Statements.

Denim/Streetwear:

Our DKNY® JEANS business offers junior’s, men’s and women’s sportswear, jeanswear and activewear under the DKNY® JEANS trademark and logo for sale at department and specialty stores in the Western Hemisphere, pursuant to the exclusive license we hold to design, produce, market and sell these products. See Note 3 of Notes to Consolidated Financial Statements.

Our ENYCE business offers men’s and women’s fashion forward streetwear under the ENYCE trademark. ENYCE products are sold predominately through specialty store chains, better specialty stores and select department stores throughout the United States and through distributors in Canada, Germany and Japan.

Our LUCKY BRAND business offers women’s and men’s denim-based casual sportswear under various LUCKY BRAND trademarks, for sale at select department and better specialty stores. For a discussion of our acquisition of Lucky Brand Dungarees, Inc., see Note 2 of Notes to Consolidated Financial Statements.

Mid-tier:

Our Mid-tier business offers products for sale at J.C. Penney’s, Kohl’s and Sears’ stores, including under our AXC ESS (fashion-forward men’s and women’s apparel, sold principally in Kohl’s department stores); CONCEPTS BY CLAIBORNE (men’s casual separates, previously offered under our CRAZY HORSE trademark and sold principally in J.C. Penney stores); FIRST ISSUE (casual career and everyday wear, sold principally in Sears department stores); LIZ & CO (women’s casual separates, previously offered under our CRAZY HORSE trademark and sold principally in J.C. Penney stores); STAMP 10 (men’s and women’s contemporary, denim-inspired apparel sold principally in Kohl’s department stores); TINT (women’s denim/streetwear sold principally in J.C. Penney stores); and VILLAGER (relaxed separates for soft career and weekend dressing, sold principally in Kohl’s department stores) trademarks.

Moderate:

Our Moderate business offers women’s apparel under our EMMA JAMES (casual workplace apparel, sold principally in department stores), J.H. COLLECTIBLES (relaxed feminine apparel, sold principally in department stores) and TAPEMEASURE (women’s modern apparel, sold principally in department stores) trademarks.

Wholesale Non-Apparel. This segment consists of accessories, jewelry and cosmetics designed, marketed, produced and sold worldwide under various trademarks we own or license from third-party owners. The offerings of our Accessories and Jewelry businesses mirror major fashion trends and are intended to complement many of our apparel lines.

Accessories:

Our Accessories business offers an array of accessories for sale in various market channels, including: handbags, small leather goods and fashion accessories in the “better” market under our LIZ CLAIBORNE and SIGRID OLSEN trademarks, in the Bridge market under our ELLEN TRACY trademark and in the Contemporary market under our JUICY COUTURE, LAUNDRY and LUCKY BRAND trademarks; handbags and fashion accessories in the Mid-tier market under our AXC ESS,

LIZ & CO (previously offered under our CRAZY HORSE trademark) and VILLAGER trademarks; and small leather goods in the Mid-tier market under our VILLAGER, LIZ & CO (previously offered under our CRAZY HORSE trademark) and FIRST ISSUE trademarks.

Our KATE SPADE business, acquired in December 2006, offers fashion accessories for women and men under the KATE SPADE and JACK SPADE trademarks, primarily through select specialty retail, outlet and upscale department stores throughout the United States and through distributors in Asia. KATE SPADE's product line includes handbags, small leather goods, fashion accessories, luggage and baby products. In addition, KATE SPADE has existing licensing agreements for shoes, eyewear, tabletop and paper products. For a discussion of our acquisition of KATE SPADE, see Note 2 of Notes to Consolidated Financial Statements.

Jewelry:

Our Jewelry business offers selections of jewelry for sale in various market channels, including: the "better" market under our LIZ CLAIBORNE, MONET and SIGRID OLSEN trademarks; the Bridge market under our ELLEN TRACY trademark; the Contemporary market under our JUICY COUTURE, LAUNDRY and LUCKY BRAND trademarks; and the Mid-tier market under our AX<u>C</u> ESS, LIZ & CO (previously offered under our CRAZY HORSE trademark), FIRST ISSUE, MONET2, TRIFARI, TINT and VILLAGER trademarks and at Target stores under our MARVELLA trademark. Our jewelry business also offers a line of jewelry for sale in the Contemporary market under the KENNETH COLE and REACTION KENNETH COLE trademarks, pursuant to the license we hold to manufacture, design, market and distribute women's jewelry under these trademarks. 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. See Note 3 of Notes to Consolidated Financial Statements.

Cosmetics:

Our Cosmetics business offers fragrance and bath and body-care products under the following Company-owned trademarks: for women under LIZ CLAIBORNE and LIZSPORT; for men under CLAIBORNE SPORT; and for men and women under BORA BORA, CURVE, JUICY COUTURE, LUCKY YOU LUCKY BRAND, LUCKY NUMBER 6, MAMBO, REALITIES, SOUL BY CURVE, SPARK and SPARK SEDUCTION. During 2005, we also offered fragrances, cosmetics and beauty products (for men and women) under the CANDIE'S trademark, pursuant to a licensing arrangement, which by its terms expired in January 2006. See Note 3 of Notes to Consolidated Financial Statements.

<u>Retail</u>. This segment consists of our worldwide retail operations from which we sell our apparel and non-apparel products directly to the public through our specialty retail stores, outlet stores and international concession stores (where the retail selling space is either owned and operated by the department store or leased and operated by a third party, while, in each case, we own the inventory). We anticipate adding locations to each of these formats in 2007. In addition, this segment includes certain branded e-commerce sites, which sell certain of our products direct to consumers.

Specialty Retail Stores. As of December 30, 2006, we operated a total of 399 specialty retail stores under various Company trademarks, comprised of 258 retail stores within the United States and 141 retail stores outside of the United States (primarily in Western Europe and Canada).

The following table sets forth select information, as of December 30, 2006, with respect to our specialty retail stores:

U.S. Retail Specialty Stores

Specialty Store Format	Number of Stores	Approximate Average Store Size (Square Feet)
LUCKY BRAND DUNGAREES	131	2,300
SIGRID OLSEN	55	2,300
ELISABETH	23	2,500
KATE SPADE	19	2,300
JUICY COUTURE	18	3,000
DANA BUCHMAN	4	3,400
MEXX	4	8,300
LAUNDRY BY SHELLI SEGAL	2	1,600
KENSIE/ MAC & JAC	1	3,200
JACK SPADE	1	800

Foreign Retail Specialty Stores

Specialty Store Format	Number of Stores	Approximate Average Store Size (Square Feet)
MEXX	96	4,500
MEXX Canada	32	5,200
MONET Europe	5	700
SIGRID Canada	4	2,000
LUCKY BRAND Europe	2	1,600
LUCKY BRAND Canada	2	2,100

Outlet Stores. As of December 30, 2006, we operated a total of 336 outlet stores under various Company-owned and licensed trademarks, comprised of 206 outlet stores within the United States and 130 outlet stores outside of the United States (primarily in Western Europe and Canada).

The following table sets forth select information, as of December 30, 2006, with respect to our outlet stores:

U.S. Outlet Stores

Outlet Store Format	Number of Stores	Approximate Average Store Size by Square Footage
LIZ CLAIBORNE *	134	10,500
ELLEN TRACY	18	3,400
DKNY “ JEANS	14	2,800
LIZ CLAIBORNE WOMAN **	11	3,400
JUICY COUTURE	9	2,300
LUCKY BRAND DUNGAREES	7	2,400
DANA BUCHMAN	6	2,400
KATE SPADE	4	1,800
CLAIBORNE	3	2,600

Foreign Outlet Stores

Outlet Store Format	Number of Stores	Approximate Average Store Size by Square Footage
MEXX	42	3,200
MEXX Canada	39	5,500
LIZ CLAIBORNE Canada	29	4,300
LIZ CLAIBORNE Europe	13	700
YZZA	7	4,100

* Includes four stores operated under the Liz Claiborne Company Store tradename.

** Includes stores formerly operated under the ELISABETH tradename.

Concession Stores. Outside of North America, we operate concession stores in select retail stores, which are either owned or leased by a third-party department store or specialty store retailer. As of December 30, 2006, the Company operated a total of 625 concession stores in Europe.

The following table sets forth information, as of December 30, 2006, with respect to our concession stores:

Foreign Concessions

Concession Store Format	Number of Stores
	76
	290
	249
	8
	2

E-Commerce. Our products are sold on a number of branded websites. In addition, we operate several websites which only provide information about our merchandise but do not sell directly to customers. The following table sets forth select information concerning our branded websites:

Website	Information Only	Information and Direct to Consumer Sales
www.candccalifornia.com		÷
www.claiborne.com		÷
www.curvefragrances.com		÷
www.danabuchman.com	÷	
www.dknyjeans.com	÷	
www.elisabeth.com (1)		÷
www.ellentracy.com	÷	
www.enyce.com	÷	
www.jackspade.com		÷
www.juicycouture.com		÷
www.katespade.com		÷
www.kenzieclothing.com	÷	
www.kenziegirl.com	÷	
www.laundrybyshellisegal.com	÷	
www.lizclaiborne.com (2)		÷
www.lizclaiborneinc.com (3)	÷	
www.luckybrandjeans.com		÷
www.macandjac.com	÷	
www.mexx.com (4)		÷
www.prana.com		÷
www.realities.com		÷
www.sigridolsen.com	÷	
www.soulbycurve.com		÷

(1) This website offers consumers plus-size apparel under our ELISABETH, ELLEN TRACY, EMMA JAMES, LIZ CLAIBORNE WOMAN and SIGRID OLSEN labels.

(2) This website offers LIZ CLAIBORNE branded apparel, accessories and merchandise for the home.

(3) This website offers investors information concerning the Company.

(4) This website offers Mexx branded apparel and accessories for sale in Germany, France and The Netherlands.

Licensing. We license many of our brands to third parties with expertise in certain specialized products and/or market segments, thereby extending each licensed brand’s market presence. We currently have 107 license arrangements pursuant to which third-party licensees produce merchandise under Company trademarks in accordance with designs furnished or approved by us, the present terms of which (not including renewal terms) expire at various dates through 2025. Each of the licenses provides for the payment to the Company of a percentage of the licensee’s sales of the licensed products against a guaranteed minimum royalty which generally increases over the term of the agreement. Royalty income from our licensing operations is included in “Sales from external customers” under “Corporate/Eliminations.” See Note 20 of Notes to Consolidated Financial Statements.

The following table sets forth select information with respect to select aspects of our licensing business:

Products	Brands
Baby Buggies	KATE SPADE
Bed & Bath	LIZ CLAIBORNE, MEXX, SIGRID OLSEN, VILLAGER
Belts	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE , ELLEN TRACY, ENYCE, KENSIE, RATIO
Blankets/Throws	LIZ CLAIBORNE
Cosmetics & Fragrances	MEXX
Decorative Fabrics	LIZ CLAIBORNE
Dresses/Suits	EMMA JAMES, J.H. COLLECTIBLES, LIZ CLAIBORNE, LIZ CLAIBORNE WOMAN
Dress Shirts	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE
Flooring	LIZ CLAIBORNE
Footwear	AXCESS, CLAIBORNE, ELLEN TRACY, EMMA JAMES, ENYCE, JUICY COUTURE, KATE SPADE, KENSIE, LAUNDRY BY SHELLI SEGAL, LIZ CLAIBORNE, MEXX, VILLAGER
Formalwear	CLAIBORNE
Furniture	LIZ CLAIBORNE
Handbags	ENYCE, KENSIE
Hard Tabletop	KATE SPADE
Home Fragrance	LIZ CLAIBORNE, VILLAGER
Intimate Apparel/Underwear	AXCESS, LIZ CLAIBORNE, KENSIE, MEXX
Jewelry and Hair Accessories	ENYCE, KENSIE, MEXX
Kids/Baby	CLAIBORNE, ENYCE, JUICY COUTURE, KENSIE, METROCONCEPTS
Legwear/Socks	AXCESS, ELLEN TRACY, ENYCE, KENSIE, LIZ CLAIBORNE, MEXX
Luggage	CLAIBORNE, CONCEPTS BY CLAIBORNE, LIZ CLAIBORNE, LIZ & CO
Men’s Accessories	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE, ENYCE, LUCKY, MEXX
Neckwear/Scarves	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE, ENYCE, KENSIE, LUCKY
Optics	CLAIBORNE, CONCEPTS BY CLAIBORNE , DANA BUCHMAN, ELLEN TRACY, FIRST ISSUE, JUICY COUTURE, KATE SPADE, LIZ CLAIBORNE, LIZ & CO, MEXX, SIGRID OLSEN
Outerwear	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE , DANA BUCHMAN, ELLEN TRACY, LAUNDRY BY SHELLI SEGAL, LIZ CLAIBORNE, LIZ CLAIBORNE WOMAN
Pants	CLAIBORNE, CONCEPTS BY CLAIBORNE
School Uniforms	CLAIBORNE, LIZ CLAIBORNE
Sleepwear/Loungewear	AXCESS, CLAIBORNE, KENSIE, LIZ CLAIBORNE, MEXX, VILLAGER
Slippers	CLAIBORNE, ENYCE, LIZ CLAIBORNE
Stationery/Paper Goods	KATE SPADE, MEXX
Sunglasses	AXCESS, CLAIBORNE, DANA BUCHMAN, ELLEN TRACY, JUICY COUTURE, KATE SPADE, KENSIE, LIZ CLAIBORNE, MAC & JAC, MEXX, SIGRID OLSEN, VILLAGER
Swimwear	JUICY COUTURE, LIZ CLAIBORNE, LIZ CLAIBORNE WOMAN, LUCKY, MEXX
Table Linens	LIZ CLAIBORNE, SIGRID OLSEN
Tailored Clothing	AXCESS, CLAIBORNE, CONCEPTS BY CLAIBORNE
Watches	JUICY COUTURE, KENSIE, MEXX
Window Treatments	LIZ CLAIBORNE

SALES AND MARKETING

Domestic sales accounted for approximately 72.1% of our 2006 and 74.0% of our 2005 net sales. Our domestic wholesale sales are made primarily to department store chains and specialty store customers. Retail sales are made through our own retail and outlet stores. Wholesale sales are also made to international customers, military exchanges and to other channels of distribution.

International sales accounted for approximately 27.9% of our 2006 net sales, as compared to 26.0% in 2005. In Europe, wholesale sales are made primarily to department store and specialty store customers, while retail sales are made through concession stores within department store locations, as well as our own retail and outlet stores. In Canada, wholesale sales are made primarily to department store chains and specialty stores, and retail sales are made through our own retail and outlet stores. In other international markets, including Asia and Central and South America, we operate principally through third party licensees, virtually all of which purchase products from us for re-sale at free-standing retail stores and dedicated department store shops they operate. We also sell to distributors who resell our products in these territories.

