PVH CORP. /DE/
Form 10-Q
December 05, 2017

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 29, 2017

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

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

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

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

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

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

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

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
| | Emerging growth company o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

The number of outstanding shares of common stock, par value $1.00 per share, of the registrant as of November 28, 2017 was 76,929,334.

PVH CORP.
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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995: Forward-looking statements in this Quarterly Report on Form 10-Q, including, without limitation, statements relating to our future revenue, earnings and cash flows, plans, strategies, objectives, expectations and intentions are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not be anticipated, including, without limitation, (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) we may be considered to be highly leveraged and we use a significant portion of our cash flows to service our indebtedness, as a result of which we might not have sufficient funds to operate our businesses in the manner we intend or have operated in the past; (iii) the levels of sales of our apparel, footwear and related products, both to our wholesale customers and in our retail stores, the levels of sales of our licensees at wholesale and retail, and the extent of discounts and promotional pricing in which we and our licensees and other business partners are required to engage, all of which can be affected by weather conditions, changes in the economy, fuel prices, reductions in travel, fashion trends, consolidations, repositionings and bankruptcies in the retail industries, repositionings of brands by our licensors, and other factors; (iv) our ability to manage our growth and inventory, including our ability to realize benefits from acquisitions; (v) quota restrictions and the imposition of safeguard controls (which, among other things, could limit our ability to produce products in cost-effective countries that have the labor and technical expertise needed); (vi) the availability and cost of raw materials; (vii) our ability to adjust timely to changes in trade regulations and the migration and development of manufacturers (which can affect where our products can best be produced); (viii) changes in available factory and shipping capacity, wage and shipping cost escalation, civil conflict, war or terrorist acts, the threat of any of the foregoing, or political or labor instability in any of the countries where our or our licensees' or other business partners' products are sold, produced or are planned to be sold or produced; (ix) disease epidemics and health related concerns, which could result in closed factories, reduced workforces, scarcity of raw materials and scrutiny or embargoing of goods produced in infected areas, as well as reduced consumer traffic and purchasing, as consumers become ill or limit or cease shopping in order to avoid exposure; (x) acquisitions and divestitures and issues arising with acquisitions, divestitures and proposed transactions, including, without limitation, the ability to integrate an acquired entity or business into us with no substantial adverse effect on the acquired entity's, the acquired business's or our existing operations, employee relationships, vendor relationships, customer relationships or financial performance, and the ability to operate effectively and profitably our continuing businesses after the sale or other disposal of a subsidiary, business or the assets thereof; (xi) the failure of our licensees to market successfully licensed products or to preserve the value of our brands, or their misuse of our brands; (xii) significant fluctuations of the United States dollar against foreign currencies in which we transact significant levels of business; (xiii) our retirement plan expenses recorded throughout the year are calculated using actuarial valuations that incorporate assumptions and estimates about financial market, economic and demographic conditions, and differences between estimated and actual results give rise to gains and losses, which can be significant, that are recorded immediately in earnings, generally in the fourth quarter of the year; and (xiv) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

We do not undertake any obligation to update publicly any forward-looking statement, including, without limitation, any estimate regarding revenue, earnings or cash flows, whether as a result of the receipt of new information, future events or otherwise.

PART I -- FINANCIAL INFORMATION

Item 1 - Financial Statements

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| Net sales | $2,220.2 | $2,123.4 | $6,058.7 | $5,786.5 |
| Royalty revenue | 105.8 | 93.9 | 274.5 | 240.9 |
| Advertising and other revenue | 31.0 | 27.0 | 82.7 | 68.0 |
| Total revenue | 2,357.0 | 2,244.3 | 6,415.9 | 6,095.4 |
| Cost of goods sold (exclusive of depreciation and amortization) | 1,059.7 | 1,052.7 | 2,890.5 | 2,863.1 |
| Gross profit | 1,297.3 | 1,191.6 | 3,525.4 | 3,232.3 |
| Selling, general and administrative expenses | 1,020.3 | 918.0 | 2,956.8 | 2,657.9 |
| Other noncash (loss) gain, net | — | (76.9) | — | 76.2 |
| Debt modification and extinguishment costs | — | — | — | 15.8 |
| Equity in net income of unconsolidated affiliates | 3.7 | 1.2 | 5.8 | 0.7 |
| Income before interest and taxes | 280.7 | 197.9 | 574.4 | 635.5 |
| Interest expense | 32.3 | 31.2 | 93.6 | 90.3 |
| Interest income | 1.4 | 2.0 | 4.3 | 4.0 |
| Income before taxes | 249.8 | 168.7 | 485.1 | 549.2 |
| Income tax expense | 11.1 | 42.6 | 56.9 | 101.0 |
| Net income | 238.7 | 126.1 | 428.2 | 448.2 |
| Less: Net loss attributable to redeemable non-controlling interest | (0.5) | (0.1) | (1.1) | (0.1) |
| Net income attributable to PVH Corp. | $239.2 | $126.2 | $429.3 | $448.3 |
| Basic net income per common share attributable to PVH Corp. | $3.09 | $1.58 | $5.52 | $5.56 |
| Diluted net income per common share attributable to PVH Corp. | $3.05 | $1.56 | $5.45 | $5.52 |
| Dividends declared per common share | $0.0375 | $0.0375 | $0.1500 | $0.1500 |

See accompanying notes.

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

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | October 29, 2017 | October 30, 2016 | October 29, 2017 | October 30, 2016 |
| Net income | $238.7 | $126.1 | $428.2 | $448.2 |
| Other comprehensive (loss) income: | | | | |
| Foreign currency translation adjustments | (47.2 ) | (70.2 ) | 261.7 | 14.4 |
| Net unrealized and realized gain (loss) related to effective cash flow hedges, net of tax expense (benefit) of $2.3, $2.7, $0.9 and $(1.1) | 15.6 | 19.1 | (56.6 ) | (18.9 ) |
| Net gain (loss) on net investment hedge, net of tax expense (benefit) of $1.6, $2.5, $(12.0) and $5.4 | 2.7 | 4.1 | (19.8 ) | 9.0 |
| Total other comprehensive (loss) income | (28.9 ) | (47.0 ) | 185.3 | 4.5 |
| Comprehensive income | 209.8 | 79.1 | 613.5 | 452.7 |
| Less: Comprehensive loss attributable to redeemable non-controlling interest | (0.5 ) | (0.1 ) | (1.1 ) | (0.1 ) |
| Comprehensive income attributable to PVH Corp. | $210.3 | $79.2 | $614.6 | $452.8 |

See accompanying notes.

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

| | October 29, 2017 UNAUDITED | January 29, 2017 AUDITED | October 30, 2016 UNAUDITED |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 612.3 | $ 730.1 | $ 662.4 |
| Trade receivables, net of allowances for doubtful accounts of $18.3, $15.0 and $16.3 | 827.9 | 616.0 | 765.4 |
| Other receivables | 29.2 | 25.4 | 23.0 |
| Inventories, net | 1,466.2 | 1,317.9 | 1,258.3 |
| Prepaid expenses | 168.4 | 133.2 | 140.2 |
| Other | 40.1 | 57.0 | 49.7 |
| Assets held for sale | — | — | 49.1 |
| Total Current Assets | 3,144.1 | 2,879.6 | 2,948.1 |
| Property, Plant and Equipment, net | 821.2 | 759.9 | 730.2 |
| Goodwill | 3,685.8 | 3,469.9 | 3,495.4 |
| Tradenames | 2,857.4 | 2,783.4 | 2,802.8 |
| Other Intangibles, net | 792.8 | 826.6 | 856.6 |
| Other Assets, including deferred taxes of $23.6, $17.4 and $2.9 | 356.9 | 348.5 | 235.5 |
| Total Assets | $ 11,658.2 | $ 11,067.9 | $ 11,068.6 |
| | | | |
| LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | $ 681.3 | $ 682.6 | $ 496.5 |
| Accrued expenses | 816.1 | 832.4 | 794.0 |
| Deferred revenue | 21.4 | 30.7 | 19.1 |
| Short-term borrowings | 207.5 | 19.1 | 20.8 |
| Current portion of long-term debt | — | — | — |
| Liabilities related to assets held for sale | — | — | 26.0 |
| Total Current Liabilities | 1,726.3 | 1,564.8 | 1,356.4 |
| Long-Term Debt | 3,182.7 | 3,197.3 | 3,303.1 |
| Other Liabilities, including deferred taxes of $823.3, $877.7 and $868.8 | 1,496.8 | 1,499.3 | 1,613.6 |
| Redeemable Non-Controlling Interest | 2.6 | 2.0 | 1.2 |
| Stockholders' Equity: | | | |
| Preferred stock, par value $100 per share; 150,000 total shares authorized | — | — | — |
| Common stock, par value $1 per share; 240,000,000 shares authorized; 84,323,758; 83,923,184 and 83,910,459 shares issued | 84.3 | 83.9 | 83.9 |
| Additional paid in capital - common stock | 2,911.3 | 2,866.2 | 2,856.3 |
| Retained earnings | 3,514.7 | 3,098.0 | 2,997.3 |
| Accumulated other comprehensive loss | (525.5) | (710.8) | (699.7) |
| Less: 7,243,364; 5,371,660 and 4,436,983 shares of common stock held in treasury, at cost | (735.0) | (532.8) | (443.5) |
| Total Stockholders' Equity | 5,249.8 | 4,804.5 | 4,794.3 |

