

**KELLWOOD COMPANY
FISCAL YEAR 2006 SECOND QUARTER RESULTS
CONFERENCE CALL**

**MODERATOR:
ROBERT C. SKINNER, JR., KELLWOOD CHAIRMAN,
PRESIDENT AND CHIEF EXECUTIVE OFFICER**

SEPTMEBER 1, 2006 9:00 AM CT

Operator: Good day ladies and gentlemen. My name is Gwen and I will be your conference facilitator today. Welcome to the Kellwood Company Fiscal Year 2006 Second Quarter Results Conference Call. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. If at any time during the call you require audio assistance, please press star, followed by 0, and a conference coordinator will be happy to assist you.

The Company has asked me to read the following Safe Harbor statement. *As a reminder to the participants, statements in this conference call that are not strictly historical are forward-looking statements within the meaning of the Safe Harbor provisions of the Federal Securities Laws. Actual results may differ materially due to risks and uncertainties that are described in the Company's Form 10-K and other filings with the SEC.*

With that, I would now like to turn the presentation over to your host for today's conference, Robert C. Skinner, Jr., Chairman, President and Chief Executive Officer. Sir, you may proceed.

Robert C. Skinner, Jr.: Good morning and welcome to the Kellwood Company's Second Quarter 2006 Conference Call. Here with me today are Lee Capps, our Chief Operating Officer and Chief Financial Officer; and Roger Joseph, our Vice President, Treasurer and Investor Relations. Roger will retire at the end of October after 28 years with the Company and we greatly appreciate his service. As a part of Kellwood's succession planning, Sam Duggan will assume Roger's responsibilities for the treasury

and investor relations functions. Sam will participate on today's conference call. Sam recently served as Kellwood's Vice President of Shared Financial Services and previously headed up the investor relations functions for a \$1 billion company.

For this morning's call, I will begin by highlighting our second quarter results and updating our initiatives aimed at revitalizing some of our brands. Lee will then review our second quarter 2006 financial results in more detail and discuss our guidance for the third quarter and total 2006 year. Finally, we will take any questions you may have for us.

During the second quarter we were pleased that we continued to execute competently on the business reinvigoration process we set in place last Summer and Fall.

Second quarter sales and operating earnings were in line with the guidance we provided at the end of the first quarter and increased levels of interest income enabled net earnings and earnings per share to exceed our earlier guidance. We also entered the quarter with a strong balance sheet. Cash was up and inventory was below the prior year quarter.

Second quarter net sales from ongoing operations were \$474 million, 3% below last year's sales of \$488 million. Our Women's Sportswear segment sales declined as expected due to cutbacks in Spring/Summer 2006 open-to-buy as our legacy brands had not yet been affected by our modernization efforts. Sales were flat in both our Men's Sportswear and Other Soft Goods segments.

Net earnings from ongoing operations were \$9.1 million or \$0.35 per diluted share, as compared to \$6 million or \$0.22 per diluted share in the second quarter of last year, an increase of over 50%. This compares to our earlier guidance for net earnings of \$8 million or \$0.30 per diluted share.

During the quarter we continued to advance our key financial and strategic goals. On the financial front, we increased gross profit by 60 basis points to 21% of sales. This improvement resulted from a reduction in the cost of liquidating surplus inventory. We reduced the SG&A as we maintained tight control of our expenses, while continuing to support our brands, and we reduced inventory by \$16 million or 6% below last year. We are also pleased with the level of inventory at retail for our major brands as we move into the critical Fall selling season.

We achieved better performance compared to last year from several of our brands, including: Calvin Klein® Women's Better Sportswear, Koret®, Baby Phat® by Kimora Lee Simmons, operated by our licensee BP Fashions and Gerber Childrenswear. We also experienced solid growth in our private brand businesses including: George Sportswear for Wal-Mart and Candies Junior Sportswear with Kohl's. And we continue to focus our efforts on revitalizing our legacy brands for improved performance in the Fall season.

As we have discussed in the past, we have upgraded our talent, changed business processes to enhance the future performance of our brands on the retail selling floor, modernized our product offerings and better balanced our assortments and intensified our marketing efforts. As it related to the second quarter we announced the signing of Christie Brinkley as the new face of Sag Harbor® in June. Based on our research we believe that a marketing campaign featuring Christie will provide added visibility and broadened awareness of the more modern image of the Sag Harbor brand and product offering. The Sag Harbor Christie Brinkley ads can now be seen in the current issues of Oprah, Good Housekeeping, Ladies' Home Journal, as well as other fine magazines and on the Sag Harbor website. The placement of the ads coincides with the first shipments of our re-designed lifestyle assortments this Fall. We are also targeting a number of key strategic markets for our ads to appear on

theater screens across the country to further reach out and communicate with the consumer.