Wholesale sales (before allowances) of apparel and non-apparel products to our 100 largest customers accounted for approximately 80% of 2006 wholesale sales (or 60% of total sales), as compared to approximately 82% of 2005 wholesale sales (or 63% of total sales). No single customer accounted for more than 6% of 2006 wholesale sales or 6% of 2005 wholesale sales (or 5% of 2006 and 4% of 2005 total sales), except for Federated Department Stores, Inc., which accounted for approximately 22% of 2006 wholesale sales (including sales to customers previously owned by the May Department Stores Company, which was acquired by Federated Department Stores, Inc. in August 2005) and 24% of 2005 wholesale sales (including sales to customers previously owned by May Department Stores Company, which was acquired by Federated Department Stores, Inc. in August 2005) or 16% of 2006 and 18% of 2005 total sales. See Note 10 of Notes to Consolidated Financial Statements. Many major department store groups make centralized buying decisions; accordingly, any material change in our relationship with any such group could have a material adverse effect on our operations. We expect that our largest customers will continue to account for a significant percentage of our sales. Sales to the Company's domestic department and specialty store customers are made primarily through our New York City showrooms. Internationally, sales to our department and specialty store customers are made through several of our showrooms, including in The Netherlands and Germany.

For further information concerning our domestic and international sales, see Note 20 of Notes to Consolidated Financial Statements and "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview; Competitive Profile," below.

Orders from our customers generally precede the related shipping periods by several months. Our largest customers discuss with us retail trends and their plans regarding their anticipated levels of total purchases of our products for future seasons. These discussions are intended to assist us in planning the production and timely delivery of our products. We continually monitor retail sales in order to directly assess consumer response to our products.

We have implemented in-stock reorder programs in several divisions to enable customers to reorder certain items through electronic means for quick delivery. See "Manufacturing" below. Many of our retail customers participate in our in-stock reorder programs through their own internal replenishment systems.

During 2006, we continued our domestic in-store sales, marketing and merchandising programs designed to encourage multiple item regular price sales, build one-on-one relationships with consumers and maintain our merchandise presentation standards. These programs train sales associates on suggested selling techniques, product, merchandise presentation and client development strategies and are offered for many of our businesses, including our Accessories and Jewelry, Cosmetics, DANA BUCHMAN, ELLEN TRACY, LAUNDRY BY SHELLI SEGAL, LIZ CLAIBORNE, LUCKY BRAND JEANS, Men's and SIGRID OLSEN businesses and our licensed DKNY® JEANS business.

In 2006, we continued the expansion of our domestic in-store shop and fixture programs, which is designed to enhance the presentation of our products on department store selling floors generally through the use of proprietary fixturing, merchandise presentations and in-store graphics. Currently, in-store shops operate under the following brand names: CLAIBORNE, CONCEPTS BY CLAIBORNE, DANA BUCHMAN, DKNY® JEANS, ELLEN TRACY, EMMA JAMES, TAPEMEASURE, FIRST ISSUE, J.H. COLLECTIBLES, JUICY COUTURE, LAUNDRY BY SHELLI SEGAL, LIZ CLAIBORNE, LIZ & CO, LUCKY BRAND, MEXX, ENYCE, KENSIE, KENSIEGIRL, SIGRID OLSEN, AX_C ESS, STAMP 10 and VILLAGER. Our Accessories business also offers an in-store shop and fixture program. In 2006, we installed, in the aggregate, approximately 1,000 in-store shops and, in 2007, we plan to install, in the aggregate, approximately 1,000 additional in-store shops. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of

Operations — Financial Position, Capital Resources and Liquidity.”

We spent approximately $191 million on advertising, marketing and promotion for all of our brands in 2006, including approximately $51 million on national advertising, compared to aggregate advertising, marketing and promotion expenditures in 2005 of approximately $181 million, including approximately $45 million on national advertising.

MANUFACTURING

We do not own any product manufacturing facilities; all of our products are manufactured in accordance with our specifications through arrangements with independent suppliers.

Products produced in Asia represent a substantial majority of the Company’s sales. We also source product in the United States and other regions. During 2006, several hundred suppliers, located in approximately 52 countries, manufactured our products, with the largest finished goods supplier accounting for approximately 4% of the total of finished goods we purchased. We continually seek additional qualified suppliers throughout the world for our sourcing needs and seek to allocate our production requirements to suppliers appearing to have superior capacity, quality (of product, operation and human rights compliance) and financial resources. Our purchases from our suppliers are processed utilizing individual purchase orders specifying the price and quantity of the items to be produced. We do not have any long-term, formal arrangements with any of the suppliers that manufacture our products. We believe that we are the largest customer of many of our manufacturing suppliers and consider our relations with such suppliers to be satisfactory.

Most of our products are purchased as completed product “packages” from our manufacturing contractors, where the contractor purchases all necessary raw materials and other product components, according to our specifications. When we do not purchase “packages”, we obtain fabrics, trimmings and other raw materials in bulk from various foreign and domestic suppliers, which items are then delivered to our manufacturing contractors for use in our products. We do not have any long-term, formal arrangements with any supplier of raw materials. To date, we have experienced little difficulty in satisfying our raw material requirements and consider our sources of supply adequate.

We operate under substantial time constraints in producing each of our collections. See “Sales and Marketing” above. In order to deliver, in a timely manner, merchandise which reflects current tastes, we attempt to schedule a substantial portion of our materials and manufacturing commitments relatively late in the production cycle, thereby favoring suppliers able to make quick adjustments in response to changing production needs. However, in order to secure necessary materials and manufacturing facilities, we must make substantial advance commitments, often as much as five months prior to the receipt of firm orders from customers for the items to be produced. We continue to seek to reduce the time required to move products from design to the customer.

If we should misjudge our ability to sell our products, we could be faced with substantial outstanding fabric and/or manufacturing commitments, resulting in excess inventories. See “Item 1A — Risk Factors” below.

Our arrangements with foreign suppliers are subject to the risks of doing business abroad, including currency fluctuations and revaluations, restrictions on the transfer of funds, terrorist activities, pandemic disease and, in certain parts of the world, political, economic and currency instability. Our operations have not been materially affected by any such factors to date. However, due to the very substantial portion of our products that are produced abroad, any substantial disruption of our relationships with our foreign suppliers could adversely affect our operations.

We expect all of our suppliers to adhere to the Liz Claiborne Standards of Engagement, which include standards relating to child labor, working hours, wage payments and working conditions generally. We have an ongoing program in place to monitor our suppliers’ compliance with our Standards. In this regard, each year, our internal or external monitors inspect a substantial portion of our suppliers’ factories. Should we learn of a supplier’s failure to comply with our Standards, we urge supplier to act quickly in order to comply. If a supplier fails to correct a compliance deficiency, or if we determine that the supplier will be unable to correct a deficiency, we may terminate our business relationship with the supplier. In addition, we are a participating company in the Fair Labor Association’s program. The Fair Labor Association is a non-profit organization dedicated to improving working conditions worldwide. Our human rights compliance program was accredited by the Fair Labor Association in May 2005. This accreditation must be renewed every three years.

Additionally, we are a certified and validated member of the United States Customs and Border Protection’s Customs-Trade Partnership Against Terrorism (C-TPAT) program and expect all of our suppliers shipping to the United States to adhere to the Company’s C-TPAT requirements, including standards relating to facility security, procedural security,

personnel security, cargo security and the overall protection of the supply chain. In the event a supplier does not comply with our C-TPAT requirements or if we determine that the supplier will be unable to correct a deficiency, we may terminate our business relationship with the supplier.

IMPORTS AND IMPORT RESTRICTIONS

Virtually all of our merchandise imported into the United States, Canada and Europe is subject to duties. Until January 1, 2005, our apparel merchandise was also subject to quota. Quota represents the right, pursuant to bilateral or other international trade arrangements, to export amounts of certain categories of merchandise into a country or territory pursuant to a visa or license. Pursuant to the Agreement on Textiles and Clothing, quota on textile and apparel products was eliminated for World Trade Organization (the "WTO") member countries, including the United States, Canada and European countries, on January 1, 2005. Notwithstanding quota elimination, China's accession agreement for membership in the WTO provides that WTO member countries (including the United States, Canada and European countries) may re-impose quotas on specific categories of products in the event it is determined that imports from China have surged and are threatening to create a market disruption for such categories of products (so called "safeguard quota provisions"). During 2005, the United States and China agreed to a new quota arrangement, which will impose quotas on certain textile products through the end of 2008. In addition, the European Union also agreed with China on a new textile arrangement, which imposed quotas through the end of 2007. The United States may also unilaterally impose additional duties in response to a particular product being imported (from China or other countries) in such increased quantities as to cause (or threaten) serious damage to the relevant domestic industry (generally known as "anti-dumping" actions). In addition, China has imposed an export tax on all textile products manufactured in China; we do not believe this tax will have a material impact on our business.

In addition, each of the countries in which our products are sold has laws and regulations covering imports. Because the United States and the other countries in which our products are manufactured and sold may, from time to time, impose new duties, tariffs, surcharges or other import controls or restrictions, including the imposition of "safeguard quota", or adjust presently prevailing duty or tariff rates or levels, we maintain a program of intensive monitoring of import restrictions and opportunities. We seek continually to minimize our potential exposure to import related risks through, among other measures, adjustments in product design and fabrication, shifts of production among countries and manufacturers, as well as through geographical diversification of our sources of supply.

In light of the very substantial portion of our products that are manufactured by foreign suppliers, the enactment of new legislation or the administration of current international trade regulations, executive action affecting textile agreements, or changes in sourcing patterns resulting from the elimination of quota could adversely affect our operations. Although we generally expect that the elimination of quota will result, over the long term, in an overall reduction in the cost of apparel produced abroad, the implementation of any "safeguard quota provisions" or any "anti-dumping" actions may result, over the near term, in cost increases for certain categories of products and in disruption of the supply chain for certain products categories. See "Item 1A — Risk Factors" below.

DISTRIBUTION

We distribute a substantial portion of our products through facilities we own or lease. Our principal distribution facilities are located in California, New Jersey, Ohio, Pennsylvania, Rhode Island and The Netherlands. See "Item 2 — Properties" below.

BACKLOG

At February 16, 2007, our order book reflected unfilled customer orders for approximately $1.2 billion of merchandise, as compared to approximately $881 million at February 17, 2006. These orders represent our order backlog. The amounts indicated include both confirmed and unconfirmed orders, which we believe, based on industry practice and our past experience, will be confirmed. We expect that substantially all such orders will be filled within the 2007 fiscal year. We note that the amount of order backlog at any given date is materially affected by a number of factors, including seasonal factors, the mix of product, the timing of the receipt and processing of customer orders and scheduling of the manufacture and shipping of the product, which in some instances is dependent on the desires of the customer. Accordingly, order book data should not be taken as providing meaningful period-to-period comparisons.

TRADEMARKS

We own most of the trademarks used in connection with our businesses and products. We also act as licensee of certain trademarks owned by third parties.

The following table summarizes the principal trademarks we own and/or use in connection with our businesses and products:

AXCESS
BORA BORA
C & C CALIFORNIA
CLAIBORNE
CLAIBORNE SPORT
COMPOSITES
CONCEPTS BY CLAIBORNE
COUTURE COUTURE
CURVE
DANA BUCHMAN
ELISABETH
ELLEN TRACY
EMMA JAMES
ENYCE
FIRST ISSUE
INTUITIONS
JACK SPADE
J.H. COLLECTIBLES
JUICY
JUICY COUTURE
KATE SPADE
KENSIE
KENSIEGIRL
LAUNDRY BY SHELLI SEGAL
LINDA ALLARD ELLEN TRACY
LIZ
LIZ & CO
LIZ CLAIBORNE
LIZGOLF
LIZSPORT
LIZWEAR
LOVE IS NOT ABUSE
LUCKY BRAND
LUCKY NUMBER 6
LUCKY YOU LUCKY BRAND
MAC & JAC
MAMBO
MARVELLA
MEXX
MONET
prAna
REALITIES
RUSS
SIGRID OLSEN
SO BLUE
SOUL BY CURVE
SPARK
STAMP 10
TAPEMEASURE
TINT
TRACY ELLEN TRACY
TRIFARI
VILLAGER
XX BY MEXX
YZZA

Licensed Trademarks

DKNY“ ACTIVE
DKNY“ JEANS
KENNETH COLE NEW YORK
REACTION KENNETH COLE

In addition, we own and/or use the LC logomark, our triangular logomark, our triangle icon, LUCKY BRAND’s four-leaf clover design and fly placement, the JUICY COUTURE crest trademark and Scottie Dog logo, JM logomarks, the prAna horns logo, the C & C CALIFORNIA SUN logomark and other logos associated with the above mentioned trademarks.

We have registered or applied for registration of a multitude of trademarks, including those referenced above, for use on apparel and apparel-related products, including accessories, cosmetics and jewelry in the United States as well as in numerous foreign territories. We also have a number of design patents. We regard our trademarks and other proprietary rights as valuable assets and believe that they have significant value in the marketing of our products. We vigorously protect our trademarks and other intellectual property rights against infringement.

COMPETITION

We believe that, based on sales, we are among the largest fashion apparel and related accessories companies operating in the United States and Europe. Although we are unaware of any comprehensive trade statistics, we believe, based on our knowledge of the market and available trade information, that measured by sales, we are one of the largest suppliers of “better” women’s branded apparel in the United States. Our principal competitors in the United States within the “better” women’s sportswear market in department stores include Jones Apparel Group, Inc. and Polo Ralph Lauren Corporation, as well as department store private label brands. The principal competitors of our MEXX European business include Esprit, Benetton, Zara and

Next.

Notwithstanding our position as one of the largest fashion apparel and related accessories companies in the United States, we are subject to intense competition as the apparel and related product markets are highly competitive, both within the United States and abroad.

EMPLOYEES

At December 30, 2006, we had approximately 17,000 full-time employees worldwide, as compared to approximately 15,400 full-time employees at December 31, 2005.

In the United States and Canada, we are bound by collective bargaining agreements with UNITE HERE (which was previously known as the Union of Needletrades, Industrial and Textile Employees, prior to its merger with the Hotel Employees and Restaurant Employees International Union) and with related locals. Most of the UNITE HERE represented employees are employed in warehouse and distribution facilities we operate in California, New Jersey, Ohio, Pennsylvania and Rhode Island. The agreements with UNITE HERE expire in May 2009, other than the local agreements covering employees at our Allentown, Pennsylvania and Cincinnati, Ohio facilities, which expire in March 2008 and June 2008, respectively. Collectively, these agreements cover approximately 1,635 of our full-time employees. While relations between the Company and the union have historically been amicable, the Company cannot rule out the possibility of a labor dispute at one or more of its facilities. In addition, we are bound by an agreement with the Industrial Professional & Technical Workers International Union, covering approximately 210 of our full-time employees at our Santa Fe Springs, California facility and expiring on May 14, 2010.

