This 3DAdvisors Report Covers:	
✓	**Insider Trading**: Insider Trading Behavior
✓	**Accounting**: Quality of Earnings Issues
	Governance: Corporate Governance Issues
✓	**Fundamentals:** Analysis of fundamentals

CFO Defense of Accounting, Other Behaviors Weak
Warnaco Group Inc. (NYSE:WRC) Update

July 22, 2008

Contact: Bob Gabele (954) 779-3974 or bgabele@3DAdvisors.com

Business Description

Warnaco Group Inc. designs, manufactures, markets, licenses, and distributes a range of intimate apparel, sportswear, and swimwear worldwide. It primarily offers its products under various brand names, such as Calvin Klein, Speedo, Chaps, Warner's, and Olga. The Company distributes its products primarily to wholesale customers through various distribution channels, including department stores, independent retailers, chain stores, membership clubs, specialty and other stores, and mass merchandisers, as well as through Internet. As of December 29, 2007, it operated 740 Calvin Klein retail stores consisting of 56 free-standing stores, 68 outlet free-standing stores, 1 on-line store, and 615 shop-in-shop/concession stores; and 1 Speedo on-line store. The Company also had 388 Calvin Klein retail stores operated by third parties under retail licenses or franchise and distributor agreements.

Summary of 3DAdvisors Findings for WRC

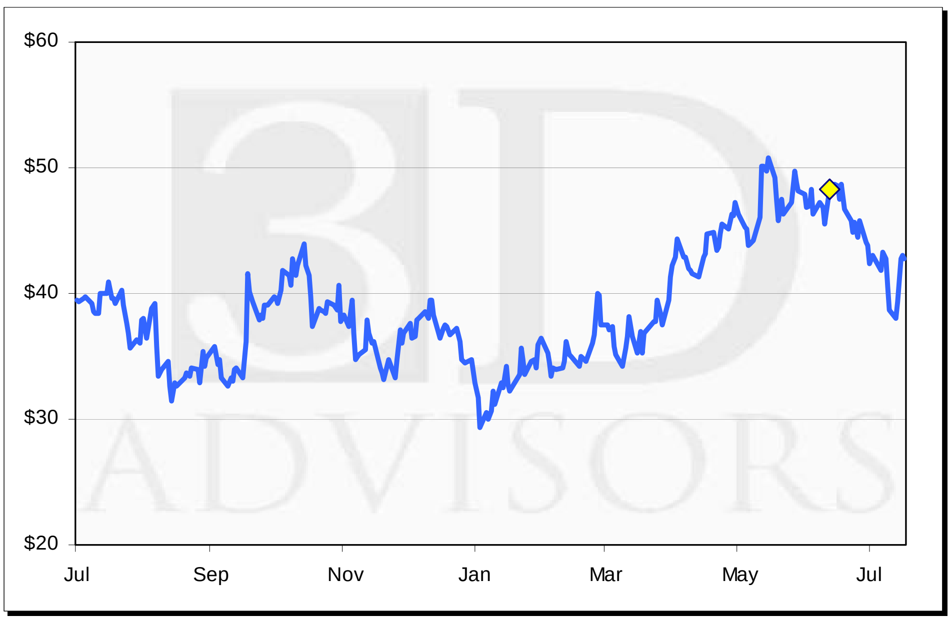
- **Accounting:** Comments regarding A/R allowances; nothing on channel stuffing
- **Insider Trading:** Comments regarding stock ownership
- **Fundamentals:** Comments regarding Calvin Klein business
- **Accounting:** Comments regarding foreign currency gains
- **Fundamentals:** Comments regarding U.S. businesses
- **Fundamentals:** Comments regarding geographic diversity

Discussion of 3DAdvisors Findings for WRC

On 07/15/08 an investor relations consulting firm representing Warnaco Group Inc. attempted to get in touch with us in order to get our mailing address. As it turns out, our recent full report on Warnaco (06/13/08) had come "to the attention" of CFO **Lawrence Rutkowski** and he wanted to provide us "with a better understanding of our Company and certain of its practices". A copy of the letter he sent us with this alleged objective in mind is attached to this report as Appendix A.

We are not sure how Mr. Rutkowski acquired a copy of our report, but we want to take this opportunity to remind our clients of the importance of making sure our work is kept confidential as is required by our Product License Agreement, and especially make sure none of our reports is given to the subject companies. Among other things, since we are analyzing and reporting on what is sometimes subtle and overlooked executive behavior, alerting a subject company to our observations can sometimes have the effect of causing a change in behavior and potentially robbing us and all our clients of important behavioral signals in the future. Notwithstanding these concerns, when a subject company does get one of our reports, it very often will result in a response that is noteworthy behavior by itself, and this letter from the WRC CFO is a perfect example.