| | | | |
|---|---|---|---|
| Total Liabilities, Redeemable Non-Controlling Interest and Stockholders' Equity | $ 11,658.2 | $11,067.9 | $ 11,068.6 |

See accompanying notes.

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

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | October 29, 2017 | October 30, 2016 |
| OPERATING ACTIVITIES | | |
| Net income | $428.2 | $448.2 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation and amortization | 239.0 | 237.6 |
| Equity in net income of unconsolidated affiliates | (5.8) | (0.7) |
| Deferred taxes | (67.4) | 10.6 |
| Stock-based compensation expense | 33.0 | 28.9 |
| Impairment of long-lived assets | 2.2 | 7.0 |
| Debt modification and extinguishment costs | — | 15.8 |
| Settlement loss on retirement plans | 9.4 | — |
| Gain to write-up equity investment in joint venture to fair value | — | (153.1) |
| Loss to write-down assets held for sale | — | 76.9 |
| Changes in operating assets and liabilities: | | |
| Trade receivables, net | (189.8) | (123.2) |
| Inventories, net | (99.6) | 70.7 |
| Accounts payable, accrued expenses and deferred revenue | (75.7) | (68.8) |
| Prepaid expenses | (29.7) | 11.7 |
| Employer pension contributions | — | (6.9) |
| Other, net | (0.7) | 22.6 |
| Net cash provided by operating activities | 243.1 | 577.3 |
| INVESTING ACTIVITIES[1] | | |
| Business acquisitions, net of cash acquired | (40.1) | (157.7) |
| Purchase of property, plant and equipment | (235.2) | (163.0) |
| Proceeds from sale of building | — | 16.7 |
| Contingent purchase price payments | (38.5) | (37.0) |
| Investments in and advance to unconsolidated affiliates | (4.5) | (24.7) |
| Payment received on advance to unconsolidated affiliate | 6.3 | — |
| Net cash used by investing activities | (312.0) | (365.7) |
| FINANCING ACTIVITIES[1] | | |
| Net proceeds from (payments on) short-term borrowings | 188.4 | (5.1) |
| Proceeds from 2016 facilities, net of related fees | — | 571.1 |
| Repayment of Term Loan B in connection with amendment to 2014 facilities | — | (582.0) |
| Repayment of 2016/2014 facilities | (50.0) | (251.3) |
| Proceeds from 3 5/8% senior notes, net of related fees | — | 389.6 |
| Net proceeds from settlement of awards under stock plans | 11.4 | 12.3 |
| Cash dividends | (11.8) | (12.2) |
| Acquisition of treasury shares | (200.2) | (229.6) |
| Payments of capital lease obligations | (3.8) | (5.3) |

| | | |
|---|---|---|
| Contributions from non-controlling interest | 1.7 | 1.2 |
| Net cash used by financing activities | (64.3 ) | (111.3 ) |
| Effect of exchange rate changes on cash and cash equivalents | 15.4 | 5.7 |
| (Decrease) increase in cash and cash equivalents | (117.8 ) | 106.0 |
| Cash and cash equivalents at beginning of period | 730.1 | 556.4 |
| Cash and cash equivalents at end of period | $612.3 | $662.4 |

(1) See Note 17 for information on Noncash Investing and Financing Transactions.

See accompanying notes.

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PVH CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

PVH Corp. and its consolidated subsidiaries (collectively, the “Company”) constitute a global apparel company whose brand portfolio consists of nationally and internationally recognized brand names, including CALVIN KLEIN, TOMMY HILFIGER, Van Heusen, IZOD, ARROW, Warner’s, Olga and, as of March 30, 2017, True&Co., which are owned, and Speedo, which is licensed, as well as various other owned, licensed and private label brands. The Company designs and markets branded dress shirts, neckwear, sportswear, jeanswear, performance apparel, intimate apparel, underwear, swim products, handbags, accessories, footwear and other related products and licenses its owned brands over a broad range of products. References to the aforementioned and other brand names are to registered and common law trademarks owned by the Company or licensed to the Company by third parties and are identified by italicizing the brand name.

The consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated in consolidation. Investments in entities that the Company does not control but has the ability to exercise significant influence over are accounted for using the equity method of accounting. The Company’s Consolidated Income Statements include its proportionate share of the net income or loss of these entities. Please see Note 6, “Investments in Unconsolidated Affiliates,” for further discussion. During the second quarter of 2016, the Company and Arvind Limited (“Arvind”) formed a joint venture in Ethiopia, PVH Arvind Manufacturing Private Limited Company (“PVH Ethiopia”), in which the Company owns a 75% interest. PVH Ethiopia is consolidated and the minority shareholder’s proportionate share (25%) of the equity in this joint venture is accounted for as a redeemable non-controlling interest. Please see Note 5, “Redeemable Non-Controlling Interest,” for further discussion.

The Company’s fiscal years are based on the 52-53 week periods ending on the Sunday closest to February 1 of each calendar year and are designated by the calendar year in which the fiscal year commences. References to a year are to the Company’s fiscal year, unless the context requires otherwise.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not contain all disclosures required by accounting principles generally accepted in the United States for complete financial statements. Reference is made to the Company’s audited consolidated financial statements, including the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended January 29, 2017.

The preparation of interim financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from these estimates.

The results of operations for the thirteen and thirty-nine weeks ended October 29, 2017 and October 30, 2016 are not necessarily indicative of those for a full fiscal year due, in part, to seasonal factors. The data contained in these consolidated financial statements are unaudited and are subject to year-end adjustments. However, in the opinion of management, all known adjustments (which consist of normal recurring accruals) have been made to present fairly the consolidated operating results for the unaudited periods.

The Company records warehousing and distribution expenses, which are subject to exchange rate fluctuations, as a component of selling, general and administrative (“SG&A”) expenses in its Consolidated Income Statements. Warehousing and distribution expenses incurred in the thirteen and thirty-nine weeks ended October 29, 2017 totaled

$72.3 million and $200.2 million, respectively, and included costs of $2.5 million and $9.8 million, respectively, related to the consolidation within the Company’s warehouse and distribution network in North America. Warehousing and distribution expenses incurred in the thirteen and thirty-nine weeks ended October 30, 2016 totaled $65.5 million and $181.2 million, respectively.

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

2. INVENTORIES

Inventories are comprised principally of finished goods and are stated at the lower of cost or net realizable value, except for certain retail inventories in North America that are stated at the lower of cost or market using the retail inventory method. Cost

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

3. ACQUISITIONS

Acquisition of the Wholesale and Concessions Businesses in Belgium and Luxembourg

The Company acquired on September 1, 2017 the Tommy Hilfiger and Calvin Klein wholesale and concessions businesses in Belgium and Luxembourg from a former agent (the “Belgian acquisition”). As a result of this acquisition, the Company now operates directly its Tommy Hilfiger and Calvin Klein businesses in this region.