We consider our relations with our employees to be satisfactory and to date we have not experienced any interruption of our operations due to labor disputes. For a discussion regarding our recent announcement concerning a reduction in our workforce, see "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview; Competitive Profile," below.

AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on our website, located at www.lizclaiborneinc.com , as soon as reasonably practicable after they are filed with or furnished to the Securities and Exchange Commission. These reports are also available on the Securities and Exchange Commission's Internet website at www.sec.gov . No information contained on any of our websites is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 10-K.

Item 1A. Risk Factors.

Risks Associated with Competition and the Marketplace

The apparel and related product markets are highly competitive, both within the United States and abroad. The Company's 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;
- The Company's ability to successfully continue to evolve its supply chain system, including its product development, sourcing, logistics and technology functions, to reduce product cycle-time and costs and meet customer demands;
- The Company's ability to effectively anticipate, gauge and respond to changing consumer demands and tastes, across multiple product lines, shopping channels and geographies;
- The Company's ability to translate market trends into appropriate, saleable product offerings relatively far in advance, while minimizing excess inventory positions, including the Company's 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, Company products (especially by the Company's largest customers) which are in turn dependent, among other things, on product design, quality, value and service;
- Risks associated with the possible failure of the Company's unaffiliated manufacturers to manufacture and deliver products in a timely manner, to meet quality standards or to comply with the Company's policies regarding labor practices or applicable laws or regulations;

- The Company's 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 barriers to entry;

- Risks associated with the Company's dependence on sales to a limited number of large United States department store customers, including risks related to the Company's 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 the Company's 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 the Company's overall business mix.

<u>Management and Employee Risks</u>

- The Company's ability to attract and retain talented, highly qualified executives and other key personnel in design, merchandising, sales, marketing, production, systems and other functions;

- The Company's ability to hire and train qualified retail management and associates;

- Risks associated with any significant disruptions in the Company's relationship with its employees, including union employees, and any work stoppages by the Company's 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.

<u>Economic, Social and Political Factors</u>

Also impacting the Company and its 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 the Company sells or sources its 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 the Company's relationships with its suppliers, manufacturers as well as work stoppages by any of the Company's 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 the Company’s 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
The Company, as part of its growth strategy, from time to time acquires 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 the Company 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 the Company's 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 the Company's 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 the Company's 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 the Company's 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 the Company to achieve significant cost efficiencies; and
- With respect to businesses where the Company acts 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 the Company's control.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.

Our distribution and administrative functions are conducted in both leased and owned facilities. We also lease space for our retail specialty, outlet and concession stores. We believe that our existing facilities are well maintained, in good operating condition and, upon occupancy of additional space, will be adequate for our present level of operations, although from time to time we use unaffiliated third parties to provide distribution services to meet our distribution requirements. See Note 10 of Notes to Consolidated Financial Statements.

Our principal executive offices and showrooms, as well as sales, merchandising and design staffs, are located at 1441 Broadway, New York, New York, where we lease approximately 305,000 square feet under a master lease which expires at the end of 2012 and contains certain renewal options and rights of first refusal for additional space. During 2006, we leased at this location additional space of approximately 55,000 square feet under a lease agreement which expired on January 31, 2007. Most of our business segments use the 1441 Broadway facility. In addition, in North Bergen, New Jersey, we own and operate an approximately 300,000 square foot office complex, which houses operational staff. Beginning in 2007, the Company will lease approximately 200,000 square feet of office space in China. The following table sets forth information with respect to our other key properties:

Key Properties:

Location (1)	Primary Use	Approximate Square Footage	Leased/Owne
Mt. Pocono, Pennsylvania (2)	Apparel Distribution Center	1,230,000	Owned
North Bergen, New Jersey	Offices/Apparel Distribution Center	620,000	Owned
Santa Fe Springs, California	Apparel Distribution Center	600,000	Leased
West Chester, Ohio	Apparel Distribution Center	600,000	Leased
Allentown, Pennsylvania	Apparel/Non-Apparel Distribution Center	483,000	Leased
Voorschoten, The Netherlands (3)	Offices/Apparel Distribution Center	295,000	Leased
Dayton, New Jersey	Non-Apparel Distribution Center	179,000	Leased
Amsterdam, The Netherlands (3)	Offices	160,000	Leased
St. Laurent, Canada	Office/ Apparel/Non-Apparel Distribution Center	160,000	Leased
Mt. Pocono, Pennsylvania	Apparel Distribution Center	150,000	Leased
Vernon, California	Offices/Apparel Distribution Center	123,000	Leased
Secaucus, NJ (4)	Non-Apparel Distribution Center	119,000	Leased
Lincoln, Rhode Island	Non-Apparel Distribution Center	115,000	Leased

(1) We also lease showroom, warehouse and office space in various other domestic and international locations.

(2) This facility is on an 80-acre site, which we own.

(3) This property is used for our European operations.

(4) This property is used by our recently acquired Kate Spade business.

In 2006, we completed the closure of our second Dayton, New Jersey facility and the closure of the distribution center in Mississauga, Canada.

Pursuant to financing obtained through an off-balance sheet arrangement commonly referred to as a synthetic lease, we have constructed the West Chester, Ohio and Lincoln, Rhode Island facilities. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Position, Capital Resources and Liquidity" and Note 10 of Notes to Consolidated Financial Statements for a discussion of this arrangement. In 2006, we completed the sale of an approximately 290,000 square foot warehouse and distribution facility in Montgomery, Alabama. We still maintain ownership of 80 acres of land in Montgomery, Alabama, which we are seeking to sell. In the first quarter of 2007, we completed the sale of our approximately 270,000 square foot facility in Augusta, Georgia (located on a 98-acre site and previously used in connection with a dyeing and finishing joint venture). However, we retain certain obligations with respect to the site. See "Item 3. Legal Proceedings" for a discussion of this matter.

Item 3. 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 we 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 we provide additional information and perform additional tests to complete the compliance status report, which was previously submitted. Additional testing has been completed and we are currently preparing our response to this request, which we intend 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 materially adverse effect on the Company's results of operations or financial position. (See Notes 10 and 24 of Notes to Consolidated Financial Statements).

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

Executive Officers of the Registrant.

Information as to the executive officers of the Company, as of February 16, 2007, is set forth below:

Name	Age	Position(s)
William L. McComb	44	Chief Executive Officer
Trudy F. Sullivan	57	President
Michael Scarpa	51	Chief Operating Officer and Chief Financial Officer
Lawrence D. McClure	58	Senior Vice President — Human Resources
John J. Sullivan	53	Senior Vice President — Systems and Service and Chief Information Officer

Executive officers serve at the discretion of the Board of Directors.

Mr. McComb joined the Company as Chief Executive Officer and a member of the Board of Directors on November 6, 2006. Prior to joining the Company, Mr. McComb was a company group chairman at Johnson & Johnson. During his 14-year tenure with Johnson & Johnson, Mr. McComb oversaw some of the company's largest consumer product businesses and brands, including Tylenol, Motrin and Clean & Clear. He also led the team that repositioned and restored growth to the Tylenol brand and oversaw the growth of J&J's McNeil Consumer business with key brand licenses such as St. Joseph aspirin, where he implemented a strategy to grow the brand beyond the over-the-counter market by adding pediatric prescription drugs. Mr. McComb currently serves on the board of INROADS of Philadelphia, a not-for-profit organization.

Ms. Sullivan joined the Company in 2001 as Group President for the Company's Casual, Collection and Elisabeth businesses, served as Executive Vice President from March 2002 to January 2006 and became President of the Company in January 2006. Prior to joining the Company, Ms. Sullivan was President of J. Crew Group, Inc., a vertical retail and catalog apparel company, from 1997 to 2001.

Mr. Scarpa joined the Company in 1983 as budget manager and served in various management positions thereafter. In 1991, Mr. Scarpa was promoted to Vice President — Divisional Controller and in 1995; he was promoted to Vice President — Financial Planning and Operations. Effective July 2000, he became Vice President — Chief Financial Officer, in July 2002 he became Senior Vice President — Chief Financial Officer, and in May 2005 he became Senior Vice President — Finance and Distribution and Chief Financial Officer. Effective January 31, 2007, Mr. Scarpa was appointed Chief Operating Officer. Mr. Scarpa will retain the position of Chief Financial Officer until a successor for that position is appointed.

Mr. McClure joined the Company in 2000 as Senior Vice President — Human Resources. Prior to joining the Company, Mr. McClure served as Vice President, Human Resources of Dexter Corporation, a specialty materials company, from 1995.

Mr. Sullivan joined the Company in 1996 as Vice President Information Systems, became Vice President Information Systems, Service and Chief Information Officer in April 2001, and was promoted to Senior Vice President in July 2002. Prior to joining the Company, Mr. Sullivan served in various executive capacities including Vice President of Information Systems of Goody's Family Clothing, Inc., a retail apparel company, from 1994 to 1995.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

MARKET INFORMATION

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.

Calendar Period	High	Low
2006:		
1st Quarter	$ 41.00	$ 33.76
2nd Quarter	40.76	36.90
3rd Quarter	39.74	34.06
4th Quarter	44.34	39.50
2005:		
1st Quarter	$ 43.71	$ 38.79
2nd Quarter	41.30	35.43
3rd Quarter	42.70	38.39
4th Quarter	39.24	34.56

RECORD HOLDERS

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.

DIVIDENDS

We have paid regular quarterly cash dividends since May 1984. Quarterly dividends for the last two fiscal years were paid as follows:

Calendar Period	Dividends Paid per Common Share
2006:	
1st Quarter	$ 0.05625
2nd Quarter	0.05625
3rd Quarter	0.05625
4th Quarter	0.05625
2005:	
1st Quarter	$ 0.05625
2nd Quarter	0.05625
3rd Quarter	0.05625
4th Quarter	0.05625

We currently plan to continue paying quarterly cash dividends on our Common Stock. The amount of any such dividend will depend on our earnings, financial position, capital requirements and other relevant factors.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table summarizes information about our purchases during the year ended December 30, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased (in thousands)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (in thousands)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (2)
January 1, 2006 - January 28, 2006	—	$ —	N/A	$ 153,308
January 29, 2006 - March 4, 2006	269.8	36.93	269.8	143,345
March 5, 2006 - April 1, 2006	1,767.6(1)	37.57	1,738.2	78,023
April 2, 2006 - April 29, 2006	—	—	N/A	78,023
April 30, 2006 - June 3, 2006	8.5	37.95	8.5	327,701(3)
June 4, 2006 - July 1, 2006	1,489.4	37.54	1,489.4	271,796
July 2, 2006 - July 29, 2006	100.0	35.59	100.0	268,236
July 30, 2006 - September 2, 2006	957.7	35.82	957.7	233,930
September 3, 2006 - September 30, 2006	124.4	37.72	124.4	229,237
October 1, 2006 - October 28, 2006	—	—	N/A	229,237
October 29, 2006 - December 2, 2006	—	—	N/A	229,237
December 3, 2006 - December 30, 2006	42.2(1)	43.46	N/A	229,237
Total year	4,759.6	$ 37.19	4,688.0	$ 229,237

(1) Includes shares withheld to cover tax-withholding requirements relating to the vesting of restricted stock issued to employees pursuant to the Company's shareholder-approved stock incentive plans.

(2) The Company initially announced the authorization of a share buyback program in December 1989. Since its inception, the Company's Board of Directors has authorized the purchase under the program of an aggregate of $2.175 billion. As of February 16, 2007, the Company had $229.2 million remaining in buyback authorization under its program.

(3) 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.

Item 6. Selected Financial Data.

The following table sets forth certain information regarding our operating results and financial position, and is qualified in its entirety by the consolidated financial statements and notes thereto which appear elsewhere herein:
(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
Weighted average common shares outstanding	101,989,470	106,353,769	108,128,172	107,451,157	105,592,062
Weighted average common shares and share equivalents outstanding	103,482,699	107,919,303	109,886,352	109,619,241	107,195,872

* 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 (AX C ESS, 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 the store openings focused on the 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 compliment 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	
Dollars in millions	December 30, 2006	December 31, 2005	$	%
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 & 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), ELLEN TRACY 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 AX C ESS 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 $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 in this segment 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

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 reflected 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	
Dollars in millions	**December 31, 2005**	**January 1, 2005**	**$**	**%**
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 & 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:

- Wholesale Apparel 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, 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 AX_C ESS business due to increased volume at existing store locations as well as 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.

- Wholesale Non-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, AX_C ESS 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:

- Wholesale Apparel 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;
- Wholesale Non-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 AX_C ESS 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 reinvest 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 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 the 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 a variable interest entity under Financial Accounting Standards 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 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. 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 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, we entered into interest rate swap agreements for the notional amount of 175 million euro in connection with our 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, 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% increase 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 also 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, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115.” SFAS 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 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 its supply chain system, including its product development, sourcing, logistics

- 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

- 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 our growth strategy, from time to time acquire new product lines and/or enter 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 that 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	—	$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	—

Item 8. Financial Statements and Supplementary Data.

See the "Index to Consolidated Financial Statements and Schedules" appearing at the end of this Annual Report on Form 10-K for information required under this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, have evaluated our disclosure controls and procedures as of December 30, 2006, and have concluded that our disclosure controls and procedures are effective in ensuring that all material information required to be filed in this annual report has been made known to them in a timely fashion. There was no change in our internal control over financial reporting during the fourth quarter of fiscal 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

See "Index to Consolidated Financial Statements and Schedules" appearing at the end of this Annual Report on Form 10-K for Management's Report on Internal Control Over Financial Reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

With respect to our Executive Officers, see "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K. Information regarding Section 16 (a) compliance, the Audit Committee (including membership and Audit Committee Financial Experts but excluding the "Audit Committee Report"), our code of ethics and background of our Directors appearing under the captions "Section 16 (a) Beneficial Ownership Reporting Compliance", "Corporate Governance", "Additional Information-Company Code of Ethics and Business Practices" and "Election of Directors" in our Proxy Statement for the 2007 Annual Meeting of Shareholders (the "2007 Proxy Statement") is hereby incorporated by reference.

Item 11. Executive Compensation.