Figure 1. WRC Daily Closing Price, 07/02/07 through 07/18/08. Yellow diamond is the date of 3DAdvisors, LLC full report on WRC. Source: Reuters and 3DAdvisors, LLC.



First, the tone of the letter is notably congenial, and leads off explaining the focus the “new” Warnaco management has placed on “transparency” and the “highest standards in corporate governance”, an assertion probably urged by the IR consultant. The letter then goes on to very politely cover several key areas in the report where the CFO and board apparently felt we needed a “better understanding” of its “practices”. Interestingly, while Rutkowski does touch on many of the key areas, he manages to not really address the key points we made in the report. For example, he suggests that we have mistakenly assumed that the entire accounts receivable reserve is an allowance for bad debts when in fact our key point was that the allowance (regardless of its composition) is consistently and significantly below what is written off each year (as reported in the Valuation & Qualifying Accounts & Reserves table in the SEC Form 10-K), making it look as if revenue is intentionally overstated by a large amount, leading us to wonder if there is some form of channel stuffing taking place. He makes no mention of the total write offs, nor does he make any reference to our hypothesis regarding the possibility of channel stuffing. It strikes us as a little odd that the CFO of an international apparel business would let such a suggestion pass without specific comment.

For our clients interested in WRC, we would suggest reading our full report from 06/13/08 as a refresher, followed by a careful reading of Mr. Rutkowski's letter (Appendix A), and then finally the text of this update report to get our interpretation of the letter, point by point. Suffice it to say, Mr. Rutkowski's efforts to down play, obfuscate or just ignore the central points of our initial observations on the Company have only served to heighten our interest, and we continue to monitor executive behaviors and Company disclosures carefully.

Accounting: Comments regarding A/R allowances; nothing on channel stuffing

In the related section in our 06/13/08 report, we did indeed say that the allowance for "bad debts" represented 23% of gross A/R over the past three years. Additional disclosure provided in the letter from Mr. Rutkowski indicates that the majority of the $87 million receivables reserve at year-end 2007applies to customer allowances. The letter also makes it clear that bad debt settlements amounted to less than $5 million in 2007.

The central point in this section of our report, however, is that the amount charged to the receivables reserve in 2007 for credits issued and amounts written-off totaled $180 million[1]. Regardless of the composition of the allowance, the write offs were more than twice the allowance, or roughly 10% of reported revenue. The bulk would appear to be customer allowances. Even so, it still stands to reason that revenue is significantly overstated due to the huge size of the write off in excess of the reserve. Similar amounts were charged to the receivables reserve in the years 2006 and 2005.

While the letter appears to settle the question as to the adequacy of the bad debts reserve requirements, the question as to the adequacy of the total receivables allowance remains. Credits issued for customer allowances in 2007 would appear to be in the range of $175 million (knowing now that $5 million are for "bad debt"). If at any given time receivables in the range of $175 million are to be settled through the issuance of credits, it seems that a larger reserve against accounts receivable is justified from a balance sheet valuation perspective.

We then go on in the report to make the following statement regarding the consistently high total write offs, well below the amount of the allowances, and offer the hypothesis that such practices may suggest some form of channel stuffing[2]:

> In each year, the amount of accounts receivable write-offs represents about 10% of the Company's net revenues. With an allowance of some 20% or more of receivables, and huge amounts of receivables written off beyond the allowance each year, the issue at hand seems a matter of top line overstatement that gets written off regularly before any margin gets to the bottom line. Such a revenue inflating practice causes us to wonder whether some form of channel stuffing may be going on. Since Warnaco owns the majority of its own retail outlets (689), it would seem that they are not likely to be the source for such a receivable issue. The culprit may very well lie in the

[1] 2007 Warnaco Group Inc. SEC Form 10-K, page A-1.
[2] From our full report on 06/13/08, page 3.

388 retail stores operated by third parties under retail license or franchise and distributor agreements. It would seem that Warnaco has had significant collections problems with certain of its distributors over the past three years, making us wonder what the problem is and why it has not been resolved.