The acquisition date fair value of the consideration was $13.9 million, consisting of $12.0 million paid in cash and $1.9 million included in accrued expenses in the Company’s Consolidated Balance Sheet as of October 29, 2017, which is expected to be paid in the fourth quarter of 2017. The estimated fair value of assets acquired and liabilities assumed included $11.9 million of goodwill and $2.0 million of other net assets. The goodwill of $11.9 million was assigned as of the acquisition date to the Company’s Tommy Hilfiger International and Calvin Klein International segments in the amounts of $10.7 million and $1.2 million, respectively, which are the Company’s reporting units that are expected to benefit from the synergies of the combination. Goodwill is not expected to be deductible for tax purposes. The Company is still in the process of finalizing the valuation of the assets acquired and liabilities assumed; thus, the allocation of the acquisition consideration is subject to change.

Acquisition of True & Co.

The Company acquired on March 30, 2017 True & Co., a direct-to-consumer intimate apparel digital commerce retailer. This acquisition enables the Company to participate further in the fast-growing online channel and provides a platform to increase innovation, data-driven decisions and speed in the way it serves its consumers across its channels of distribution.

The acquisition date fair value of the consideration paid was $28.5 million. The estimated fair value of assets acquired and liabilities assumed included $28.2 million of goodwill and $0.3 million of other net assets (including $0.4 million of cash acquired). The goodwill of $28.2 million was assigned as of the acquisition date to the Company’s Calvin Klein North America, Calvin Klein International and Heritage Brands Wholesale segments in the amounts of $7.3 million, $6.4 million and $14.5 million, respectively, which include the Company’s reporting units that are expected to benefit from the synergies of the combination. For those reporting units that had not been assigned any of the assets acquired or liabilities assumed in the acquisition, the amount of goodwill assigned was determined by calculating the estimated fair value of such reporting units before and after the acquisition. Goodwill is not expected to be deductible for tax purposes. The Company is still in the process of finalizing the valuation of the assets acquired and liabilities assumed; thus, the allocation of the acquisition consideration is subject to change.

Acquisition of TH China

The Company acquired on April 13, 2016 the 55% of the ownership interests in TH Asia, Ltd. (“TH China”), its former joint venture for TOMMY HILFIGER in China, that it did not already own (the “TH China acquisition”). Prior to April 13, 2016, the Company accounted for its 45% interest in TH China under the equity method of accounting. Since the completion of the TH China acquisition, the results of TH China’s operations have been consolidated in the Company’s consolidated financial statements.

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

The carrying value of the Company's 45% interest in TH China prior to the acquisition was $52.5 million. In connection with the acquisition, this investment was remeasured to a fair value of $205.6 million, resulting in the recognition during the first quarter of 2016 of a pre-tax noncash gain of $153.1 million. Such fair value was estimated using future operating cash flow projections that were discounted at a rate of 14.4%, which accounted for the relative risks of the estimated future cash flows. Such fair value also included an estimated discount for a lack of marketability of 10.0%. The Company classified this as a Level 3 fair value measurement due to the use of these significant unobservable inputs.

The acquisition date fair value of the consideration for the 55% interest that the Company did not already own was $265.8 million, consisting of $263.0 million paid in cash and the elimination of a $2.8 million pre-acquisition receivable owed to the Company by TH China. The total fair value of TH China (at 100%) was $471.4 million. The estimated fair value of assets acquired and liabilities assumed included $258.6 million of goodwill, $110.6 million of other intangible assets and $102.2 million of other net assets (including $105.3 million of cash acquired). The goodwill of $258.6 million was assigned to the Company's Tommy Hilfiger International segment. Goodwill will not be deductible for tax purposes. The other intangible assets of $110.6 million included reacquired license rights of $72.0 million, order backlog of $26.2 million and customer relationships of $12.4 million. The Company finalized the purchase price allocation during the fourth quarter of 2016.

4. ASSETS HELD FOR SALE

Deconsolidation of the Mexico Business

On November 30, 2016, the Company and Grupo Axo, S.A.P.I. de C.V. ("Grupo Axo") formed a joint venture ("PVH Mexico"), in which the Company acquired a 49% economic interest. PVH Mexico licenses from wholly owned subsidiaries of the Company the rights to distribute in Mexico certain products under the CALVIN KLEIN, TOMMY HILFIGER, Warner's, Olga and Speedo brands. PVH Mexico was formed by merging the Company's wholly owned subsidiary that principally operated and managed the Calvin Klein business in Mexico (the "Mexico business") with a wholly owned subsidiary of Grupo Axo that distributes certain TOMMY HILFIGER brand products in Mexico. In connection with the formation of PVH Mexico, the Company deconsolidated the Mexico business (the "Mexico deconsolidation") and began accounting for its 49% interest under the equity method of accounting in the fourth quarter of 2016.

In advance of the Mexico deconsolidation, the Company classified the assets and liabilities of the Mexico business as held for sale as of October 30, 2016 and recorded a pre-tax noncash loss of $76.9 million during the third quarter of 2016 (including $47.2 million related to foreign currency translation adjustment losses recorded in accumulated other comprehensive loss ("AOCL")) to write down the net assets of the Mexico business to its estimated fair value as of October 30, 2016. The fair value of the net assets of $70.3 million was estimated as the fair value of the 49% interest in PVH Mexico that the Company would acquire upon the formation of PVH Mexico, based on future operating cash flow projections that were discounted at a rate of 15.0%, which accounted for the relative risks of the estimated future cash flows. Such fair value also included an estimated discount for a lack of marketability of 10.0%. The Company classified this as a Level 3 fair value measurement due to the use of these significant unobservable inputs.

The $76.9 million loss was included in other noncash (loss) gain, net in the Company's Consolidated Income Statements for the thirteen and thirty-nine weeks ended October 30, 2016. In connection with the closing of the transaction in the fourth quarter of 2016, the loss was remeasured in order to reduce the carrying value of the Mexico business to fair value as of November 30, 2016, resulting in an additional pre-tax noncash loss of $4.9 million recorded in the fourth quarter of 2016.

The assets and liabilities of the Mexico business classified as held for sale on the Company's Consolidated Balance Sheet as of October 30, 2016 were principally included in the Calvin Klein North America segment and consisted of the following:

| (In millions) | | |
|---|---|---|
| Assets held for sale: | | |
| Trade receivables | $ | 20.3 |
| Other receivables | 1.6 | |
| Inventories, net | 22.4 | |
| Prepaid expenses | 2.2 | |
| Other Current Assets | 1.0 | |
| Property, Plant and Equipment, net | 6.8 | |
| Goodwill | 21.5 | |
| Other Intangibles, net | 47.4 | |
| Other Noncurrent Assets | 2.8 | |
| Allowance for reduction of assets held for sale | (76.9 | ) |
| Total assets held for sale | $ | 49.1 |
| | | |
| Liabilities related to assets held for sale: | | |
| Accounts payable | $ | 4.0 |
| Accrued expenses | 7.2 | |
| Other Noncurrent Liabilities | 14.8 | |
| Total liabilities related to assets held for sale | $ | 26.0 |

Sale of Building in Amsterdam

During 2015, one of the Company’s European subsidiaries entered into an agreement to sell a building in Amsterdam, the Netherlands. The Company classified the building as held for sale in the fourth quarter of 2015 and ceased recording depreciation on the building at that time.

The Company completed the sale of the building in the second quarter of 2016 for proceeds of €15.0 million (approximately $16.7 million based on the exchange rate in effect on that date) and recorded a gain of $1.5 million, which represented the excess of the proceeds, less costs to sell, over the carrying value on that date. The gain was recorded in SG&A expenses in the Company’s Consolidated Income Statement during the second quarter of 2016 and was included in the Calvin Klein International segment.

5. REDEEMABLE NON-CONTROLLING INTEREST

During the second quarter of 2016, the Company and Arvind formed PVH Ethiopia, in which the Company owns a 75% interest. The Company has consolidated the joint venture in its consolidated financial statements. PVH Ethiopia was formed to operate a manufacturing facility that produces finished products for the Company for distribution primarily in the United States. The manufacturing facility began operations in the first half of 2017.

The shareholders agreement governing the joint venture (the “Shareholders Agreement”) contains a put option under which Arvind can require the Company to purchase all of its shares in the joint venture during various future periods as specified in the Shareholders Agreement. The first such period immediately precedes the ninth anniversary of the date of incorporation of PVH Ethiopia. The Shareholders Agreement also contains call options under which the Company can require Arvind to sell to the Company (i) all or a portion of its shares during various future periods as specified in the Shareholders Agreement; (ii) all of its shares in the event of a change of control of Arvind; or (iii) all of its shares in the event that Arvind ceases to hold at least ten percent of the outstanding shares. The Company’s first call option referred to in clause (i) immediately follows the fifth anniversary of the date of incorporation of PVH Ethiopia. The put and call prices are the fair market value of the shares on the redemption date based upon a multiple of the joint venture’s earnings before interest, taxes, depreciation and amortization for the prior 12 months, less the joint venture’s net debt.