Information called for by this Item 11 is incorporated by reference to the information set forth under the headings "Compensation Discussion and Analysis" and "Executive Compensation" (other than the Board Compensation Committee Report) in the 2007 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

EQUITY COMPENSATION

The following table summarizes information about the stockholder approved Liz Claiborne, Inc. Outside Directors' 1991 Stock Ownership Plan (the "Outside Directors' Plan"); Liz Claiborne, Inc. 1992 Stock Incentive Plan; Liz Claiborne, Inc. 2000 Stock Incentive Plan (the "2000 Plan"); Liz Claiborne, Inc. 2002 Stock Incentive Plan (the "2002 Plan"); and Liz Claiborne, Inc. 2005 Stock Incentive Plan (the "2005 Plan"), which together comprise all of our existing equity compensation plans, as of December 30, 2006. In January 2006, the Company adopted the Liz Claiborne, Inc. Outside Directors' Deferral Plan, which amended and restated the outside Directors' Plan by eliminating equity grants under the Outside Directors' Plan, including the annual grant of shares of Common Stock. The last grant under the Outside Directors' Plan was on January 10, 2006.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Stockholders	5,889,216	$32.58 (1)	8,817,836 (2)(3)(4)
Equity Compensation Plans Not Approved by Stockholders	0	N/A	0
TOTAL	5,889,216	$32.58 (1)	8,817,836 (2)(3)(4)

(1) Performance Shares and shares of Common Stock issuable under the 2000, 2002 and 2005 Plans pursuant to participants' election thereunder to defer certain director compensation were not included in calculating the Weighted Average Exercise Price.

(2) Includes 119,391 shares which were issued to Paul R. Charron on January 3, 2007 in satisfaction of performance criteria achieved as set forth in Mr. Charron's Amended and Restated Employment Agreement dated November 3, 2003 and the Performance Share Agreement dated November 3, 2003. Not included are 409,280 shares, which are the maximum number of shares issuable to Paul R. Charron upon satisfaction of performance criteria as set forth in Mr. Charron's Amended and Restated Employment Agreement dated November 3, 2003 and the Performance Share Agreement dated March 4, 2004.

(3) In addition to options, warrants and rights, the 2000 Plan, the 2002 Plan and the 2005 Plan authorize the issuance of restricted stock, unrestricted stock and performance stock. Each of the 2000 and the 2002 Plans contains a sub-limit on the aggregate number of shares of restricted Common Stock, which may be issued; the sub-limit under the 2000 Plan is set at 1,000,000 shares and the sub-limit under the 2002 Plan is set at 1,800,000 shares. The 2005 Plan contains an aggregate 2,000,000 shares sub-limit on the number of shares of restricted stock, restricted stock units, unrestricted stock and performance shares that may be awarded under the 2005 Plan.

(4) Includes 73,092 shares of Common Stock issuable under the 2000, 2002 and 2005 Plans pursuant to participants' elections thereunder to defer certain director compensation.

Security ownership information of certain beneficial owners and management as called for by this Item 12 is incorporated by reference to the information set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" in the 2007 Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

Information called for by this Item 13 is incorporated by reference to the information set forth under the headings "Certain Relationships and Related Transactions" in the 2007 Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Information called for by this Item 14 is incorporated by reference to the information set forth under the heading "Ratification of the Appointment of the Independent Registered Public Accounting Firm" in the 2007 Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements.	*PAGE REFERENCE 2006 FORM 10-K*
MANAGEMENT'S REPORTS AND REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-2 to F-5
FINANCIAL STATEMENTS	
Consolidated Balance Sheets as of December 30, 2006 and December 31, 2005	F-6
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Consolidated Statements of Retained Earnings, Comprehensive Income and Changes in Capital Accounts for the Three Fiscal Years Ended December 30, 2006	F-8 to F-9
Consolidated Statements of Cash Flows for the Three Fiscal Years Ended December 30, 2006	F-10
Notes to Consolidated Financial Statements	F-11 to F-45
2. Schedules.	
SCHEDULE II — Valuation and Qualifying Accounts	F-46

NOTE: Schedules other than those referred to above and parent company condensed financial statements have been omitted as inapplicable or not required under the instructions contained in Regulation S-X or the information is included elsewhere in the financial statements or the notes thereto.

3. Exhibits.

Exhibit No.		Description
2(a)	-	Share Purchase Agreement, dated as of May 15, 2001, among Liz Claiborne, Inc., Liz Claiborne 2 B.V., LCI Acquisition U.S., and the other parties signatory thereto (incorporated herein by reference from Exhibit 2.1 to Registrant's Form 8-K dated May 23, 2001 and amended on July 20, 2001).
3(a)	-	Restated Certificate of Incorporation of Registrant (incorporated herein by reference from Exhibit 3(a) to Registrant's Quarterly Report on Form 10-Q for the period ended June 26, 1993).
3(b)	-	By-laws of Registrant, as amended (incorporated herein by reference from Exhibit 3(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 26, 1992 [the "1992 Annual Report"]).
4(a)	-	Specimen certificate for Registrant's Common Stock, par value $1.00 per share (incorporated herein by reference from Exhibit 4(a) to the 1992 Annual Report).
4(b)	-	Rights Agreement, dated as of December 4, 1998, between Registrant and First Chicago Trust Company of New York (incorporated herein by reference from Exhibit 1 to Registrant's Form 8-A dated as of December 4, 1998).
4(b)(i)	-	Amendment to the Rights Agreement, dated November 11, 2001, between Registrant and The Bank of New York, appointing The Bank of New York as Rights Agent (incorporated herein by reference from Exhibit 1 to Registrant's Form 8-A12B/A dated as of January 30, 2002).
10(a)	-	Reference is made to Exhibit 4(b) filed hereunder, which is incorporated herein by this reference.
10(b)	-	Lease, dated as of January 1, 1990 (the "1441 Lease"), for premises located at 1441 Broadway, New York, New York between Registrant and Lechar Realty Corp. (incorporated herein by reference from Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 29, 1990).
10(b)(i)	-	First Amendment: Lease Extension and Modification Agreement, dated as of January 1, 1998, to the 1441 Lease (incorporated herein by reference from Exhibit 10(k) (i) to the 1999 Annual Report).
10(b)(ii)	-	Second Amendment to Lease, dated as of September 19, 1998, to the 1441 Lease (incorporated herein by reference from Exhibit 10(k) (ii) to the 1999 Annual Report).
10(b)(iii)	-	Third Amendment to Lease, dated as of September 24, 1999, to the 1441 Lease (incorporated herein by reference from Exhibit 10(k) (iii) to the 1999 Annual Report).
10(b)(iv)	-	Fourth Amendment to Lease, effective as of July 1, 2000, to the 1441 Lease (incorporated herein by reference from Exhibit 10(j)(iv) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002 [the "2002 Annual Report"]).
10(b)(v)	-	Fifth Amendment to Lease (incorporated herein by reference from Schedule 10(b)(v) to Registrant's Annual Report on Form 10-K for the fiscal year ended January 3, 2004 [the "2003 Annual Report"]).
10(c)+*	-	National Collective Bargaining Agreement, made and entered into as of June 1, 2006, by and between Liz Claiborne, Inc. and UNITE HERE for the period June 1, 2006 through May 31, 2009.

+ Compensation plan or arrangement required to be noted as provided in Item 14(a)(3).

* Filed herewith.

Exhibit No.		Description
10(d)+*	-	Description of Liz Claiborne, Inc. 2006 Salaried Employee Incentive Bonus Plan.
10(e)+	-	The Liz Claiborne 401(k) Savings and Profit Sharing Plan, as amended and restated (incorporated herein by reference from Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 2002).
10(e)(i)+	-	First Amendment to the Liz Claiborne 401(k) Savings and Profit Sharing Plan (incorporated herein by reference from Exhibit 10(e)(i) to the 2003 Annual Report).
10(e)(ii)+	-	Second Amendment to the Liz Claiborne 401(k) Savings and Profit Sharing Plan (incorporated herein by reference from Exhibit 10(e)(ii) to the 2003 Annual Report).
10(e)(iii)+	-	Third Amendment to the Liz Claiborne 401(k) Savings and Profit Sharing Plan (incorporated herein by reference from Exhibit 10(e)(iii) to the 2003 Annual Report).
10(e)(iv)+	-	Trust Agreement (the "401(k) Trust Agreement") dated as of October 1, 2003 between Liz Claiborne, Inc. and Fidelity Management Trust Company (incorporated herein by reference from Exhibit 10(e)(iv) to the 2003 Annual Report).
10(e)(v)+	-	First Amendment to the 401(k) Trust Agreement (incorporated herein by reference from Exhibit 10(e)(v) to Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 2005 (the "2004 Annual Report").
10(e)(vi)+	-	Second Amendment to the 401(k) Trust Agreement (incorporated herein by reference from Exhibit 10(e)(vi) to the 2004 Annual Report).
10(f)+	-	Liz Claiborne, Inc. Amended and Restated Outside Directors' 1991 Stock Ownership Plan (the "Outside Directors' 1991 Plan") (incorporated herein by reference from Exhibit 10(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 30, 1995 [the "1995 Annual Report"]).
10(f)(i)+	-	Amendment to the Outside Directors' 1991 Plan, effective as of December 18, 2003 (incorporated herein by reference from Exhibit 10(f)(i) to the 2003 Annual Report).
10(f)(ii)+	-	Form of Option Agreement under the Outside Directors' 1991 Plan (incorporated herein by reference from Exhibit 10(m)(i) to the 1996 Annual Report).
10(f)(iii)+	-	Liz Claiborne, Inc. Outside Directors' Deferral Plan (incorporated herein by reference from Exhibit 10(f)(iii) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 [the "2005 Annual Report"]).
10(g)+	-	Liz Claiborne, Inc. 1992 Stock Incentive Plan (the "1992 Plan") (incorporated herein by reference from Exhibit 10(p) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 28, 1991).
10(g)(i)+	-	Form of Restricted Career Share Agreement under the 1992 Plan (incorporated herein by reference from Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 1995).
10(g)(ii)+	-	Form of Restricted Transformation Share Agreement under the 1992 Plan (incorporated herein by reference from Exhibit 10(s) to the 1997 Annual Report).

+ Compensation plan or arrangement required to be noted as provided in Item 14(a)(3).

* Filed herewith.

Exhibit No.		Description
10(h)+	-	Liz Claiborne, Inc. 2000 Stock Incentive Plan (the “2000 Plan”) (incorporated herein by reference from Exhibit 4(e) to Registrant’s Form S-8 dated as of January 25, 2001).
10(h)(i)+	-	Amendment No. 1 to the 2000 Plan (incorporated herein by reference from Exhibit 10(h)(i) to the 2003 Annual Report).
10(h)(ii)+	-	Form of Option Grant Certificate under the 2000 Plan (incorporated herein by reference from Exhibit 10(z)(i) to the 2000 Annual Report).
10(h)(iii)+	-	Form of Executive Team Leadership Restricted Share Agreement under the Liz Claiborne, Inc. 2000 Stock Incentive Plan (the “2000 Plan”) (incorporated herein by reference from Exhibit 10(a) to Registrant’s Form 10-Q for the period ended September 29, 2001 [the “3rd Quarter 2001 10-Q”]).
10(h)(iv)+	-	Form of Restricted Key Associates Performance Shares Agreement under the 2000 Plan (incorporated herein by reference from Exhibit 10(b) to the 3rd Quarter 2001 10-Q).
10(h)(v)+	-	Form of 2006 Special Performance-Based Restricted Stock Confirmation under the 2000 Plan (incorporated herein by reference from Exhibit 10(h)(v) to the 2005 Annual Report).
10(i)+	-	Liz Claiborne, Inc. 2002 Stock Incentive Plan (the “2002 Plan”) (incorporated herein by reference from Exhibit 10(y)(i) to Registrant’s Form 10-Q for the period ended June 29, 2002 [the “2nd Quarter 2002 10-Q”]).
10(i)(i)+	-	Amendment No. 1 to the 2002 Plan (incorporated herein by reference from Exhibit 10(y)(iii) to the 2nd Quarter 2002 10-Q).
10(i)(ii)+	-	Amendment No. 2 to the 2002 Plan (incorporated herein by reference from Exhibit 10(i)(ii) to the 2003 Annual Report).
10(i)(iii)+	-	Amendment No. 3 to the 2002 Plan (incorporated herein by reference from Exhibit 10(i)(iii) to the 2003 Annual Report).
10(i)(iv)+	-	Form of Option Grant Certificate under the 2002 Plan (incorporated herein by reference from Exhibit 10(y)(ii) to the 2nd Quarter 2002 10-Q).
10(i)(v)+	-	Form of Restricted Share Agreement for Registrant’s “Growth Shares” program under the 2002 Plan (incorporated herein by reference from Exhibit 10(i)(v) to the 2003 Annual Report).
10(j)+	-	Description of Supplemental Life Insurance Plans (incorporated herein by reference from Exhibit 10(q) to the 2000 Annual Report).
10(k)+	-	Amended and Restated Liz Claiborne §162(m) Cash Bonus Plan (incorporated herein by reference from Exhibit 10.1 to Registrant’s Form 10Q filed August 15, 2003).
10(l)+	-	Liz Claiborne, Inc. Supplemental Executive Retirement Plan effective as of January 1, 2002, constituting an amendment, restatement and consolidation of the Liz Claiborne, Inc. Supplemental Executive Retirement Plan and the Liz Claiborne, Inc. Bonus Deferral Plan (incorporated herein by reference from Exhibit 10(t)(i) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 29, 2001).
10(l)(i)+	-	Trust Agreement dated as of January 1, 2002, between Liz Claiborne, Inc. and Wilmington Trust Company (incorporated herein by reference from Exhibit 10(t)(i) to the 2002 Annual Report).

\+ Compensation plan or arrangement required to be noted as provided in Item 14(a)(3).

Exhibit No.		Description
10(m)+	-	Employment Agreement dated as of November 3, 2003, between Registrant and Paul R. Charron (the “Charron Agreement”) (incorporated herein by reference from Exhibit 10.1 to Registrant’s Current Report on Form 8-K dated November 5, 2003 [the “November 5, 2003 Form 8-K”]).
10(m)(i)+	-	The Liz Claiborne Retirement Income Accumulation Plan for the benefit of Mr. Charron [the “Accumulation Plan”]), dated as of September 19, 1996 (incorporated herein by reference from Exhibit 10(y)(ii) to the 1996 Annual Report).
10(m)(ii)+	-	Amendment to the Accumulation Plan, dated January 3, 2002 (incorporated herein by reference from Exhibit 10(u)(iii) to the 2002 Annual Report).
10(m)(iii)+	-	Amendment No. 2 to the Accumulation Plan, effective as of November 3, 2003 (incorporated herein by reference from Exhibit 10.2 to the November 5, 2003 Form 8-K).
10(m)(iv)+	-	Executive Termination Benefits Agreement, between Registrant and Paul R. Charron (incorporated herein by reference from Exhibit 10 (v)(iii) to the 2000 Annual Report).
10(m)(v)+	-	First Amendment to the Executive Termination Benefits Agreement between Registrant and Paul R. Charron, effective as of November 3, 2003 (incorporated herein by reference from Exhibit 10.3 to the November 5, 2003 Form 8-K).
10(m)(vi)+	-	Stock Option Certificate, dated November 3, 2003 issued to Paul R. Charron under Registrant’s 2002 Stock Incentive Plan (incorporated herein by reference from Exhibit 10.4 to the November 5, 2003 Form 8-K).
10(m)(vii)+	-	Restricted Share Agreement under the 2000 Plan, dated as of November 3, 2003, between Registrant and Paul R. Charron (incorporated herein by reference from Exhibit 10.5 to the November 5, 2003 Form 8-K).
10(m)(viii)+	-	Performance Share Agreement under the 2002 Plan, dated as of November 3, 2003, between Registrant and Paul R. Charron (incorporated herein by reference from Exhibit 10.6 to the November 5, 2003 Form 8-K).
10(m)(ix)	-	Stock Option Certificate, dated March 4, 2004, issued to Paul R. Charron, under Registrant’s 2002 Stock Incentive Plan (the “2002 Plan”) (incorporated herein by reference to Exhibit 10(a) to Registrant’s Quarterly Report on Form 10-Q for the period ended April 3, 2004 [the “1st Quarter 2004 10-Q”]).
10(m)(x)	-	Restricted Share Agreement under the 2002 Plan, dated as of March 4, 2004, between Registrant and Paul R. Charron (incorporated herein by reference to Exhibit 10(b) to the 1st Quarter 2004 10-Q).
10(m)(xi)	-	Performance Share Agreement under the 2002 Plan, dated as of March 4, 2004, between Registrant and Paul R. Charron (incorporated herein by reference to Exhibit 10(c) to the 1st Quarter 2004 10-Q).
10(n)+	-	2006 Special Performance-Based Restricted Stock Confirmation under the 2000 Plan, dated January 23, 2006, between Registrant and Trudy F. Sullivan (incorporated herein by reference from Exhibit 10(n) to the 2005 Annual Report).
10(n)(i)+	-	Change of Control Agreement, between Registrant and Trudy F. Sullivan (incorporated herein by reference from Exhibit 10(w) to the 2002 Annual Report).