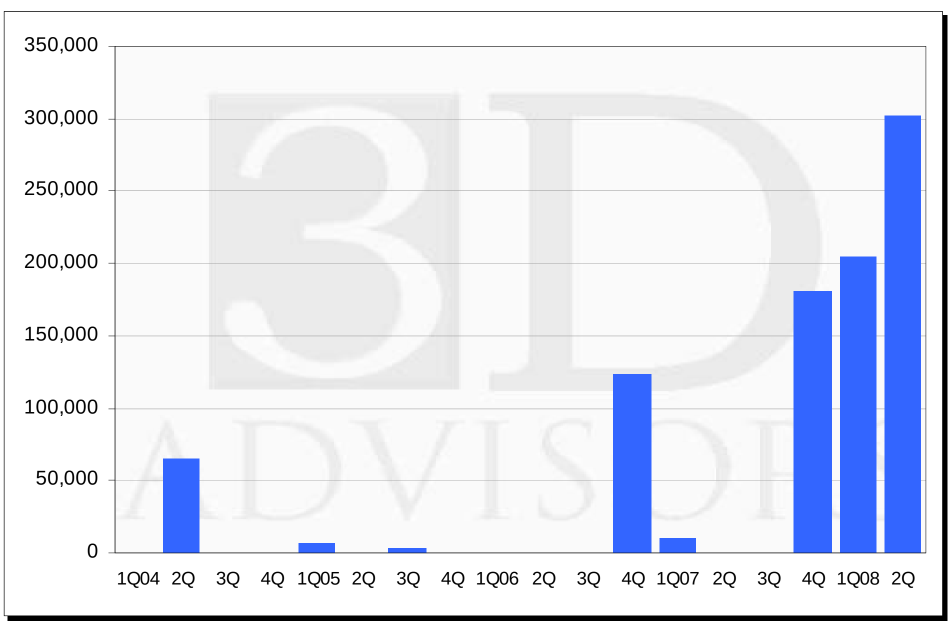
We are fascinated that Mr. Rutkowski failed to comment on this hypothesis, and that his only complaint was on the secondary and unimportant point that we assumed the entire allowance was for bad debt.

Insider Trading: Comments about stock ownership

Without addressing our main point regarding the trading behavior of executives at the Company, namely, that there had been a significant surge in 2Q08 selling and holdings reductions compared to historical levels, Mr. Rutkowski makes the point that the Company takes steps to align the interests of management and shareholders by requiring executives hold a certain amount of Company stock. He mentions that executives are required to hold stock valued at 3 times their annual salary after 5 years, and the CEO 5 times his annual salary (minor point: he fails to mention that the Company counts the amount that vested stock is in the money towards each executive's holdings, rather than counting just actual common stock holdings).

But again, our central point of a spike in insider selling and significant holdings reductions, compared to historical behavior, was overlooked in Mr. Rutkowski's letter. The following chart was in our full report:

Figure 2. Quarterly Selling Volume by WRC Insiders. Source: WRC SEC Filings.



Fundamentals: Comments on Calvin Klein business

Minimal disclosure in the 2007 SEC Form 10-K provided little clarity as to the rationale involved in the return of the Calvin Klein Collection Business to Phillips-Van Heusen ("PVH"). The letter from Rutkowski advised us that the business was found to be unprofitable "after further evaluating that business" (a new disclosure, we believe) and Warnaco agreed to pay $42 million to PVH in order to return the Collection Business to PVH and, at the same time, acquire additional valuable rights from PVH. Of the $42 million payment to PVH, $24 million represented the cost of acquiring the additional rights and $18.2 million was treated as costs related to the write off of the Collection Business.

One wonders about the nature and depth of the due diligence on the Collection Business prior to the ill-fated purchase, and of course he makes no mention of the fact that the $42 million expense seemed to contradict earlier statements that the cost of integration of the CK Collection Business would be minimal. Now of course we find out that it was simply an "oops", and that the transaction would not be profitable after all and it would cost significant cash to unwind the investment.

We also find it interesting that the additional rights acquired for $24 million "are expected to add $150 million in incremental revenues over time". We wonder if they got the due diligence right this time.

Accounting: Comments regarding foreign currency gains

Mr. Rutkowski explains to us that much of the Company's revenue is generated off-shore, and as such their business results are impacted by foreign currency fluctuations. Furthermore, and as a consequence, the Company strives to provide "extensive disclosure and transparency" regarding the impact of currency fluctuations on "revenues, gross profit and operating income".

That is all well and good, but it entirely misses the point of this section of our report. In recent periods, the Company has been positively and significantly impacted by currency gains, including a significant positive impact (7%) on 1Q08 reported earnings. The point we made was that the Company was baking *continuing positive gains* into its forward guidance for the remainder of 2008, which strikes us as adding a significant degree of risk to their guidance. We noted this in the context of increasing weakness in consumer spending in the U.S. and other key markets around the world, but also in the context of the recent spike in insider selling.