The fair value of the redeemable non-controlling interest (“RNCI”) as of the date of formation of the joint venture was $0.1 million. The carrying amount of the RNCI is adjusted to equal the redemption amount at the end of each reporting period, provided that this amount at the end of each reporting period cannot be lower than the initial fair value adjusted for the minority shareholder’s share of net income or loss. Any adjustment to the redemption amount of the RNCI is determined after attribution of net income or loss of the RNCI and will be recognized immediately in retained earnings of the Company, since it is probable that the RNCI will become redeemable in the future based on the passage of time. The carrying amount of the RNCI, which is also its fair value, increased to $2.6 million as of October 29, 2017 from $2.0 million as of January 29, 2017, attributable to additional contributions of $1.7 million made by Arvind during the first quarter of 2017 for its proportionate share of the joint venture funding, partially offset by a net loss attributable to the RNCI for the thirty-nine weeks ended October 29, 2017 of $1.1 million. The carrying amount of the RNCI as of October 30, 2016 was $1.2 million.

6. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

As of October 29, 2017, January 29, 2017 and October 30, 2016, the Company had investments in unconsolidated affiliates of $186.3 million, $180.0 million and $119.2 million, respectively. These investments are accounted for under the equity method of accounting and included in other assets in the Company's Consolidated Balance Sheets. The Company received dividends of $3.7 million from these investments during the thirty-nine weeks ended October 29, 2017 and made payments related to these investments of $4.5 million and $3.0 million during the thirty-nine weeks ended October 29, 2017 and October 30, 2016, respectively, to contribute its share of the joint venture funding for the periods.

The Company acquired approximately 10% of the outstanding capital stock of Gazal Corporation Limited ("Gazal"), which is listed on the Australian Securities Exchange, during the third quarter of 2016 for $9.2 million. Additionally, the Company issued a note receivable due April 2, 2017 to its joint venture in Brazil during the third quarter of 2016 for $12.5 million, of which $6.2 million was repaid in the fourth quarter of 2016 and the remaining balance, including accrued interest, was repaid in the first quarter of 2017.

The Company and Grupo Axo formed PVH Mexico in the fourth quarter of 2016, in which the Company owns a 49% economic interest. In connection with the formation of PVH Mexico, the Company deconsolidated the Mexico business and began accounting for its 49% interest under the equity method of accounting in the fourth quarter of 2016. Please see Note 4, "Assets Held for Sale," for further discussion.

7. GOODWILL

The changes in the carrying amount of goodwill for the thirty-nine weeks ended October 29, 2017, by segment (please see Note 18, "Segment Data," for further discussion of the Company's reportable segments), were as follows:

| (In millions) | Calvin Klein North America | Calvin Klein International | Tommy Hilfiger North America | Tommy Hilfiger International | Heritage Brands Wholesale | Heritage Brands Retail | Total |
|---|---|---|---|---|---|---|---|
| Balance as of January 29, 2017 | | | | | | | |
| Goodwill, gross | $ 739.4 | $ 864.5 | $ 204.4 | $ 1,425.8 | $ 235.8 | $ 11.9 | $3,481.8 |
| Accumulated impairment losses | — | — | — | — | — | (11.9 ) | (11.9 ) |
| Goodwill, net | 739.4 | 864.5 | 204.4 | 1,425.8 | 235.8 | — | 3,469.9 |
| Contingent purchase price payments to Mr. Calvin Klein | 25.5 | 17.1 | — | — | — | — | 42.6 |
| True & Co. acquisition | 7.3 | 6.4 | — | — | 14.5 | — | 28.2 |
| Belgian acquisition | — | 1.2 | — | 10.7 | — | — | 11.9 |
| Currency translation and other | 0.3 | 21.4 | — | 111.5 | — | — | 133.2 |
| Balance as of October 29, 2017 | | | | | | | |
| Goodwill, gross | 772.5 | 910.6 | 204.4 | 1,548.0 | 250.3 | 11.9 | 3,697.7 |
| Accumulated impairment losses | — | — | — | — | — | (11.9 ) | (11.9 ) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Goodwill, net | $ 772.5 | $ 910.6 | $ 204.4 | $ 1,548.0 | $ 250.3 | $ — | $ 3,685.8 |

The goodwill acquired in the True & Co. and Belgian acquisitions was assigned as of the acquisition dates to the Company's reporting units that are expected to benefit from the synergies of the combinations. For those reporting units that had not been assigned any of the assets acquired or liabilities assumed in the True & Co. acquisition, the amount of goodwill assigned was determined by calculating the estimated fair value of such reporting units before and after the acquisition.

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

8. RETIREMENT AND BENEFIT PLANS

The Company has five qualified defined benefit pension plans as of October 29, 2017 covering substantially all employees resident in the United States who meet certain age and service requirements. The plans provide monthly benefits upon retirement generally based on career average compensation and years of credited service. Vesting in plan benefits generally occurs after five years of service. The Company refers to these five noncontributory plans as its “Pension Plans.”

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

The Company also provides certain postretirement health care and life insurance benefits to certain retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. As a result of the Company’s acquisition of The Warnaco Group, Inc. (“Warnaco”), the Company also provides certain postretirement health care and life insurance benefits to certain Warnaco retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. Both of the Company’s postretirement health care and life insurance benefit plans are frozen. The Company refers to these two plans as its “Postretirement Plans.”

Net benefit cost related to the Pension Plans was recognized in SG&A expenses in the Company’s Consolidated Income Statements as follows:

| (In millions) | Thirteen Weeks Ended 10/29/17 | Thirteen Weeks Ended 10/30/16 | Thirty-Nine Weeks Ended 10/29/17 | Thirty-Nine Weeks Ended 10/30/16 |
|---|---|---|---|---|
| Service cost, including plan expenses | $6.8 | $ 6.3 | $20.1 | $ 18.9 |
| Interest cost | 6.4 | 7.4 | 19.3 | 22.3 |
| Expected return on plan assets | (9.6 ) | (9.0 ) | (28.9 ) | (26.9 ) |
| Loss on settlement | — | — | 9.4 | — |
| Total | $3.6 | $ 4.7 | $19.9 | $ 14.3 |

During the first quarter of 2017, the Company completed the purchase of a group annuity using assets from the Pension Plans. Under the group annuity, the accrued pension obligations for approximately 4,000 retiree participants who had deferred vested benefits under the Pension Plans were transferred to an insurer. As a result, the Company recognized a loss of $9.4 million, which was recorded in SG&A expenses in the Company's Consolidated Income Statement for the thirty-nine weeks ended October 29, 2017. The amount of the pension benefit obligation settled was $65.3 million.

Net benefit cost related to the SERP Plans was recognized in SG&A expenses in the Company's Consolidated Income Statements as follows:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| (In millions) | 10/29/17 | 10/30/16 | 10/29/17 | 10/30/16 |
| Service cost, including plan expenses | $1.1 | $ 1.1 | $3.4 | $ 3.3 |
| Interest cost | 1.0 | 1.0 | 2.9 | 2.9 |
| Total | $2.1 | $ 2.1 | $6.3 | $ 6.2 |

Net benefit cost related to the Postretirement Plans was immaterial for the thirteen and thirty-nine weeks ended October 29, 2017 and October 30, 2016.

Currently, the Company does not expect to make any material contributions to the Pension Plans in 2017. The Company's actual contributions may differ from planned contributions due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates.

## 9. DEBT

### Short-Term Borrowings

The Company has the ability to draw revolving borrowings under its senior secured credit facilities, as discussed in the section entitled "2016 Senior Secured Credit Facilities" below. As of October 29, 2017, the Company had $190.0 million outstanding under these facilities. The weighted average interest rate on the funds borrowed as of October 29, 2017 was approximately 3.05%. The maximum amount of revolving borrowings outstanding under these facilities during the thirty-nine weeks ended October 29, 2017 was $205.0 million.