\+ Compensation plan or arrangement required to be noted as provided in Item 14(a)(3).

Exhibit No.		Description
10(o)	-	Five-Year Credit Agreement, dated as of October 13, 2004, among Liz Claiborne, Inc., the Lenders party thereto, Bank of America, N.A., Citibank, N.A., SunTrust Bank and Wachovia Bank, National Association, as Syndication Agents, and JPMorgan Chase Bank, as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated October 13, 2004).
10(p)+	-	Form of Restricted Stock Grant Certificate (incorporated herein by reference to Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the period ended April 2, 2005).
10(q)+	-	Liz Claiborne, Inc. Section 162(m) Long Term Performance Plan (incorporated herein by reference to Exhibit 10.1(a) to Registrant's Current Report on Form 8-K dated May 26, 2005 [the "May 26, 2005 Form 8-K"]).
10(r)+	-	Liz Claiborne, Inc. 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1(b) to the May 26, 2005 Form 8-K).
10(s)+	-	Amendment No. 1 to the Liz Claiborne, Inc. 2005 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 12, 2005).
10(t)+	-	Form of Section 162(m) Long Term Performance Plan (incorporated herein by reference to Exhibit 10 to Registrant's Quarterly Report on Form 10-Q for the period ended October 1, 2005).
10(u)+	-	Form of Executive Severance Agreement (incorporated herein by reference from Exhibit 10(a) to Registrant's Quarterly Report on Form 10-Q for the period ended April 1, 2006 [the "1st Quarter 2006 10-Q"]).
10(v)+	-	Executive Severance Agreement dated March 1, 2006 between Registrant and Trudy F. Sullivan (incorporated herein by reference from Exhibit 10(b) to the 1st Quarter 2006 10-Q).
10(w)+	-	Employment Agreement, by and between Registrant and William L. McComb, dated October 13, 2006 (incorporated herein by reference from Exhibit 99.2 to Registrant's Current Report on Form 8-K dated October 18, 2006 [the "October 18, 2006 Form 8-K"]).
10(x)+	-	Executive Terminations Benefits Agreement, by and between Registrant and William L. McComb, dated as of October 13, 2006 (incorporated herein by reference from Exhibit 99.3 to the October 18, 2006 Form 8-K).
10(y)+	-	Retirement and Consulting Agreement, by and between Registrant and Paul R. Charron, dated as of October 13, 2006 (incorporated herein by reference from Exhibit 99.4 to the October 18, 2006 Form 8-K).
21*	-	List of Registrant's Subsidiaries.
23*	-	Consent of Independent Registered Public Accounting Firm.
31(a)*	-	Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)*	-	Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.

+ Compensation plan or arrangement required to be noted as provided in Item 14(a)(3).

* Filed herewith.

Exhibit No.		Description
32(a)*#	-	Certification of Chief Executive Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)*#	-	Certification of Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002.
99*	-	Undertakings.

* Filed herewith.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2007.

LIZ CLAIBORNE, INC.	LIZ CLAIBORNE, INC.
By: /s/ Michael Scarpa Michael Scarpa, Chief Operating Officer and Chief Financial Officer (principal financial officer)	By: /s/ Elaine H. Goodell Elaine H. Goodell, Vice President — Corporate Controller and Chief Accounting Officer (principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on February 28, 2007.

Signature	Title
/s/ William L. McComb William L. McComb	Chief Executive Officer and Director (principal executive officer)
/s/ Bernard W. Aronson Bernard W. Aronson	Director
/s/ Daniel A. Carp Daniel A. Carp	Director
/s/ Raul J. Fernandez Raul J. Fernandez	Director
/s/ Mary Kay Haben Mary Kay Haben	Director
/s/ Nancy J. Karch Nancy J. Karch	Director
/s/ Kenneth P. Kopelman Kenneth P. Kopelman	Director
/s/ Kay Koplovitz Kay Koplovitz	Chairman of the Board and Director
/s/ Arthur C. Martinez Arthur C. Martinez	Director
/s/ Oliver R. Sockwell Oliver R. Sockwell	Director
/s/ Paul E. Tierney, Jr. Paul E. Tierney, Jr.	Director

LIZ CLAIBORNE, INC. AND SUBSIDIARIES
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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.

/s/ William L. McComb
William L. McComb
Chief Executive Officer

/s/ Michael Scarpa
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 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 and financial statement schedule 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 and financial statement schedule.

/s/ Deloitte & Touche LLP
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 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. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule 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. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

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.

/s/ Deloitte & Touche LLP
New York, New York
February 28, 2007

CONSOLIDATED BALANCE SHEETS
Liz Claiborne, Inc. and Subsidiaries

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
Liz Claiborne, Inc. and Subsidiaries

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
Liz Claiborne, Inc. and Subsidiaries

	COMMON STOCK						TREASURY SHARES		
In thousands except share data	Number of Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Accumul Other Compreh ensive Income (Loss)	Unearne d Compen- sation	Number of Shares	Amount	Total
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)
Liz Claiborne, Inc. and Subsidiaries

In thousands except share data	COMMON STOCK Number of Shares	COMMON STOCK Amount	Capital in Excess of Par Value	Retained Earnings	Accumulate Other Comprehens Income (Loss)	TREASURY SHARES Number of Shares	TREASURY SHARES Amount	Total
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
Liz Claiborne, Inc. and Subsidiaries

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Liz Claiborne, Inc. and Subsidiaries

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 tests 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 ARO's 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 Kenneth Cole Productions, Inc. 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	
Description of Securities	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
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 Gains	Unrealized Losses	Estimated Fair Value
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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries

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 lease 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries
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 year 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	$ 49,212	$ 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,	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 (gains)	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 carryforward 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								Long-Term
Fiscal Year	2007	2008	2009	2010	2011	Thereafte	Total	Interest	Principal
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 Standards 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 Note 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 in 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-
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 $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 year 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:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	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 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	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 year 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 made 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 amounts 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries
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."

	Fiscal Year Ended								
	December 30, 2006			December 31, 2005			January 1, 2005		
In thousands except per share data	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 year 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries

	December 30, 2006				
In thousands	Wholesale Apparel	Wholesale Non-	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

	December 31, 2005				
In thousands	Wholesale Apparel	Wholesale Non-	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries

In thousands	Wholesale Apparel	Wholesale Non-	Retail	Corporate/ Eliminations	Totals
	January 1, 2005				
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 Domestic	December 30, 2006 International	December 31, 2005 Domestic	December 31, 2005 International	January 1, 2005 Domestic	January 1, 2005 International
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, “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, the Company expects 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Liz Claiborne, Inc. and Subsidiaries
NOTE 25: UNAUDITED QUARTERLY RESULTS
Unaudited quarterly financial information for 2006 and 2005 is set forth in the table below:

In thousands except per share data	March		June		September		December	
	2006	2005	2006	2005	2006	2005	2006	2005
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 (6)
Basic earnings per share	$ .45 (1)	$ .66	$ .38 (2)	$ .51	$ .94 (3)	$ 1.07 (4)	$ 0.72 (5)	$ .75 (6)
Diluted earnings per share	$ .45 (1)	$ .65	$ .38 (2)	$ .50	$ .93 (3)	$ 1.06 (4)	$ 0.71 (5)	$ .74 (6)
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.

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS
Liz Claiborne, Inc. and Subsidiaries

Column A	Column B	Column C		Column D	Column E
		Additions			
(In thousands)	Balance at Beginning of Period	(1) Charged to Costs and Expenses	(2) Charged to Other Accounts – Describe	Deductions – Describe	Balance at End of Period
Description					
YEAR ENDED DECEMBER 30, 2006					
Accounts Receivable — allowance for doubtful accounts	$ 4,366	$ 1,482	$ —	$ 923 (A)	$ 4,925
Allowance for Returns	$ 43,156	$ 192,057	$ —	$ 191,660	$ 43,553
Allowance for Discounts	$ 15,667	$ 108,737	$ —	$ 112,568	$ 11,836
Restructuring Reserve	$ 1,016	$ 64,017	$ —	$ 43,454 (B)	$ 21,579
YEAR ENDED DECEMBER 31, 2005					
Accounts Receivable — allowance for doubtful accounts	$ 2,822	$ 3,761	$ —	$ 2,217 (A)	$ 4,366
Allowance for Returns	$ 46,722	$ 175,806	$ —	$ 179,372	$ 43,156
Allowance for Discounts	$ 16,863	$ 132,027	$ —	$ 133,223	$ 15,667
Restructuring Reserve	$ 9,866	$ (436)	$ (610) (C)	$ 7,804 (B)	$ 1,016
YEAR ENDED JANUARY 1, 2005					
Accounts Receivable — allowance for doubtful accounts	$ 2,853	$ 1,925	$ —	$ 1,956 (A)	$ 2,822
Allowance for Returns	$ 13,746	$ 175,477	$ —	$ 142,501	$ 46,722
Allowance for Discounts	$ 15,550	$ 136,617	$ —	$ 135,304	$ 16,863
Restructuring Reserve	$ 1,969	$ 9,866	$ (105) (C)	$ 1,864 (B)	$ 9,866

Notes:

(A) Uncollectible accounts written off, less recoveries.

(B) Charges to the restructuring reserve are for the purposes for which the reserve was created.

(C) This amount of the restructuring reserve was no longer deemed necessary. As a result, this amount was taken as a reduction to the restructuring charge through earnings for the applicable fiscal year.

EXHIBIT 10(c)

NATIONAL COLLECTIVE BARGAINING AGREEMENT
By and Between:
LIZ CLAIBORNE, INC.
AND
UNITE HERE

Effective: June 1, 2006
Expires: May 31, 2009

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THIS AGREEMENT is made and entered into as of June 1, 2006 by and between LIZ CLAIBORNE, INC., (hereinafter designated as the "Company") and UNITE HERE (hereinafter designated as the "Union" or "UNITE HERE").

W I T N E S S E T H :

WHEREAS, the Company is engaged in an integrated process of production, handling and distribution of garments; and

WHEREAS, the Employer owns or leases and operates several distribution centers and samplerooms in which the Union represents the majority of the employees employed by the Employer, and the Employer recognizes the Union as the exclusive bargaining representative of its warehouse and sampleroom employees; and

WHEREAS, the various distribution centers and samplerooms have been governed by separate collective bargaining agreements covering individual facilities; and

WHEREAS, to provide uniformity of conditions and ease of administration, the parties choose to consolidate the separate bargaining units and collective bargaining agreements into a national multi-plant agreement, to be supplemented by local agreements covering specific facilities; and

WHEREAS, the parties desire to cooperate in establishing conditions which will tend to secure a living wage, fair conditions and standards of employment and to provide for a fair and peaceful adjustment of all disputes so as to secure uninterrupted operation of work.

NOW, **THEREFORE**, the parties hereto agree as follows:

ARTICLE 1: UNION RESPONSIBILITY

The Union shall have the sole responsibility for administering and enforcing this Agreement and for obtaining compliance with its terms. The sole persons authorized or having the power to act as agents of the Union, or to bind the Union legally with respect to matters arising out of this Agreement or arising out of the relations between the Employer and the Union, or to subject the Union to any liability whatever by reason of any acts or omissions is the President of the Union and the managers of the signatory Locals thereof or such substitute or additional persons as the Union may hereafter formally designate by written notice to the Employer. The Union shall not be responsible for the acts or omissions of any other person, including members and employees of the Union.

ARTICLE 2: BARGAINING UNIT AND UNION RECOGNITION

2.1 The scope of the bargaining unit covers the following distribution centers and samplerooms presently located at:

HQ 1 — 1 Claiborne Avenue, North Bergen, NJ
1441 Broadway and 240 West 40th Street, New York, New York
Mt. Pocono 1 and 2 — 1 Liz Way, Mt. Pocono, Pennsylvania,
Cosmetics — 120 Herrod Boulevard, Dayton, New Jersey
Jewelry — 1 Powder Hill Road, Lincoln, RI

2.2 The bargaining unit consists of all distribution center and sampleroom employees, including cutters and related crafts, and all housekeeping department employees employed by the Employer at the covered facilities. Local supplemental agreements may further define the

bargaining unit at specific facilities. It is agreed that the Union represents a majority of said employees and that during the term of this Agreement the Union shall be the sole and exclusive bargaining representative of all employees in the bargaining unit as hereinabove described. Office, clerical, supervisory and executive employees, as well as any employees who may be employed at the retail facility at any location, are excluded from the provisions hereof.

2.3 "Workers" or "employees" as used in this Agreement means those employees covered by the bargaining unit as well as those who may be hereinafter included.

2.4 This Agreement shall be the National Agreement. There shall be Supplemental Agreements which govern certain terms and conditions of employment at individual facilities. In case of conflict between this National Agreement and a Supplemental Agreement, the Supplemental Agreement shall govern. Any dispute unresolved as to whether a conflict exists between the National and a Supplemental Agreement or whether a particular dispute is subject to resolution under the provisions of the National or a Supplemental Agreement shall be subject to arbitration pursuant to Article 30 of this National Agreement.