Fundamentals: Comments on U.S. businesses

In our report, we made a minor comment that the U.S.-based businesses were struggling somewhat in 2007, reporting revenue of $962 million and an operating loss of $19 million. We also noted that if any of the Company's deferred tax assets were related to the U.S. business, that they may be in jeopardy of ever being realized, and that there may be an increase in the allowance against these assets in the offing. We would certainly stand by our comments as consumer spending continues to weaken in the U.S.

For what ever reason, Mr. Rutkowski felt the need to provide some details on progress being made in various parts of the domestic business without refuting our comments.

We also made a short comment on what was surprising (to us, anyway) weakness in its Speedo business given the recent restructuring of the business, easy 2008 comps, and the fact this is an Olympic year. Mr. Rutkowski, again without denying the substance of our comments, states that Speedo is a strong brand, sites the number of records its new swim suits have broken leading up to the Olympics, and the fact that they expect results to improve over time.

And finally, we did briefly suggest the following liquidity question, which we would have expected to prompt a comment from Mr. Rutkowski, the CFO, but we got none:

> In 2007, despite having a gross profit of 40% of revenue, SG&A takes away 33% of revenue and only 7% of revenue comes down to operating income. Then 28% of operating income is sucked up by interest and only 4% of revenue makes it to net income. That is pretty meager when one considers that the Company had revenues of $1.9 billion. Is cash short? The abnormal tax rate was the result of having to book a tax provision of about $20 million due to repatriation of foreign earnings from the Lejaby sale. The need for cash must have overridden the give-up of a chunk of the sale proceeds to repatriate the funds.[3]

<u>Fundamentals: Comments on geographic diversity</u>

We assume Mr. Rutkowski's comment on the geographic diversity of the Warnaco business was prompted by our briefly raising our doubts about India as a significant potential market for the Calvin Klein brand, which was suggested by CEO **Joseph Gromek** in an April 2nd analyst meeting. Without addressing India (or any specific country market), he tutors us on the fact that half the Company's revenue is off-shore, and that it will continue to emphasize global growth opportunities for the Calvin Klein brand with its direct-to-consumer business model. He sites the success this past fall of the Calvin Klein Seductive Comfort launch as an example. No word on how successful that launch was in India.

[3] From our full report on 06/13/08, page 10.

Appendix A

July 18, 2008 Letter from Warnaco Group Inc. CFO to 3DAdvisors, LLC

July 18, 2008

Mr. Robert Gabele
3D Advisors, Inc
Via e-mail: bgabele@3DAdvisors.com

Dear Mr. Gabele,

3D Advisors' June 13th research report on The Warnaco Group, Inc. recently came to my attention and, after reading it and discussing the matter with our Board of Directors, we felt compelled to respond to you directly. I hope that I will be able to provide you with a better understanding of our Company and certain of its practices.

Since taking on our role at the "new" Warnaco, our senior leadership team and Board of Directors have set standards for the Company that not only represent best practices for the apparel industry but also the highest standards in corporate governance. Moreover, we all take seriously our operating philosophy, which is one of complete transparency with all stakeholder groups. With this in mind, I wanted to comment on and correct the assumptions related to several topics covered in your report.

Accounts Receivable. Warnaco's receivable reserve, of $87 million at year-end 2007[1], reflects the Company's total receivable reserves. Therefore, Warnaco's allowance for bad debts has not averaged 23% (of gross receivables) for the past three fiscal years. It appears you may have mistakenly assumed that the entire accounts receivable reserve is an allowance for bad debts. With respect to Warnaco's accounts receivable reserve, it is important to note that revenues on Warnaco's income statement are reported net of customer allowances, which constitutes the majority of the receivable reserve. As Warnaco's allowances with our customers are settled at the end of each selling season, the amount outstanding can fluctuate from quarter to quarter, principally based on the timing of the shipment of goods and the receipt of payment for them. As a result, we adjust our customer allowance accrual rates (along return allowances) monthly based on the trends of the last twelve months with a greater emphasis on current trends.

Our accounts receivable reserves are in line with industry practice and are consistent with GAAP. Our cash bad debt settlement, less than $5 million in 2007[2], which is the only charge related to receivables that runs through the SG&A line item in Warnaco's income statement, has historically averaged less than 1% of net revenues.

Stock Ownership. We firmly believe that our employees' interests should be and are aligned with that of our shareholders. We are confident that our policy on stock ownership ensures this result.