Additionally, the Company has the availability to borrow under short-term lines of credit, overdraft facilities and short-term revolving credit facilities denominated in various foreign currencies. These facilities provided for borrowings of up to $94.3 million based on exchange rates in effect on October 29, 2017 and are utilized primarily to fund working capital needs. As of October 29, 2017, the Company had $17.5 million outstanding under these facilities. The weighted average interest rate on the funds borrowed as of October 29, 2017 was approximately 0.18%. The maximum amount of borrowings outstanding under these facilities during the thirty-nine weeks ended October 29, 2017 was $27.3 million.

### Long-Term Debt

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

| (In millions) | 10/29/17 | 1/29/17 | 10/30/16 |
|---|---|---|---|
| Senior secured Term Loan A facility due 2021 | $1,991.6 | $2,039.9 | $2,138.0 |
| 4 1/2% senior unsecured notes due 2022 | 691.6 | 690.4 | 690.0 |
| 7 3/4% debentures due 2023 | 99.5 | 99.5 | 99.5 |
| 3 5/8% senior unsecured euro notes due 2024 | 400.0 | 367.5 | 375.6 |
| Total | 3,182.7 | 3,197.3 | 3,303.1 |

| | | | |
|---|---|---|---|
| Less: Current portion of long-term debt | — | — | — |
| Long-term debt | $3,182.7 | $3,197.3 | $3,303.1 |

Please see Note 12, “Fair Value Measurements,” for the fair value of the Company’s long-term debt as of October 29, 2017, January 29, 2017 and October 30, 2016.

As of October 29, 2017, the Company’s mandatory long-term debt repayments for the next five years were as follows:

(In millions)

| Fiscal Year | Amount |
|---|---|
| Remainder of 2017 | $ — |
| 2018 | 18.7 |
| 2019 | 220.1 |
| 2020 | 234.7 |
| 2021 | 1,525.8 |
| 2022 | 700.0 |

Total debt repayments for the next five years exceed the carrying amount of the Company’s Term Loan A facility and 4 1/2% senior unsecured notes due 2022 as of October 29, 2017 because the carrying amounts reflect the unamortized portions of debt issuance costs and the original issue discounts.

As of October 29, 2017, after taking into account the effect of the Company’s interest rate swap agreement, which was in effect as of such date, approximately 60% of the Company’s long-term debt was at a fixed interest rate, with the remainder at variable interest rates.

2016 Senior Secured Credit Facilities

The Company has senior secured credit facilities due May 19, 2021 (the “2016 facilities”) that consist of a $2,347.4 million United States dollar-denominated Term Loan A facility and senior secured revolving credit facilities consisting of (a) a $475.0 million United States dollar-denominated revolving credit facility, (b) a $25.0 million United States dollar-denominated revolving credit facility available in United States dollars or Canadian dollars and (c) a €185.9 million euro-denominated revolving credit facility available in euro, British pound sterling, Japanese yen or Swiss francs. Borrowings under the 2016 facilities bear interest at variable rates calculated in a manner as set forth in the terms of the 2016 facilities.

The Company had prior senior secured credit facilities outstanding through May 19, 2016 (the “2014 facilities”), which were amended by the 2016 facilities in the second quarter of 2016. Among other things, this amendment provided for (i) the Company to borrow an additional $582.0 million principal amount of loans under the Term Loan A facility, (ii) the repayment of all outstanding loans under the previously outstanding Term Loan B facility with the proceeds of the additional loans under the Term Loan A facility, and (iii) the termination of the Term Loan B facility. The Company paid debt issuance costs of $10.9 million (of which $4.6 million was expensed as debt modification costs and $6.3 million is being amortized over the term of the related debt agreement) and recorded debt extinguishment costs of $11.2 million to write-off previously capitalized debt issuance costs.

The Company had loans outstanding of $1,991.6 million, net of original issue discounts and debt issuance costs, under the Term Loan A facility and $190.0 million of borrowings outstanding under the senior secured revolving credit facilities as of October 29, 2017. The senior secured revolving credit facilities also include amounts available for letters of credit. As of October 29, 2017, the Company had $22.6 million of outstanding letters of credit.

The Company made payments of $50.0 million and $251.3 million during the thirty-nine weeks ended October 29, 2017 and October 30, 2016, respectively, on its term loans under the 2016 facilities and 2014 facilities. As a result of the voluntary repayments made by the Company, as of October 29, 2017, the Company is not required to make a long-term debt repayment until December 2018.

During the second quarter of 2017, the Company entered into an interest rate swap agreement for a two-year term commencing on February 20, 2018. The agreement was designed with the intended effect of converting an initial notional amount of $306.5 million of the Company's variable rate debt obligation to fixed rate debt. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month London Interbank Borrowing rate ("LIBOR") will be eliminated and the Company will pay a fixed rate of 1.566%, plus the current applicable margin.

During the second quarter of 2014, the Company entered into an interest rate swap agreement for a two-year term commencing on February 17, 2016. The agreement was designed with the intended effect of converting an initial notional amount of $682.6 million of the Company's variable rate debt obligation to fixed rate debt. Such agreement remains outstanding with a notional amount of $678.9 million as of October 29, 2017. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month LIBOR is eliminated and the Company will pay a weighted average fixed rate of 1.924%, plus the current applicable margin.

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

4 1/2% Senior Notes Due 2022

The Company has outstanding $700.0 million principal amount of 4 1/2% senior notes due December 15, 2022. The Company may redeem some or all of these notes at any time prior to December 15, 2017 by paying a "make whole" premium plus any accrued and unpaid interest. In addition, the Company may redeem some or all of these notes on or after December 15, 2017 at specified redemption prices plus any accrued and unpaid interest.

7 3/4% Debentures Due 2023

The Company has outstanding $100.0 million of debentures due November 15, 2023 that accrue interest at the rate of 7 3/4%.

3 5/8% Euro Senior Notes Due 2024

On June 20, 2016, the Company issued €350.0 million euro-denominated principal amount of 3 5/8% senior notes due July 15, 2024. Interest on the notes is payable in euros. The Company paid €6.4 million (approximately $7.3 million based on exchange rates in effect on the payment date) of fees during the second quarter of 2016 in connection with the issuance of these notes, which are amortized over the term of the notes. The Company may redeem some or all of these notes at any time prior to April 15, 2024 by paying a "make whole" premium plus any accrued and unpaid interest. In addition, the Company may redeem some or all of these notes on or after April 15, 2024 at their principal amount plus any accrued and unpaid interest.

Substantially all of the Company's assets have been pledged as collateral to secure the Company's obligations under its 2016 facilities, the 7 3/4% debentures due 2023 and contingent purchase price payments to Mr. Calvin Klein as discussed in Note 7, "Goodwill."

The Company's financing arrangements contain financial and non-financial covenants and customary events of default. As of October 29, 2017, the Company was in compliance with all applicable covenants.

Please refer to Note 8, "Debt," in the Notes to Consolidated Financial Statements included in Item 8 of the Company's Annual Report on Form 10-K for the year ended January 29, 2017 for further discussion of the Company's debt.

10. INCOME TAXES

The effective income tax rates for the thirteen weeks ended October 29, 2017 and October 30, 2016 were 4.4% and 25.3%, respectively. The effective income tax rates for the thirty-nine weeks ended October 29, 2017 and October 30, 2016 were 11.7% and 18.4%, respectively. The effective income tax rates for the thirteen and thirty-nine weeks ended October 29, 2017 and October 30, 2016 were lower than the United States statutory rate due to the benefit of overall lower tax rates in certain international jurisdictions where the Company files tax returns.

The effective income tax rates for the thirteen and thirty-nine weeks ended October 29, 2017 also included the overall benefit of certain discrete items, including the favorable impact on certain liabilities for uncertain tax positions from the expiration of applicable statutes of limitation, which resulted in a benefit to the Company’s effective income tax rates of 14.7% and 6.9%, respectively.