ARTICLE 3: UNION MEMBERSHIP

3.1 Good standing membership in the Union shall be a condition of employment with the Employer for all bargaining unit employees who have such membership on the date of execution of this Agreement; it shall also be a condition of employment with the Employer for all other bargaining unit employees on and after the thirtieth (30th) day following the execution or effective date of this Agreement, or on or after the thirtieth (30th) day following the beginning of their employment, whichever is the later. If the foregoing is prohibited by law, then at the

corresponding time all employees shall be required as a condition of employment (unless prohibited by law) to pay to the Union a service charge to reimburse it for the cost of negotiating and administering this agreement.

3.2 Good standing membership in the Union for purposes of this Article means such membership in the Union through membership in any affiliate of UNITE.

3.3 In the event that paragraph 3.1 may not be lawfully applied, all employees shall be informed by the Employer of the existence of this Agreement and the terms thereof and shall be advised by the Employer that, in its opinion, good labor-management relations are and will be best served and promoted if such employees become and remain members of the Union. The Employer agrees to implement and promote this provision by posting copies of the following notice near all time clocks and in other prominent places such as bulletin boards in its facilities:

"NOTICE TO ALL EMPLOYEES"

This plant is being operated under the terms of an agreement with UNITE HERE. All wages, hours and other conditions of employment are regulated by the terms of this agreement.

Good labor management relations will be best served and promoted, in our opinion, if all our employees covered by this agreement become and remain members of this Union.

Signed:

Name of Employer:

ARTICLE 4: EMPLOYER'S OBLIGATIONS

All of the terms and provisions of this Agreement shall be binding upon the Employer and upon its subsidiaries, successors and assigns. In the event the Employer sells or transfers its business to another, it shall nevertheless continue to be liable for the complete performance of

the terms and provisions of this Agreement by the purchaser or transferee until the purchaser or transferee expressly, in writing, assumes such performance and agrees to be fully bound by the terms and provisions of this Agreement.

ARTICLE 5: AFTER ACQUIRED AND NEW FACILITIES

5.1 This Article applies only to facilities, not including retail stores, in the United States and Canada and in no manner affects the Employer's rights regarding the assignment of work as set forth in See. 10.3 of the collective bargaining agreement enabling the Employer to assign any work to whichever facility it chooses.

5.2 The Employer agrees to give the Union the address of facilities it opens or acquires plus a list of those classifications covered by this agreement that are (or will be) employed in such facilities as early in the process of acquisition or opening as possible.

5.3 When the Employer acquires a new facility by merger, acquisition or consolidation, it shall advise the Union within one (1) year after such merger, acquisition or consolidation whether the facility will be maintained by the Employer or disposed of in some fashion. If the facility is to be shut down, the Employer is obligated to commence to close the facility by taking substantial steps towards that end (such as the issuance of WARN notices, the announcement of a firm closure date, or the removal of substantial product) within two (2) years from the date the facility was acquired. In any event, from the time the Employer acquires such facility, it shall not engage, directly or indirectly, in any anti-union discussions or activities, nor shall the Union disparage the Employer, its products, practices or policies should it have any contact with the employees.

5.4 The parties agree that the time limits set forth in See. 5.3 above are outside limits

and in the spirit of cooperation the employer agrees to notify the Union promptly after a decision is made to either retain or dispose of an acquired facility.

5.5 With respect to newly opened facilities or acquired facilities where the Employer has notified UNITE HERE that it will maintain such facility or facilities, the Employer shall be neutral and shall not oppose the Union's organizing efforts directly or indirectly.

5.5.1 The Employer shall recognize the Union when it demonstrates majority support through signed authorization cards. If the facility is in the United States, the bargaining unit shall be constituted as set forth in Sec. 2.2 of this Agreement. If the facility is in Canada, the bargaining unit shall be mutually agreed upon or, absent agreement, constituted as set forth in the Canadian National Collective Labour Agreement between Liz Claiborne (Canada) Ltd. and UNITE HERE. A mutually agreeable neutral, or, absent agreement, an Arbitrator designated in this Agreement shall determine whether the Union has obtained majority support. The Employer waives its right to resolve the representation issue through the NLRB processes.

5.5.2 Upon request of the Union, the Employer shall provide access to the Union to communicate with employees concerning representation in non-work areas at non-work times. The Union and its representatives shall not disparage the Employer, its products, practices, or policies.

5.5.3 Any dispute arising from this provision shall be resolved through final and binding arbitration as set forth in this Agreement.

5.5.4 At the earliest time permitted by law, the parties shall meet and confer regarding terms of employment to be set forth in any collective bargaining agreement

to be negotiated by the parties covering the facility. The arbitrator is authorized to award appropriate relief if the Union fails to meet and confer, including relieving the Employer of its obligations under this article if the Union's failure is egregious.

5.5.5 In the case of a facility where the bargaining unit is projected to consist of 100 or less employees when fully integrated in the Employer's operations, the expiration date shall be the same as the expiration date of the National Agreement. In all other instances, the parties will agree upon a termination date as part of the negotiations for a collective bargaining agreement.

5.6 In those instances where the Employer acquires Companies whose distribution facilities are operated by third parties that do not have a collective bargaining relationship with UNITE HERE or any of its affiliates, and who under the provisions of the second paragraph of Sec. 10.2 are required to have a collective bargaining relationship with UNITE HERE or an affiliate thereof, the Employer shall assign such work to its existing UNITE HERE facilities or assign the work to a third party in accordance with the terms of Article 10.

5.7 Nothing contained herein shall require the Employer to violate the law or any binding legal or contractual obligation.

5.8 The parties affirm their commitment to the free choice of employees concerning unionization. Neither party shall interfere with, restrain or coerce employees in the exercise of their rights to support, or to not support, unionization.

ARTICLE 6: TRIAL PERIOD

The first thirty (30) calendar days of employment for newly- hired employees shall be deemed their trial period during which time they may be discharged without regard to cause. The trial period may be extended for another fourteen (14) calendar days with the written consent of the Union. Upon the expiration of the trial period, the newly-hired employee will be deemed a regular employee. The trial period shall not be abused by the Employer and any claim of abuse shall be the subject of arbitration hereunder.

ARTICLE 7: HIRING RATES AND MINIMUM WAGE SCALES

7.1 The hiring rates in effect in the various facilities and job classifications, if any shall be set forth in the local Supplemental Agreements.

7.2 All hiring rates at all facilities covered by this agreement shall increase $0.25 per hour effective, May 28, 2006, $0.25 per hour effective, June 3, 2007, and an additional $0.25 per hour effective June l, 2008. The hiring rates may not be decreased. They may increase only upon mutual agreement of the parties.

7.3 Upon satisfactory completion of the trial period, an employee shall receive an additional $0.50 per hour.

7.4 All employees who have completed their trial period as of May 28, 2006 shall receive at least $0.25 an hour above the newly-established minimum wage rate in Paragraph 7.3. Employees who are in their trial period on May 28, 2006 shall receive the greater of the wage increase effective on May 28, 2006 or $0.50 above the May 28, 2006 hiring minimum, but not both.

ARTICLE 8: CHANGE IN LEGAL MINIMUMS

If, during the term of this Agreement, a new applicable federal or state minimum wage law is enacted or becomes effective which increases the applicable minimum wage hereunder, then the minimum wage set forth herein shall be automatically increased so that such minimum wage shall be no less than 15% above any newly-established state or federally mandated legal minimum.

ARTICLE 9: COST OF LIVING ADJUSTMENT

Should the cost of living, as reflected in the U.S. Consumer Price Index for the period of June 2006 through November 2007 increase ten (10%) percent over the Consumer Price Index for May 2006, as published in June 2006, then the regular hourly wages of all employees shall be increased ten cents ($0.10) per hour. Additionally, hourly increases of five cents ($0.05) per hour shall be paid for each additional increase in the cost of living of one-half of one percent (.5%). Cost of living increases payable under this provision shall not exceed twenty-five cents ($0.25) per hour. Rises in the Consumer Price Index shall be measured over an eighteen (18) month period, as set forth above, by utilizing the consumer Price Indices for the Urban Wage Earners and Clerical workers, U.S. Cities, Average, printed and released in the months of July 2006 through December 2007. Wage increases due hereunder shall be effective January 4, 2008.

ARTICLE 10: JOB SECURITY/HANDLING AND DISTRIBUTION OF PRODUCT

10.1 No employee shall be involuntarily permanently laid off as a direct result of the Employer's use of a third party contractor to distribute its product.

10.2 To protect the job security of the employees of the Employer and to preserve labor standards among workers who are employed in the integrated process of production of the Employer's garments, the parties agree to the following:

In the event the Employer engages a third party contractor to operate a distribution facility entirely dedicated to the distribution of the Employer's garments for a period in excess of two (2) years, or if the Employer engages a third party contractor where the Employer's garments will take over 50% of the square footage of the third party's facility for more than three (3) months, such third party contractor must have a collective bargaining relationship with UNITE or an affiliate thereof.

10.3 Subject to the protections set forth above, nothing contained herein or in any Local Supplement shall be deemed to restrain the Employer in its determination as to the methods or means by which its products are handled and distributed, including, but not limited to, the allocation of products and functions among the Employer's facilities or the use of facilities not owned, leased or operated by the Employer.

ARTICLE 11: CHANGE IN PAY SYSTEMS

The Employer reserves the right to change the method of payment for some of the general distribution or quality assurance employees to an incentive system. Employees on the incentive system shall not be paid less than their current hourly rate. The Union may assert

reasonable challenges to the fairness of the proposed incentive system. Any disputes regarding the implementation of such systems may be submitted to the arbitrator for resolution.

ARTICLE 12: WAGE INCREASES

12.1 The wage increases for employees shall be as follows:

Effective May 28, 2006, employees shall receive a wage increase of $0.50 per hour.

Effective June 3, 2007, employees shall receive a wage increase of $0.50 per hour.

Effective June 1, 2008, employees shall receive a wage increase of $0.50 per hour.

ARTICLE 13: CHECK-OFF

13.1 Subject to the requirements of law concerning authorization and assignment by the employees individually, the Employer shall deduct membership dues (which shall be deemed to include periodic fixed dues, initiation fees and assessments) or, to the extent permitted by law, service charges, from the earnings of its employees monthly and transmit the same to the Union promptly in accordance with past practice thereafter.

13.2 The Employer shall deduct, from the wages or salary of each employee who voluntarily executes the Political Action Committee ("PAC") payroll deduction authorization form that is Attachment A to this Agreement, the contributions at the frequency of deductions so authorized on that form, and remit those contributions to the Union at the same time as the

Employer remits to the Union the Union dues that are separately voluntarily authorized by employees to be deducted from their gross wages or salaries and remitted to the Union pursuant to Article 13 Section 1 of this Agreement. With each PAC contribution remittance the Employer shall provide the Union with a written itemization setting forth as to each contributing employee his or her name and the contribution amount. The parties acknowledge that the Employer's cost of administration of this PAC payroll deduction have been taken into account by the parties in their negotiation of this Agreement and had been incorporated in the wage, salary and benefits provisions of this Agreement. 13.3 Sums deducted by the Employer under the provisions of Paragraphs 13.1 and 13.2 of this Article shall be kept separate and apart from general funds of the Employer and shall be held in trust by the Employer for the benefit of the Union, and/or the PAC, as the case may be.

ARTICLE 14: NO DISCRIMINATION

The Employer shall not discriminate against any employee on the basis of race, creed, religion, color, national origin, sex, age, sexual orientation, citizenship status, disability, veteran's status or membership in or activities on behalf of the Union, unless required by this Agreement. The Employer, however, shall not employ children or adolescents where such employment is prohibited by an applicable federal or state law or regulation.

ARTICLE 15: EMPLOYMENT STANDARDS

15.1 All wages, earnings, overtime and holiday pay shall be paid on the day they were customarily paid, but no later than the Friday following the week in which they were earned.

15.2 The Employer shall not charge an employee for any damage to materials unless caused willfully.

15.3 The Employer shall supply necessary machines and tools to its employees.

15.4 No officer of the Employer, supervisory employee or any other person outside of the bargaining unit shall perform any work covered by this Agreement, except as specified in Article 18 or in the event of unexpected absenteeism, an emergency, or for training purposes.

15.5 All paid breaks shall be fifteen (15) minutes.

15.6 Employees may elect to receive their pay by having the Employer make a direct deposit to the employee's designated account.

ARTICLE 16: HEALTH AND SAFETY

16.1 The Employer shall fully comply with all standards, laws and regulations of health, sanitation and safety, including all regulations of the local fire department.

16.2 The Employer shall provide an adequate number of drinking fountains. Restrooms and work areas shall be kept in a clean, sanitary condition, and will be well-lighted and heated. Air conditioning shall be maintained in the Employer's facilities where it currently exists.

16.3 A worker may refuse to perform work which he reasonably believes would pose a serious threat of injury or illness.

16.4 The Employer shall be exclusively responsible for health, safety and sanitation conditions in its shop. Neither the Union nor its agents or representatives shall be liable for any job-related injury, illness or death.

16.5 The Joint Labor-Management Committee set forth in Article 38 shall address issues of health and safety and may make recommendations for the correction of unsafe or harmful conditions and practices and may make recommendations for rules and procedures to prevent accidents and disease and for the promotion of the health, safety and sanitation of the workers.

16.5.1 The Employer shall facilitate limited safety training of employees by, at the Union's request: 1) providing one day's paid leave of absence per year to one employee in each shop designated by the Union to attend health and safety training, and 2) permitting all employees to participate in one paid hour per year of safety training in the shop during working time. The parties shall schedule such training at a mutually convenient time. This safety-training paragraph does not diminish in anyway the Employer's responsibility to provide a safe and healthful workplace under this Agreement. The Union will provide such training only to the extent feasible and is not obligated to provide such training.

ARTICLE 17: HOURS OF WORK AND OVERTIME

The provisions governing hours of work and overtime, including overtime premiums shall be set forth in the local supplemental agreements covering the individual facilities and the practices developed thereunder shall continue.

ARTICLE 18: TEMPORARY EMPLOYEES

18.1 The Employer, from time to time, may have the need for additional temporary employees. Such temporary employees shall not be employed by the Employer for longer than forty (40) consecutive days.

18.2 Temporary employees shall not be considered to be in the bargaining unit. The temporary employees shall be informed of their temporary status when hired and shall acknowledge the same in writing, a copy of which shall be provided to the Union.

18.3 In the event that a temporary employee remains employed beyond the forty (40) day period, then such employee shall be placed in the bargaining unit and benefit fund contributions for that employee shall be paid retroactively from the original date of hire. Union obligations for such employee shall be computed on the basis of the original date of hire.

18.4 The Employer shall not employ temporary employees if any of the bargaining unit employees performing such work are on layoff. The Employer agrees that the job security and earning opportunities shall not be diminished for the regular bargaining unit employees when temporary employees are used. The Employer shall not abuse its right to use temporary employees to avoid hiring regular bargaining unit employees.