1. Form 10K for fiscal year ending December 29, 2007; page F-2

2. Form 10K for fiscal year ending December 29, 2007; page F-5

Following the fifth year of employment, all executives must own Warnaco stock with a value of at least three times their base salary. CEO equity ownership is required at a value of at least five times base salary. As you may know, stock and options are an integral part of Warnaco's executive compensation package, as we believe this helps incentivize and retain our talent while aligning their interests with our shareholders. Given that equity ownership represents a substantial portion of our executive compensation, we expect that our officers will, from time to time, monetize a portion of their ownership above the required targets while remaining meaningful shareholders in the Company. In fact, all the executives you mentioned in your report had held their shares for at least four years.

Calvin Klein Collection Business. Let me address your concerns regarding the Calvin Klein Collection Business. When we acquired the Calvin Klein Jeans Europe and Asia businesses in January 2006, we committed to operate the Calvin Klein Collection Business starting in January 2008. At that time, we anticipated that the Collection Business could operate at a breakeven level. However, after further evaluating that business we determined that it would not be profitable. As a consequence, we entered into an agreement with Phillips-Van Heusen ("PVH") pursuant to which we agreed to pay $42 million to PVH in order to return the Collection Business to PVH and, at the same time, acquire additional valuable rights from PVH. These rights include the rights to open Calvin Klein Jeans accessories retail stores in Europe, Asia and Latin America and CK Accessories stores in Europe; e-commerce rights globally for Calvin Klein Jeans and Jeans Accessories; as well as a distribution agreement and sub-license for golf apparel in Asia. Included in the $42 million payment was $18.2 million in costs related to the write-off of the Collection Business and $24 million to secure the significant rights referred to in the preceding sentence. These additional rights are expected to add $150 million in incremental revenues over time. We are convinced this transaction will be positive for Warnaco.

Former General Counsel. As to the departure of our former general counsel, Mr. Galluzzo left on excellent terms and remains available to the Company to address any matters that arose prior to his departure. His decision to leave the Company was driven by his desire to pursue a career change and he now works within the investment banking unit of a prominent private family business.

Foreign Currency Gains. As with any company operating in a global environment, our business is affected by fluctuations in foreign currency exchange rates. Accordingly, we believe it is in the interests of our shareholders to detail the effects of currency fluctuations on revenues and operations and have consistently provided detail regarding the impact of currency fluctuations on revenues, gross profit and operating income, when material. With the extensive disclosure and transparency that we provide investors are able to evaluate the impact of currency fluctuations on our business.

US Businesses. In terms of our US performance**,** during our first quarter 2008 investor call we indicated that our brands performed very well in the domestic market, despite the challenges stemming from a softening of the US economy. Specifically, we grew revenue, operating income and operating margins for both Calvin Klein and our core Intimate Apparel brands. We were also pleased to deliver improved profitability and increased operating margins for Chaps in the first quarter. During our first quarter conference call, we indicated that we expect to improve profitability and operating margins in swimwear this year.

As to Speedo, given our change from manufacturing to sourced operations, we knew that it would take time to return this business to historical rates of profitability. While revenue is expected to remain challenged, we stated on our first quarter conference call that we believe 2008 operating profit and operating margins will improve, as compared to 2007. Speedo remains a strong brand and the leader in competitive swim with its innovative LZR Racer breaking over 38 world records before the start of the summer Olympics. Speedo also continues to enjoy solid operating margins and we believe we have the right strategy in place to regain our historical margins over time.

Geographic Diversity. You may find it helpful to know as you evaluate Warnaco that our business is geographically diversified, with half of our revenues recorded outside the US. Our growth strategies are proven and we continue to emphasize international, direct-to-consumer and global growth of our Calvin Klein businesses. Our direct-to-consumer operating margins are approximate 15% and we believe our Calvin Klein business has the opportunity to double its revenues over time. Most recently, we noted that bookings for our Calvin Klein Seductive Comfort launch this fall exceeded our record launch for Calvin Klein Steel last fall.

In conclusion, our executive management team has been and continues to be committed to the best practices in corporate governance, to complete transparency in our financial reporting, and with our stakeholder groups, generally, and to the maintenance of the highest ethical standards. We would be pleased to discuss further the topics covered in your report to advance your understanding of our business and our work ethic.

Thank you,

Lawrence Rutkowski
Executive Vice President, Chief Financial Officer
The Warnaco Group, Inc.

cc. The Warnaco Group, Inc. Audit Committee