The effective income tax rates for the thirteen and thirty-nine weeks ended October 30, 2016 also included the overall benefit of certain discrete items, including the favorable impact on certain liabilities for uncertain tax positions from the expiration of applicable statutes of limitation that resulted in a benefit to the Company’s effective income tax rates of 14.1% and 4.9%, respectively, partially offset by the unfavorable impact of the tax expense recorded on the assets held for sale in connection with the Mexico deconsolidation that resulted in a provision to the Company’s effective income tax rates of 9.8% and 3.0%, respectively. The effective income tax rate for the thirty-nine weeks ended October 30, 2016 also included the favorable impact

of the lower tax rate applicable to the pre-tax gain recorded to write-up the Company's equity investment in TH China to fair value that resulted in a 7.0% benefit to the Company's effective income tax rate.
The Company files income tax returns in more than 40 international jurisdictions each year. All of the international jurisdictions in which the Company files tax returns, with the exception of Japan, have lower statutory tax rates than the United States statutory tax rate. A substantial amount of the Company's earnings come from international operations, particularly in the Netherlands, Hong Kong, China, Korea and Canada. The lower statutory income tax rates in these jurisdictions, as compared to the United States statutory rate, coupled with special rates levied on income from certain of the Company's jurisdictional activities, significantly reduce the Company's consolidated effective income tax rate.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

### Cash Flow Hedges

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

The Company also has exposure to interest rate volatility related to its term loans under the 2016 facilities. The Company has entered into interest rate swap agreements to hedge against a portion of this exposure. Please see Note 9, "Debt," for further discussion of the Company's facilities and these agreements.

The Company records the foreign currency forward exchange contracts and interest rate swap agreements at fair value in its Consolidated Balance Sheets, and does not net the related assets and liabilities. The foreign currency forward exchange contracts associated with certain international inventory purchases and the interest rate swap agreements are designated as effective hedging instruments (collectively referred to as "cash flow hedges"). The changes in the fair value of the cash flow hedges are recorded in equity as a component of AOCL. The cash flows from such hedges are presented in the same category in the Company's Consolidated Statements of Cash Flows as the items being hedged. No amounts were excluded from effectiveness testing. There was no ineffective portion of cash flow hedges during the thirty-nine weeks ended October 29, 2017 and October 30, 2016.

### Net Investment Hedge

The Company has exposure to changes in foreign currency exchange rates related to the value of its investments in foreign subsidiaries denominated in a currency other than the United States dollar. To hedge against a portion of this exposure, during the second quarter of 2016, the Company designated the carrying amount of its €350.0 million euro-denominated principal amount of 3 5/8% senior notes due 2024 (the "foreign currency borrowings") that it had issued in the United States as a net investment hedge of its investments in certain of its foreign subsidiaries that use the euro as their functional currency. Please see Note 9, "Debt," for further discussion of the Company's foreign currency borrowings.

The Company records the foreign currency borrowings at carrying value in its Consolidated Balance Sheets. The carrying value of the foreign currency borrowings is remeasured at the end of each reporting period to reflect changes in the foreign currency exchange spot rate. Since the foreign currency borrowings are designated as a net investment hedge, such remeasurement is recorded in equity as a component of AOCL. The fair value and the carrying value of the foreign currency borrowings designated as a net investment hedge were $448.8 million and $400.0 million, respectively, as of October 29, 2017, $384.1 million and $367.5 million, respectively, as of January 29, 2017 and $403.3 million and $375.6 million, respectively, as of October 30, 2016. The Company evaluates the effectiveness of its net investment hedge as of the beginning of each quarter. No amounts were excluded from effectiveness testing.

There was no ineffective portion of the net investment hedge during the thirty-nine weeks ended October 29, 2017 and October 30, 2016.

Undesignated Contracts

The Company records immediately in earnings changes in the fair value of hedges that are not designated as effective hedging instruments (“undesignated contracts”), including all of the foreign currency forward exchange contracts related to intercompany transactions and intercompany loans that are not of a long-term investment nature. Any gains and losses that are immediately recognized in earnings on such contracts are largely offset by the remeasurement of the underlying intercompany balances.

In addition, the Company has exposure to changes in foreign currency exchange rates related to the translation of the earnings of its subsidiaries denominated in a currency other than the United States dollar. To hedge against a portion of this exposure, beginning in the second quarter of 2016, the Company entered into several foreign currency option contracts. These contracts represent the Company's purchase of euro put/United States dollar call options and Chinese yuan renminbi put/United States dollar call options.

The Company's foreign currency option contracts are also undesignated contracts. As such, the changes in the fair value of these foreign currency option contracts are immediately recognized in earnings. This mitigates, to an extent, the effect of any strengthening of the United States dollar against the euro and Chinese yuan renminbi on the reporting of the Company's euro-denominated and Chinese yuan renminbi-denominated earnings, respectively.

The Company does not use derivative or non-derivative financial instruments for trading or speculative purposes.

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

| | Assets (Classified in Other Current Assets and Other Assets) | | | Liabilities (Classified in Accrued Expenses and Other Liabilities) | | |
|---|---|---|---|---|---|---|
| (In millions) | 10/29/17 | 1/29/17 | 10/30/16 | 10/29/17 | 1/29/17 | 10/30/16 |
| Contracts designated as cash flow hedges: | | | | | | |
| Foreign currency forward exchange contracts (inventory purchases) | $ 7.1 | $ 25.1 | $ 16.8 | $ 31.3 | $ 2.6 | $ 2.2 |
| Interest rate swap agreements | 0.8 | — | — | 1.1 | 7.1 | 12.4 |
| Total contracts designated as cash flow hedges | 7.9 | 25.1 | 16.8 | 32.4 | 9.7 | 14.6 |
| Undesignated contracts: | | | | | | |
| Foreign currency forward exchange contracts | 2.1 | 0.8 | 1.2 | 1.0 | 0.0 | 0.1 |
| Foreign currency option contracts | 0.0 | 3.2 | 2.3 | — | — | — |
| Total undesignated contracts | 2.1 | 4.0 | 3.5 | 1.0 | 0.0 | 0.1 |
| Total | $ 10.0 | $ 29.1 | $ 20.3 | $ 33.4 | $ 9.7 | $ 14.7 |

At October 29, 2017, the notional amount outstanding of foreign currency forward exchange contracts and foreign currency option contracts was $1,043.1 million and $50.0 million, respectively. Such contracts expire principally between November 2017 and April 2019.

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

| (In millions) | Gain (Loss) Recognized in Other Comprehensive (Loss) Income | | (Loss) Gain Reclassified from AOCL into (Expense) Income | | |
|---|---|---|---|---|---|
| | | | Location | Amount | |
| Thirteen Weeks Ended | 10/29/17 | 10/30/16 | | 10/29/17 | 10/30/16 |
| Foreign currency forward exchange contracts (inventory purchases) | $8.9 | $17.2 | Cost of goods sold | $(6.9) | 0.0 |
| Interest rate swap agreements | 0.8 | 1.0 | Interest expense | (1.3) | (3.6) |
| Foreign currency borrowings (Net investment hedge) | 4.3 | 6.6 | N/A | — | — |
| Total | $14.0 | $24.8 | | $(8.2) | $(3.6) |
| | | | | | |
| Thirty-Nine Weeks Ended | 10/29/17 | 10/30/16 | | 10/29/17 | 10/30/16 |
| Foreign currency forward exchange contracts (inventory purchases) | $(61.3) | $(20.0) | Cost of goods sold | $1.2 | $8.2 |
| Interest rate swap agreements | 1.5 | (0.5) | Interest expense | (5.3) | (8.7) |
| Foreign currency borrowings (Net investment hedge) | (31.8) | 14.4 | N/A | — | — |
| Total | $(91.6) | $(6.1) | | $(4.1) | $(0.5) |

A net loss in AOCL on foreign currency forward exchange contracts at October 29, 2017 of $31.5 million is estimated to be reclassified in the next 12 months in the Company's Consolidated Income Statement to costs of goods sold as the underlying inventory hedged by such forward exchange contracts is sold. In addition, a net loss in AOCL for interest rate swap agreements at October 29, 2017 of $1.0 million is estimated to be reclassified to interest expense within the next 12 months. Amounts recognized in AOCL for foreign currency borrowings would be recognized in earnings only upon the sale or liquidation of the hedged net investment.

The following table summarizes the effect of the Company's undesignated contracts recognized in SG&A expenses in its Consolidated Income Statements:

| (In millions) | (Loss) Gain Recognized in (Expense) Income | |
|---|---|---|
| Thirteen Weeks Ended | 10/29/17 | 10/30/16 |
| Foreign currency forward exchange contracts | $(0.2) | $ 2.7 |
| Foreign currency option contracts | (0.0) | 0.2 |
| | | |
| Thirty-Nine Weeks Ended | 10/29/17 | 10/30/16 |
| Foreign currency forward exchange contracts | $ 1.5 | $ (4.0) |
| Foreign currency option contracts | (4.3) | 0.0 |

The Company had no derivative financial instruments with credit risk-related contingent features underlying the related contracts as of October 29, 2017.