18.5 Temporary employees may be used in the housekeeping department: a) in the event the Company is understaffed in housekeeping, until bargaining unit employees can be hired; b) the Company is engaged in a special project which requires additional personnel power for a limited period of time; or c) the Company is confronted by emergency circumstances.

ARTICLE 19: HOLIDAYS, PERSONAL DAYS/PAID TIME OFF AND SICK DAYS

19.1 Each Supplemental Agreement shall set forth the number of designated holidays and sick days, personal days or paid days off that shall be granted. Employees shall be eligible for holidays at time of hire and those employees who have completed their trial period shall be eligible for paid time off, sick days, or personal days.

19.2 Employees may refrain from working one (1) additional day each year on a national or ethnic holiday of their choice, but without pay.

19.3 An employee shall not be eligible for holiday pay if:

19.3.1 He or she is absent from work on the work day immediately before or after the holiday, except for a justifiable cause, which shall include absence from work when the shop is not in operation; or

19.3.2 He or she becomes disabled and the holiday falls on a day beyond the sixtieth (60th) day after the said employee last worked in the shop.

19.4 When personal days are provided, they must be scheduled with the approval of the Employer. Sick days and/or personal days may be taken in one-half ($^1/_2$) day increments.

19.5 Employees shall be paid for unused sick days, personal days and paid days off at the end of the applicable leave year. The local Supplemental Agreements shall set forth the system for accruing days off, that is, calendar year, contract year or anniversary date.

19.6 The Employer shall not count any compensated time off as absences for disciplinary purposes.

19.7 Holiday pay shall be paid at an employee’s regular hourly rate. When an incentive system is in effect, the applicable local Supplemental Agreement shall set forth the

computation for holidays and other paid days off, which shall not be lower than the extant holiday rate.

19.8 When a holiday falls during an employee's vacation, the employee shall receive the holiday pay and shall not be charged a vacation day for that day.

ARTICLE 20: BEREAVEMENT LEAVE

The provisions governing bereavement leave shall be set forth in the local supplemental agreements covering the individual facilities and the practices developed thereunder shall continue.

ARTICLE 21: SHOP STEWARD

There shall be in the facility of the Employer Shop Steward(s)designated by the Union. The Shop Steward(s)shall be compensated by the Employer for time unavoidably lost during working hours in the process of adjusting grievances. For purposes of layoff only, Shop Steward(s) shall have super-seniority over other bargaining unit employees.

ARTICLE 22: SENIORITY/LAYOFF

The provisions governing seniority and lay off shall be set forth in the local supplemental agreements covering individual facilities and the practices developed thereunder shall continue.

ARTICLE 23: WORK ASSIGNMENTS

The provisions governing transfers, promotions, job classifications, cross-training and job postings shall be set forth in the local supplemental agreements covering individual facilities and the practices developed thereunder shall continue.

ARTICLE 24: DISCHARGES AND DISCIPLINE

24.1 No employee shall be discharged without just and sufficient cause, except during his trial period. If the discharge or disciplinary act is found to be unjustified, the employee shall be reinstated and may be compensated for his loss of earnings during the period of such discharge or disciplinary act.

24.2 All disciplinary notices, including those for absences, shall be of no effect one year after the occurrence.

24.3 The Employer shall inform the Union of all discipline imposed on an employee, including verbal warnings.

ARTICLE 25: LEAVES OF ABSENCE

25.1 The Employer shall grant reasonable leaves of absence to employees for a justifiable cause. Except as may be required by law, the Employer is not required to grant a leave for a period of less than five (5) consecutive work days. Employees on leaves of absence shall not lose any job rights and shall be entitled to return to their regular job prior to such absence.

25.2 RETURN FROM MILITARY SERVICE –

25.2.1 Any employee who has been conscripted, inducted or drafted into the military service of the United States Government, shall, upon termination of such service, be restored to his former position or to a position of like seniority status and pay provided he applied for re-employment within ninety (90) days after the date of his discharge.

25.2.2 Employees who are called to active duty by the National Guard or Reserve will be paid the difference between their military pay and their regular straight time wages for up to four (4) weeks. This shall not include scheduled training exercises for weekends or two weeks.

25.3 FAMILY AND MEDICAL LEAVE

25.3.1 The Employer shall grant, upon request of the Union, up to six (6) months' leave of absence without pay to male and female employees for the employee's own serious health condition as defined by the Family and Medical Leave Act ("FMLA"), or for the birth or adoption of a child or for the care of family member or live-in partner with a serious health condition.

25.3.2 The Employer may hire a provisional employee for a period not to exceed six (6) months to take the place of any employee who is on Family Leave. Upon the date of hire, the Employer shall give the Union and the provisional employee notice of the employee's provisional status. During such period, provisional employees shall be entitled to all the rights of regular employees under this Agreement. The Employer may retain a provisional employee as long as such action does not displace the

employee on Family Leave or any other regular employee. An employee on Family Leave shall be entitled to return to his or her regular job prior to such absence, or an equivalent position, and, subject to the foregoing, shall not lose any rights or privileges under this Agreement.

25.3.4 The employee, whether or not s/he is eligible under the FMLA, may use family and medical leave on an intermittent basis (as defined by the FMLA) to the extent that such use is permitted under the rules and regulations promulgated under the FMLA.

25.4 The Employer may require proper medical certification for leaves relating to an employee's own serious health condition, or for the care of a seriously ill family member or live in partner.

25.5 An employee's medical leave for work-related or non-work related injury or illness may last up to one year. FMLA leave runs concurrently with contractual medical leave.

ARTICLE 26: TIME CLOCK

The Employer shall maintain an adequate number of time clocks on its premises, and each employee covered by this Agreement shall punch his or her time card before starting work and at the completion of work and before and after lunch.

ARTICLE 27: RIGHT TO VISIT SHOP

Duly authorized representatives of the Union, including engineers and accountants, shall have the right to visit the premises of the Employer at reasonable times for the purpose of

ascertaining whether the provisions of this Agreement are being complied with. Such visits shall be conducted so as not to cause interference with operations. In addition, the Employer shall provide access to relevant accounting books and records as the Union may reasonably request in order to ascertain whether the provisions of this Agreement are being complied with.

ARTICLE 28: EMPLOYEE BENEFIT FUNDS

28.1 The Employer shall pay monthly to the Union a cents per hour contribution, a monthly rate and/or an amount equivalent to a percentage, as described below or in the applicable Supplemental Agreement, of each total gross weekly payroll (before deduction for federal, state or local taxes), including direct holiday pay, vacation pay and bonuses, of all bargaining unit employees (whether Union or non-Union employees, and whether regular or trial period employees) employed in its facility. All payments shall be due on the tenth (10th) day of the following month. Such payments shall be allocated towards the following Funds:

28.1.1 Towards the UNITE HERE National Retirement Fund, a trust fund established by collective agreement for the purpose of providing pensions or annuities on retirement, disability or death of participants.

28.1.2 Towards the UNITE HERE National Health Fund, a trust fund established by collective agreement for the purpose of providing employees with health, welfare and recreation benefits and services.

28.1.3 The Employer shall contribute to substitute employee benefit funds as may be required by local Supplemental Agreement.

28.2 For those facilities participating in the UNITE HERE National Retirement Fund (the "NRF"), the Employer shall contribute to the NRF to provide the prior basic benefit and to provide the new, enhanced benefit [NRF 2000] at a rate set forth in the local supplemental agreement. The Employer shall provide the Union, for the NRF, on a monthly basis (within thirty (30) days of the end of each month), the name, social security number, gross wages paid to each covered employee and the number of hours paid for in the period (or such other information as the Union may require in the future related to the NRF 2000 Benefit.) The Union may, in its sole discretion, assign collection of employer contributions to the UNITE HERE National Retirement Fund or any other designee.

28.3 For the month of June 2006 the Employer will pay the funds at the existing rate for health and welfare benefits. Effective July 1, 2006 and thereafter, the Employer shall contribute the monthly figure set forth in the applicable supplemental agreement. The Employer shall contribute for each employee beginning with the first of the month following the completion of the probationary period. The Employer shall maintain contributions for six months for an employee on disability leave or workers compensation leave, and for three months for temporary layoff or for other leave described under paragraph 25.3 of this Agreement. The applicable employee co-premiums, if any, shall be set forth in the appropriate local supplement The Employer further agrees that the co-payment shall be made to a Section 125 Plan. Should the Employer not have its own Section 125 Plan, the Employer shall participate in a Fund established Section 125 Plan. In addition to any other requirements which the Fund may establish concerning an employee's eligibility to participate in and/or receive benefits from the Fund, it is also understood that no contributions will be required for any employee or former

employee of the Employer who is participating in and/or receiving benefits from the Fund as a result of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"). The Union shall provide the Employer with a copy of all benefit enrollment forms for employees who have elected family coverage through the National Health Fund. If those enrollment forms are not available on hard copy, the Union shall provide the Employer with access to such data in whatever form it is maintained. Additionally, the Union shall promptly supply copies of enrollment forms reflecting a change in status to the Employer as soon as such forms are completed.

28.4 If at any time during the life of this Agreement, as a result of government mandated requirements, a benefit or a cost of any of the benefits shall be increased, or a new benefit required, or the cost to any fund of providing existing or new benefits is increased, the Union shall have the right to request additional company contributions to cover the expense thereof.

28.5 The said National Health Fund shall continue to be maintained and administered by the Board of Trustees in accordance with the by-laws or rules and regulations adopted by the Board of Trustees for that purpose. The Employer shall have no legal or equitable right, title, claim or interest in or to said Fund, or the administration thereof. No individual employee have any legal or equitable right, title or interest in, or claim against, his or any other employer's payments towards the National Health Fund, or against said Fund, except as may be provided the by-laws or rules and regulations of said Fund.

28.6 The said National Retirement Fund shall be administered in accordance with its by-laws or rules and regulations by a Board of Trustees. Each Board of Trustees shall be

composed of Union representatives and an equal number of representatives of employer contributors to that Fund. In the event that the Board of Trustees shall be deadlocked on any issue or matter arising in connection with its Fund, the same shall be decided by a neutral Person as set forth in the by-laws or rules and regulations of said Fund, and his decision shall be final and binding. The parties hereto hereby ratify, confirm and approve the composition and membership of each Board of Trustees as now or hereafter constituted.

28.7 Each Board of Trustees mentioned in Paragraph 28.5 or 28.6 above shall adopt and promulgate such by-laws or rules and regulations to effectuate the purpose of its Fund as it may deem necessary and desirable, including the detailed basis upon which payments from the Fund will be made, and shall have the power to modify the same from time to time without notice, whenever it may deem it necessary or desirable to do so. The parties hereby agree to be bound thereby and they are hereby incorporated in and made part of this Agreement. It is agreed that such Boards of Trustees may not increase the Company's level of contribution during term of this Agreement.

28.7.1 The Board of Trustees or other body administering any of the benefit funds, except the UNITE HERE National Retirement Fund, is hereby authorized and empowered, in its sole discretion and upon such basis as it deems desirable, to transfer or mingle the assets of or to merge said Fund with any other fund or funds now existing or hereafter established and provided for in a collective agreement UNITE HERE or an affiliate thereof. In the event of such mingling, transfer or merger, the amounts hereinabove provided to be allocated towards the respective funds shall thereafter be paid over to the fund or funds with which there has been

such mingling, transfer or merger.

28.7.2 The Board of Trustees of the UNITE HERE National Retirement Fund is hereby authorized and empowered, in its sole discretion and upon such basis as it deems desirable, to transfer or mingle the assets of said Fund or to merge said Fund with any other retirement fund or funds.

28.8 None of the monies paid into the National Retirement Fund shall be used for any purpose other than to provide for pensions or annuities on retirement or death of employees and to pay the operating and administrative expenses thereof. The monies of the other benefit funds shall be kept separate and apart from all other monies except as allowed in Paragraphs 28.7.1 and 28.7.2.

28.9 Only the assets of each benefit fund shall be available for the payment of the benefits provided by that benefit fund and only to the extent that such benefit fund is financially able to make such payments.

28.10 The Employer shall have no legal or equitable right, title, claim or interest in or to said Funds. No individual employee shall have any legal or equitable right, title or interest in, or claim against, his or any other employer's payments towards said Funds or against said Funds, except as may be provided by the by-laws or rules and regulations of said Funds.

28.11 An annual audit of each Fund shall be made by accountants designated by the Board of Trustees. A statement of the results of such audit shall be made available for inspection by interested persons at the principal office of the Fund and at such other places as may be designated by its Board of Trustees.

28.12 In the event benefit fund contributions are collected on behalf of a health and welfare fund other than the National Health Fund listed in Paragraph 28.1.2, the person who collected the contributions shall remit the contributions to the proper health and welfare fund.

28.13 The Union or the Board of Trustees of a Fund, or both of them, shall be proper parties-in-interest to enforce collection of payments due from the Employer towards said Funds. Should the matter be submitted to arbitration and the arbitrator find against the Employer, he may also order and direct the Employer to pay interest at the current prime rate of interest as set by the Amalgamated Bank of New York, 1710 Broadway, New York, New York. He may also order and direct the Employer to pay the cost of investigation of payments due. Should the matter be submitted to arbitration and the arbitrator find against the Employer, the arbitrator may order and direct the Employer to pay the cost of investigation together with reasonable attorneys' fees and other expenses incurred in connection with the matter. In addition, the arbitrator may grant such other relief as he deems appropriate under the circumstances.

28.14 The Union or the appropriate Board of Trustees or Boards of Trustees shall have the right to enforce this Article, including the provisions pertaining to delinquent contributions, by proceeding through arbitration or by instituting appropriate action before a court or governmental agency or by pursuing any other remedies provided by law or this Agreement.

28.15 The Employer shall contribute one dollar ($1.00) per month for each employee after s/he has completed ninety (90) days of employment for the purposes of education and scholarship to a fund designated in the local supplement.

28.16 Life Insurance. The Employer will bear the cost of a life insurance benefit of $35,000.00 per employee through the Amalgamated Life Insurance Company at a cost of $0.40

per month per thousand dollars of insurance coverage per employee.

ARTICLE 29: DISABILITY

Disability benefits currently in effect shall continue and shall be specified in the applicable Supplemental Agreement.

ARTICLE 30: GRIEVANCES AND ARBITRATION

30.1 Any and all disputes between the Union or any employees and the Employer involving an alleged breach or issue of application or interpretation of this Agreement or a local Supplemental Agreement shall be adjusted as follows:

30.1.1 The shop steward, together with a representative of the Union, shall attempt to settle the matter with a representative of the Employer. No adjustment shall be deemed binding on the Union unless approved by the Manager of the Union or the designated Business Agent servicing the facility. Disputes not specific to an employee or group of employees may be brought by a representative of the aggrieved party.

30.1.2 A grievance is time barred if it is not submitted in writing to the Employer within sixty (60) working days of the occurrence of the condition or such time as the affected employee or the Union knew of the condition giving rise to the grievance. In the case of a continuing violation, a remedy may be granted for up to one year prior to the filing of the grievance. The time limit for filing grievances shall not apply to disputes concerning payment of benefit fund contributions or disputes regarding

Article 10.

30.1.3 If they shall fail satisfactorily to dispose of any such grievance, the matter shall be submitted to an arbitrator selected by mutual agreement from the panel set forth herein. If the parties cannot agree on an arbitrator, they shall select an arbitrator by alternately striking members of the panel. The arbitrator who heard the previous case shall be struck first. The panel shall consist of:

Daniel Brent
Robert Light
Joan Parker
Rosemary Townley

30.2 Either party desiring to use the arbitration procedure as herein provided shall transmit a written notice to the other party no later than four (4) months after the filing of grievance. The award or decision of the arbitrator, in addition to granting such other relief as the arbitrator may deem proper, may contain provisions commanding affirmative acts or restraining acts and conduct of the parties. If either party shall default in appearing before the arbitrator, he is empowered nevertheless to take the proof of the party appearing and render an award thereon. Any award or decision of the arbitrator shall be final and binding and shall be enforceable appropriate proceedings at law or in equity. His fee shall be borne equally by the parties hereto.

30.2.1 The parties agree that any papers, notices or processes to initiate or continue an arbitration hereunder may be served by mail, and all papers, notices or processes in any application to a court to confirm or enforce an arbitration award hereunder, including service of the papers conferring jurisdiction of the parties upon the court, may be served by certified or regular mail, directed to the last-known address of the Employer or the Union.

30.3 The procedure herein established for the adjustment of disputes shall be the exclusive means for the determination of all disputes, complaints, controversies, claims or grievances whatsoever, including the arbitrability of any dispute. It is intended that this provision shall be interpreted as broadly and inclusively as possible. Neither party shall institute any action or proceeding in a court of law or equity, State or Federal, or before an administrative tribunal, other than to compel arbitration, as provided in this Agreement, or with respect to the award of an arbitrator. This provision shall be a complete defense to and also grounds for a stay of any action or proceeding instituted contrary to this Agreement.

30.4 Any dispute, complaint, controversy, claim or grievance hereunder which any employee may have against the Employer may be instituted and processed only by the Union in the manner herein provided. No employee shall have the right individually to institute or process any action or proceeding with reference to any dispute, complaint, controversy, claim or grievance, or to initiate or compel arbitration in the event the Union fails or refuses to proceed to with arbitration.

ARTICLE 31: NO STRIKE/NO LOCKOUT PLEDGES

There shall be no strikes or lock-outs during the term of this Agreement for any reason whatsoever, except as set forth in Article 33.

ARTICLE 32: NO REDUCTION OF WAGES OR OTHER BENEFITS

Wages and other terms and conditions of employment now existing or hereafter established at any facility of the Employer shall not be lowered, except by mutual agreement.

Any custom or practice existing in a facility at the time of the execution of this Agreement more favorable to the employees than the provisions hereof shall be continued as heretofore.

ARTICLE 33: STRUCK WORK-LABOR DISPUTE CROSSING PICKET LINES

To the extent that a contractor' manufacturing work involves the integrated process of production of the Employer's garments, the Employer and its contractors have a close unity interest with each other and in any labor dispute, and to such extent, the Employer and its contractors are not neutrals with respect to each other but are jointly engaged in an integrated production effort. Accordingly, to the extent permitted by law, it shall not be considered a breach of this agreement on the part of the Union, any of its affiliates or on the part of any employee if such worker refuses to cross any lawful picket line recognized by the Union or its affiliates or to enter upon the lawfully picketed premises of said contractor, either of his or own volition or by direction of the Union or the International or to refuse to handle garments from a contractor with whom the Union or any of its affiliates has a lawful labor dispute.

ARTICLE 34: TEMPORARY APPOINTMENT TO UNION STAFF

The Union shall have the right to appoint an employee to its staff on a temporary basis, not to exceed nine (9) months, without said employee losing his seniority rights.

ARTICLE 35: CONFORMITY TO LAW

35.1 If any provision of this Agreement or the enforcement or performance of such provision is or shall at any time be determined to be contrary to law by or enjoined by a court or

administrative agency, then such provision shall not be applicable or enforced or performed except to the extent permitted by law. The Union and the Employer shall thereupon negotiate a substitute provision.

35.2 If any provision of this Agreement or its application is held invalid or enjoined, the remainder of this Agreement shall not be affected thereby.

ARTICLE 36: JURY DUTY

Jury duty leave shall be set forth in the local supplemental agreement.

ARTICLE 37: UNION ACTIVITIES

37.1 Any employee who is called from his or her employment to serve on the Union's Negotiating Committee shall be paid his or her full wage during the entire time he or she shall serve on the Union's Negotiating Committee. A maximum of one committee member for every twenty-five (25) bargaining unit employees shall receive this benefit.

37.2 The Union shall have access to bulletin boards in the facilities.

37.3 The Company will pay five thousand dollars (5,000.00) for printing and translation of the contract. The Union will do the printing and translation.

ARTICLE 38: JOINT LABOR-MANAGEMENT COMMITTEE

The Employer and the Union shall designate an equal number of representatives to form a Joint Labor-Management Committee. The Committee shall meet regularly at least one (1) time per month. The Employer shall compensate employees at their regular rate of pay for serving on

the Committee during working time.

ARTICLE 39: VACATIONS

Vacation pay and time off shall be set forth in the applicable local Supplemental Agreements.

ARTICLE 40: CUTTING

Any cutting and related tasks, such as marking, grading and digitizing, shall be performed under the conditions specified in the Supplemental Agreement covering employees represented by Local 10.

ARTICLE 41: REPORTING PAY

Employees shall receive reporting (call-in) pay as set forth in the applicable local Supplement Agreements.

ARTICLE 42: NO WAIVER

The failure of either party to this Agreement to require strict performance of any provision of the Agreement shall not be deemed a waiver or abandonment of any of the rights or remedies provided herein for violation of the Agreement or any provision thereof; nor shall it constitute a waiver or abandonment of any right or remedy herein provided for a subsequent violation of any provision of the Agreement.

ARTICLE 43: MANAGEMENT RIGHTS

All rights and prerogative which may lawfully be exercised by management and which are not specifically abridged or limited by this Agreement or the applicable local Supplemental Agreement are reserved to the Employer.

ARTICLE 44: DURATION OF AGREEMENT

This Agreement shall be effective June 1, 2006 and continue in effect until midnight of the 31st day of May, 2009.

IN WITNESS WHEREOF, the parties shall have hereunto set their hands and seals the year and date hereinabove written.

LIZ CLAIBORNE, INC.

By: /s/ John Moroz

UNITE HERE

By: /s/ Bruce Raynor
Bruce Raynor, President

LOCAL 10

By: /s/ Richard Guido
Richard Guido, Manager

LOCAL 23-25

By: /s/ May Chen
May Chen, Manager

LOCAL 99

By: /s/ Christine Kerber
Christine Kerber, Manager

NEW ENGLAND JOINT BOARD

By: /s/ Warren Pepicelli
Warren Pepicelli, Manager

PENNSYLVANIA, OHIO AND SOUTH JERSEY
JOINT BOARD, LOCAL 109

By: /s/ David Melman
David Melman, Manager

Exhibit 10(d)

DESCRIPTION OF LIZ CLAIBORNE, INC.
2006 SALARIED EMPLOYEE INCENTIVE PLAN

For the 2006 fiscal year, Liz Claiborne, Inc. maintained a bonus plan for full time salaried employees under which bonuses were earned based upon a combination of return on invested operating capital and earnings per share, as measured against pre-established targets, and, as applicable, achievement of targeted levels of divisional direct operating profit and/or departmental performance considerations and the achievement of individual goals, subject to certain terms and conditions.

Exhibit 21

Subsidiaries of Liz Claiborne, Inc.

Bright Win Limited	Hong Kong
C & C California, Inc.	California
Claiborne Limited	Hong Kong
Cleo Acquisition	Delaware
DB Newco Corp.	Delaware
Enyce, L.L.C.	Delaware
Enyce Holding LLC	Delaware
Handycell Ltd.	United Kingdom
High Mallow Company N.V.	Netherlands
Juicy Couture, Inc.	California
Kate Spade LLC	Delaware
L.C. Augusta, Inc.	Delaware
L.C. Caribbean Holdings, Inc.	Delaware
L.C. Libra, LLC	Delaware
L.C. Licensing, Inc.	Delaware
L.C. Service Company, Inc.	Delaware
L.C. Special Markets, Inc.	Delaware
L.C.K.C., LLC	Delaware
LCI Acquisition U.S., Inc.	Delaware
LCI Holdings, Inc.	Delaware
LCI Investments, Inc.	Delaware
LCI Laundry, Inc.	Delaware
Liz Claiborne 1 B.V.	Netherlands
Liz Claiborne 2 B.V.	Netherlands
Liz Claiborne 3 B.V.	Netherlands
Liz Claiborne Accessories, Inc.	Delaware
Liz Claiborne Accessories-Sales, Inc.	Delaware
Liz Claiborne B.V.	Netherlands
Liz Claiborne Canada Inc.	Canada
Liz Claiborne Colombia, Ltda.	Colombia
Liz Claiborne Cosmetics, Inc.	Delaware
Liz Claiborne De El Salvador, S.A., de C.V.	El Salvador
Liz Claiborne de Mexico, S.A. de C.V.	Mexico
Liz Claiborne do Brasil Industria E Comercio Ltda.	Brazil
Liz Claiborne Europe	United Kingdom
Liz Claiborne Export, Inc.	Delaware
Liz Claiborne Foreign Holdings, Inc.	Delaware
Liz Claiborne Foreign Sales Corporation	US Virgin Islands
Liz Claiborne GmbH	Germany
Liz Claiborne International Limited	Hong Kong
Liz Claiborne (Israel) Ltd.	Israel
Liz Claiborne Japan, Inc.	Delaware
Liz Claiborne (Malaysia) SDN.BHD	Malaysia
Liz Claiborne Operations (Israel) 1993 Limited	Israel
Liz Claiborne Puerto Rico, Inc.	Delaware
Liz Claiborne Sales, Inc.	Delaware
Liz Claiborne, S.A.	Costa Rica
Liz Claiborne Servicios de Mexico, S.A. de C.V.	Mexico
Liz Claiborne Shoes, Inc.	Delaware
Lucky Brand Dungarees, Inc.	Delaware
Lucky Brand Dungarees Stores, Inc.	Delaware
Mexx Asia Pacific Limited	Hong Kong
Mexx Austria GmbH	Austria
Mexx Belgium N.V.	Belgium

Mexx Czech Repubic s.r.o.	Czech Republic
Mexx Denmark AS	Denmark
Mexx Deutschland GmbH	Germany
Mexx Direct GmbH	Germany
Mexx Direct Holding B.V.	Netherlands
Mexx Europe B.V.	Netherlands
Mexx Europe Holding B.V.	Netherlands
Mexx Europe International B.V.	Netherlands
Mexx Europroduction B.V.	Netherlands
Mexx Far East Limited	Hong Kong
Mexx France SAS	France
Mexx Group B.V.	Netherlands
Mexx Hellas EPE	Greece
Mexx Holding GmbH	Germany
Mexx Holding International B.V.	Netherlands
Mexx Holding Netherland B.V.	Netherlands
Mexx Hungary Ltd.	Hungary
Monet International, Inc.	Delaware
Mexx Ireland Ltd.	Ireland
Mexx Italy S.r.l.	Italy
Mexx Ltd.	United Kingdom
Mexx Middle East Center FZE	Dubai, UAE
Mexx Modehandels AG	Switzerland
Mexx Modehandels GmbH	Germany
Mexx Nederland B.V.	Netherlands
Mexx Nederland Retail B.V.	Netherlands
Mexx Poland Sp. z.o.o.	Poland
Mexx Scandinavia AB	Sweden
Mexx Scandinavia AS	Norway
Mexx Scandinavia Finland Oy	Finland
Mexx Southern Europe S.R.L.	Spain
Mexx Sport Benelux B.V.	Netherlands
Mexx Switzerland GmbH	Switzerland
Monet Puerto Rico, Inc.	Delaware
Retrain N.V.	Belgium
Segrets, Inc.	Delaware
Shenghui Fashion (Shenzhen) Company Limited	China
Skylark Sport Marketing Corporation	California
Textiles Liz Claiborne Guatemala, S.A.	Guatemala
Verwaltungsgesellschaft Mexx Direct mbh	Germany
Westcoast Contempo Fashions Limited	Canada
Westcoast Contempo Promenade, Inc.	Washington
Westcoast Contempo Retail, Inc.	Washington
Westcoast Contempo USA, Inc.	Washington
Yonfield Trading Limited	Hong Kong

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 2-77590, No. 2-95258, No. 033-00661, No. 33-51257, No. 033-63859, No. 333-09851, No. 333-48423, No. 333-54560, No. 333-105527 and No. 333-130382 each on Form S-8 of our report on the financial statements and financial statement schedule of Liz Claiborne, Inc. and subsidiaries ("the Company") dated February 28, 2007, which expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," as revised, effective July 3, 2005, and our report dated February 28, 2007, relating to management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Liz Claiborne, Inc. and subsidiaries for the fiscal year ended December 30, 2006.

/s/ Deloitte & Touche LLP

New York, New York

February 28, 2007

EXHIBIT 31(a)

SECTION 302 CERTIFICATION

I, William L. McComb, certify that:

1. I have reviewed this Annual Report on Form 10-K of Liz Claiborne, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 28, 2007

By: /s/ William L. McComb
William L. McComb
Chief Executive Officer

EXHIBIT 31(b)

SECTION 302 CERTIFICATION

I, Michael Scarpa, certify that:

1. I have reviewed this Annual Report on Form 10-K of Liz Claiborne, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 28, 2007

By: /s/ Michael Scarpa

Michael Scarpa
Chief Operating Officer and
Chief Financial Officer

EXHIBIT 32(a)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Liz Claiborne, Inc. (the "Company") on Form 10-K for the period ending December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William L. McComb, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ William L. McComb

William L. McComb
Chief Executive Officer

Date: February 28, 2007

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and is not being filed as part of the Form 10-K or as a separate disclosure document.

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

EXHIBIT 32(b)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Liz Claiborne, Inc. (the “Company”) on Form 10-K for the period ending December 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael Scarpa, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Michael Scarpa
Michael Scarpa
Chief Operating Officer and
Chief Financial Officer

Date: February 28, 2007

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) and is not being filed as part of the Form 10-K or as a separate disclosure document.

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

Exhibit 99

To Be Incorporated By Reference Into
Registration Statements on Forms S-8
(File Nos. 2-77590, 2-95258, 033-00661, 33-51257, 033-63859, 333-09851,
333-48423, 333-54560, 333-105527 and 333-130382)
UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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