12. FAIR VALUE MEASUREMENTS

In accordance with accounting principles generally accepted in the United States, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy prioritizes the inputs used to measure fair value as follows:

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

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

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

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

| | 10/29/17 | | | | 1/29/17 | | | | 10/30/16 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (In millions) | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | | | | | | | | |
| Foreign currency forward exchange contracts | N/A | $9.2 | N/A | $9.2 | N/A | $25.9 | N/A | $25.9 | N/A | $18.0 | N/A | $18.0 |
| Interest rate swap agreements | N/A | 0.8 | N/A | 0.8 | N/A | — | N/A | — | N/A | — | N/A | — |
| Foreign currency option contracts | N/A | 0.0 | N/A | 0.0 | N/A | 3.2 | N/A | 3.2 | N/A | 2.3 | N/A | 2.3 |
| Total Assets | N/A | $10.0 | N/A | $10.0 | N/A | $29.1 | N/A | $29.1 | N/A | $20.3 | N/A | $20.3 |
| Liabilities: | | | | | | | | | | | | |
| Foreign currency forward exchange contracts | N/A | $32.3 | N/A | $32.3 | N/A | $2.6 | N/A | $2.6 | N/A | $2.3 | N/A | $2.3 |
| Interest rate swap agreements | N/A | 1.1 | N/A | 1.1 | N/A | 7.1 | N/A | 7.1 | N/A | 12.4 | N/A | 12.4 |
| Contingent purchase price payments related to reacquisition of the perpetual rights to the TOMMY HILFIGER trademarks in India | N/A | N/A | N/A | N/A | N/A | N/A | $1.6 | 1.6 | N/A | N/A | $1.6 | 1.6 |
| Total Liabilities | N/A | $33.4 | N/A | $33.4 | N/A | $9.7 | $1.6 | $11.3 | N/A | $14.7 | $1.6 | $16.3 |

The fair value of the foreign currency forward exchange contracts is measured as the total amount of currency to be purchased, multiplied by the difference between (i) the forward rate as of the period end and (ii) the settlement rate specified in each contract. The fair value of the interest rate swap agreements is based on observable interest rate yield curves and represents the expected discounted cash flows underlying the financial instruments. The fair value of the foreign currency option contracts is estimated based on external valuation models, which use the original strike price, current foreign currency exchange rates, the implied volatility in foreign currency exchange rates and length of time to expiration as inputs.

Pursuant to the agreement governing the reacquisition of the rights in India to the TOMMY HILFIGER trademarks (which the Company entered into in September 2011 in connection with its acquisition of its 50% ownership in its joint venture for TOMMY HILFIGER in India), the Company was required to make annual contingent purchase price payments based on a percentage of sales of TOMMY HILFIGER products in India in excess of an agreed upon threshold during each of six consecutive 12-month periods. Such payments were subject to a $25.0 million aggregate maximum and were due within 60 days following each one-year period, with the final payment made in the third quarter of 2017. The Company made annual contingent purchase price payments of $0.8 million, $0.6 million, $0.6 million, $0.6 million, $0.4 million and $0.2 million during 2017, 2016, 2015, 2014, 2013 and 2012, respectively. The Company was required to remeasure this liability at fair value on a recurring basis and classified this as a Level 3 measurement. The fair value of such liability was determined using the discounted cash flow method, based on net sales projections for the Tommy Hilfiger apparel and accessories businesses in India, and was discounted using rates of return that account for the relative risks of the estimated future cash flows. Excluding the initial recognition of the liability for the contingent purchase price payments and payments made to reduce the liability, changes in the fair value were included within SG&A expenses in the Company’s Consolidated Income Statements.

The following table presents the change in the Level 3 contingent purchase price payment liability during the thirty-nine weeks ended October 29, 2017 and October 30, 2016:

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| (In millions) | 10/29/17 | 10/30/16 |
| Beginning Balance | $1.6 | $ 2.2 |
| Payments | (0.8 ) | (0.6 ) |
| Adjustments included in earnings | (0.8 ) | — |
| Ending Balance | $— | $ 1.6 |

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

The following table shows the fair value of the company's non-financial assets and liabilities that were required to be remeasured at fair value on a nonrecurring basis (consisting of property, plant and equipment) during the thirty-nine weeks ended October 29, 2017 and October 30, 2016, and the total impairments recorded as a result of the remeasurement process:

| (In millions) | Fair Value Measurement Using | | | Fair Value As Of | Total |
|---|---|---|---|---|---|
| Assets: | Level 1 | Level 2 | Level 3 | Impairment Date | Impairments |
| October 29, 2017 | N/A | N/A | $ 0.4 | $ 0.4 | $ 2.2 |
| October 30, 2016 | N/A | N/A | $ — | $ — | $ 7.0 |

Long-lived assets with a carrying amount of $2.6 million were written down to a fair value of $0.4 million during the thirty-nine weeks ended October 29, 2017 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the estimated discounted future cash flows associated with the assets using sales trends and market participant assumptions. The impairment charge of $2.2 million was included in SG&A expenses, of which $1.8 million was recorded in the Calvin Klein North America segment and $0.4 million was recorded in the Tommy Hilfiger North America segment.

Long-lived assets with a carrying amount of $7.0 million were written down to a fair value of $0 during the thirty-nine weeks ended October 30, 2016 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the estimated discounted future cash flows associated with the assets using sales trends and market participant assumptions. The impairment charge of $7.0 million was included in SG&A expenses, of which $0.7 million was recorded in the Calvin Klein North America segment, $1.7 million was recorded in the Calvin Klein International segment, $1.3 million was recorded in the Tommy Hilfiger North America segment and $3.3 million was recorded in the Tommy Hilfiger International segment.

The carrying amounts and the fair values of the Company's cash and cash equivalents, short-term borrowings and long-term debt as of October 29, 2017, January 29, 2017 and October 30, 2016 were as follows:

| (In millions) | 10/29/17 | | 1/29/17 | | 10/30/16 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $612.3 | $612.3 | $730.1 | $730.1 | $662.4 | $662.4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Short-term borrowings | 207.5 | 207.5 | 19.1 | 19.1 | 20.8 | 20.8 |
| Long-term debt (including portion classified as current) | 3,182.7 | 3,277.5 | 3,197.3 | 3,248.7 | 3,303.1 | 3,387.1 |

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

13. STOCK-BASED COMPENSATION

The Company grants stock-based awards under its 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan replaced certain other prior stock option plans. These other plans terminated upon the 2006 Plan's initial stockholder approval in June 2006. Shares issued as a result of stock-based compensation transactions generally have been funded with the issuance of new shares of the Company's common stock.

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

Through October 29, 2017, the Company has granted under the 2006 Plan (i) service-based NQs, RSUs and restricted stock; (ii) contingently issuable PSUs; and (iii) RSUs that are intended to satisfy the performance-based condition for deductibility under Section 162(m) of the Internal Revenue Code. According to the terms of the 2006 Plan, for purposes of determining the number of shares available for grant, each share underlying a stock option award reduces the number available by one share and each share underlying a restricted stock award, RSU or PSU reduces the number available by two shares. The per share exercise price of options granted under the 2006 Plan cannot be less than the closing price of the common stock on the date of grant.

Net income for the thirty-nine weeks ended October 29, 2017 and October 30, 2016 included $33.0 million and $28.9 million, respectively, of pre-tax expense related to stock-based compensation, with related recognized income tax benefits of $10.2 million and $8.7 million, respectively.

Effective the first quarter of 2017, the Company adopted an update to accounting guidance that simplifies several aspects of accounting for share-based payment award transactions, which resulted in the Company's election to recognize forfeitures as they occur rather than continue to estimate expected forfeitures in determining compensation expense. This accounting change was applied on a modified retrospective basis and resulted in a cumulative-effect adjustment to decrease beginning retained earnings by $0.8 million, with an offsetting increase to additional paid in capital of $1.1 million and an increase to deferred tax assets of $0.3 million. Please see Note 20, "Recent Accounting Guidance," for further discussion.

The Company receives a tax deduction for certain transactions associated with its stock plan awards. The actual income tax benefits realized from these transactions for the thirty-nine weeks ended October 29, 2017 and October 30, 2016 were $9.3 million and $6.6 million, respectively. As a result of the Company's adoption of the update discussed above, the Company recognized an immaterial amount of discrete net excess tax deficiencies related to share-based payments in its provision for income taxes for the thirty-nine weeks ended October 29, 2017. Prior to the adoption of this update, the Company recognized excess tax benefits or tax deficiencies in equity as a component of additional paid in capital.

Stock Options

Stock options currently outstanding are generally exercisable in four equal annual installments commencing one year after the date of grant. The vesting of such options outstanding is also generally accelerated upon retirement (as defined in the 2006 Plan). Such options are granted with a 10-year term.

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

The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during the thirty-nine weeks ended October 29, 2017 and October 30, 2016:

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | 10/29/17 | 10/30/16 |
| Weighted average risk-free interest rate | 2.10 % | 1.45 % |
| Weighted average expected option term (in years) | 6.25 | 6.25 |
| Weighted average Company volatility | 29.46 % | 34.56 % |
| Expected annual dividends per share | $0.15 | $0.15 |
| Weighted average grant date fair value per option | $33.50 | $35.63 |

The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected option term. The expected option term represents the weighted average period of time that options granted are expected to be outstanding, based on vesting schedules and the contractual term of the options. Company volatility is based on the historical volatility of the Company's common stock over a period of time corresponding to the expected option term. Expected dividends are based on the Company's common stock cash dividend rate at the date of grant.

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

Service-based stock option activity for the thirty-nine weeks ended October 29, 2017 was as follows:

| (In thousands, except per option data) | Options | Weighted Average Exercise Price Per Option |
|---|---|---|
| Outstanding at January 29, 2017 | 1,466 | $ 75.74 |
| Granted | 142 | 101.94 |
| Exercised | 150 | 75.02 |
| Cancelled | 10 | 108.23 |
| Outstanding at October 29, 2017 | 1,448 | $ 78.17 |
| Exercisable at October 29, 2017 | 1,018 | $ 67.42 |

Restricted Stock Units

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

RSU activity for the thirty-nine weeks ended October 29, 2017 was as follows:

| (In thousands, except per RSU data) | RSUs |
|---|---|

| | | Weighted Average Grant Date Fair Value Per RSU |
|---|---|---|
| Non-vested at January 29, 2017 | 812 | $ 105.96 |
| Granted | 442 | 103.11 |
| Vested | 257 | 108.93 |
| Cancelled | 53 | 104.90 |
| Non-vested at October 29, 2017 | 944 | $ 103.88 |

Performance Share Units

The Company granted contingently issuable PSUs to certain of the Company's senior executives during 2015, 2016 and 2017 subject to a three-year performance period. For such awards, the final number of shares to be earned, if any, is contingent upon the Company's achievement of goals for the applicable performance period, of which 50% is based upon the Company's absolute stock price growth during the applicable performance period and 50% is based upon the Company's total shareholder return during the applicable performance period relative to other companies included in the S&P 500 as of the date of grant. The Company records expense ratably over the applicable vesting period regardless of whether the market condition is satisfied because the awards are subject to market conditions. The fair value of the awards granted in 2017 and 2016 was established for each grant on the grant date using the Monte Carlo simulation model, which was based on the following assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | 1.49 % | 1.04 % |
| Expected Company volatility | 31.29 % | 28.33 % |
| Expected annual dividends per share | $0.15 | $0.15 |
| Weighted average grant date fair value per PSU | $96.81 | $87.16 |

Certain of the awards granted in 2017 and 2016 are subject to a holding period of one year after the vesting date. For such awards, the grant date fair value was discounted 12.67% and 12.99%, respectively, for the restriction of liquidity.

PSU activity for the thirty-nine weeks ended October 29, 2017 was as follows:

| (In thousands, except per PSU data) | PSUs | Weighted Average Grant Date Fair Value Per PSU |
|---|---|---|
| Non-vested at January 29, 2017 | 125 | $ 92.32 |
| Granted | 72 | 96.81 |
| Vested | — | — |
| Cancelled | — | — |
| Non-vested at October 29, 2017 | 197 | $ 93.97 |

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in AOCL, net of related taxes, by component for the thirty-nine weeks ended October 29, 2017:

| (In millions) | Foreign currency translation adjustments | Net unrealized and realized gain (loss) on effective cash flow hedges | Total |
|---|---|---|---|
| Balance, January 29, 2017 | $ (737.7 ) | $ 26.9 | $(710.8) |

| | | | |
|---|---|---|---|
| Other comprehensive income (loss) before reclassifications | 241.9 [(1)] | (58.8) | 183.1 |
| Less: Amounts reclassified from AOCL | — | (2.2) | (2.2) |
| Other comprehensive income (loss) | 241.9 | (56.6) | 185.3 |
| Balance, October 29, 2017 | $ (495.8) | $ (29.7) | $ (525.5) |

(1) Foreign currency translation adjustments included a net loss on net investment hedge of $19.8 million.

The following table presents the changes in AOCL, net of related taxes, by component for the thirty-nine weeks ended October 30, 2016:

| (In millions) | Foreign currency translation adjustments | Net unrealized and realized gain (loss) on effective cash flow hedges | Total |
|---|---|---|---|
| Balance, January 31, 2016 | $ (730.4) | $ 26.2 | $(704.2) |
| Other comprehensive income (loss) before reclassifications | 23.4 [2] | (18.2) | 5.2 |
| Less: Amounts reclassified from AOCL | — | 0.7 | 0.7 |
| Other comprehensive income (loss) | 23.4 | (18.9) | 4.5 |
| Balance, October 30, 2016 | $ (707.0) | $ 7.3 | $(699.7) |

[2] Foreign currency translation adjustments included a net gain on net investment hedge of $9.0 million.

The following table presents reclassifications out of AOCL to earnings for the thirteen and thirty-nine weeks ended October 29, 2017 and October 30, 2016:

| | Amount Reclassified from AOCL | | | | Affected Line Item in the Company's Consolidated Income Statements |
|---|---|---|---|---|---|
| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | | |
| (In millions) | 10/29/17 | 10/30/16 | 10/29/17 | 10/30/16 | |
| Realized (loss) gain on effective cash flow hedges: | | | | | |
| Foreign currency forward exchange contracts (inventory purchases) | $(6.9) | $ 0.0 | $1.2 | $ 8.2 | Cost of goods sold |
| Interest rate swap agreements | (1.3) | (3.6) | (5.3) | (8.7) | Interest expense |
| Less: Tax effect | (0.4) | (1.5) | (1.9) | (1.2) | Income tax expense |
| Total, net of tax | $(7.8) | $ (2.1) | $(2.2) | $ 0.7 | |

15. STOCKHOLDERS' EQUITY

The Company's Board of Directors authorized a $500.0 million three-year stock repurchase program effective June 3, 2015. On March 21, 2017, the Board of Directors authorized a $750.0 million increase to the program and extended the program to June 3, 2020. Repurchases under the program may be made from time to time over the period through open market purchases, accelerated share repurchase programs, privately negotiated transactions or other methods, as the Company deems appropriate. Purchases are made based on a variety of factors, such as price, corporate requirements and overall market conditions, applicable legal requirements and limitations, restrictions under the Company's debt arrangements, trading restrictions under the Company's insider trading policy and other relevant factors. The program may be modified by the Board of Directors, including to increase or decrease the repurchase limitation or extend, suspend, or terminate the program, at any time, without prior notice.

During the thirty-nine weeks ended October 29, 2017 and October 30, 2016, the Company purchased 1.8 million shares and 2.3 million shares, respectively, of its common stock under the program in open market transactions for $192.3 million and $225.8 million, respectively. As of October 29, 2017, the repurchased shares were held as treasury stock and $616.5 million of the authorization remained available for future share repurchases.

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

16. NET INCOME PER COMMON SHARE

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

| (In millions, except per share data) | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | 10/29/17 | 10/30/16 | 10/29/17 | 10/30/16 |
| Net income attributable to PVH Corp. | $239.2 | $ 126.2 | $429.3 | $ 448.3 |