Second, we booked Calvin Klein Women's Better Sportswear into significantly more doors for Fall 2006 than we were in Spring 2006. The response from the retailers to the line was very positive and we remain encouraged, expecting improved performance on the selling floor this Fall.

Third, we identified strategies to maximize the opportunities offered by our newer brands, including XOXO® and Phat Farm®, along with the re-launch of O Oscar™ scheduled for Spring of 2007.

And fourth, we hired Jim Weinberg as CEO of Halmode to build our dress and suit business.

In summary, our second quarter marked the beginning of the turnaround we have been focused on over the past 12 months. We advanced our key goals and positioned our company for more profitable results going forward as evidenced by a meaningful year-to-year improvement in gross profit as a percent of sales in the second quarter.

As we begin the second half of the year, we are confident with the execution of our strategic plans for improved performance of the Calvin Klein Women's Better Sportswear, Sag Harbor and O Oscar brands. We are very pleased with the response from the retailers to the new Calvin Klein line and our order position for Fall delivery. Retailers remain very supportive of the actions that we have taken in Sag Harbor to modernize our product, improve the merchandising of our assortments and aggressively market the brand with the new Christie Brinkley campaign. However, it would appear that the level of sales for the second half for our Sag Harbor brand will be below our original expectations. We attribute this to the retailer's desire to see Fall sell through at retail of Sag Harbor before committing significant increases in their open-to-buy.

While we continue to expect to benefit from higher gross and operating margins in the second half of the year, operating earnings for the fiscal year are now expected to be below earlier guidance due to lower sales. Net earnings and earnings per share are expected to be consistent with our earlier guidance of \$1.75 per share due to higher interest income than earlier anticipated.

Now, Lee will review our financials and guidance in more detail.

Lee Capps: Thank you Bob. Good morning. I will begin with a review of the second quarter, focusing on ongoing operations. Please refer to the tables on page 8 of our press release. Net sales were \$474 million, declining \$14 million or 3% from \$488 million in the second quarter of fiscal 2005.

Our segment sales are shown on our consolidated statement of operations on page 5 of our press release. In Women's Sportswear sales declined \$12 million or 4% to \$274 million due to the planned drop in sales of some of our legacy brands and consolidations at retail. Men's Sportswear and Other Soft Goods sales were flat compared to last year.

Gross profit margin from ongoing operations for the quarter was 21% of sales as compared to 20.4% in the same period last year. The 60 basis point improvement in gross profit as a percentage of sales compared to last year was due to a reduction of the cost to liquidate surplus and obsolete inventory.

Turning to SG&A, we managed our expenses well, with SG&A dollars from ongoing operations declining by \$3 million to \$79 million versus \$82 million in the second quarter of last year. As a result of an improvement in gross profit as a percentage of sales and a reduction in SG&A spending, operating earnings increased by \$3 million to \$20 million in the current

quarter from ongoing operations versus \$17 million in the second quarter of last year, an increase of 18%.

Stock option expense in the second quarter was \$0.5 million before tax; \$0.3 million after tax; or \$0.01 per share.

Net interest expense in the second quarter of 2006 was \$3.8 million as compared to \$5.9 million during the same period last year. Here we benefited from higher interest income due to increased cash balances and higher average short term interest investment rates. Gross interest expense for the second quarter was \$8.6 million versus \$8.1 million last year and interest income was \$4.8 million this year versus \$2.2 million last year.

Our tax rate from ongoing operations for the second quarter was 34% as compared to 32% in the second quarter of 2005. The higher effective tax rate was due to a shift in the mix of domestic versus Asian earnings. For the year, we continue to estimate our tax rate from ongoing operations to be 34%.

For the quarter, net earnings from ongoing operations were \$9.1 million or \$0.35 per diluted share, which compares to net earnings of \$6 million or \$0.22 per diluted share in the second quarter last year, or an increase of over 50%. Net earnings and earnings per share exceeded our earlier guidance of \$8 million or \$0.30 per diluted share due primarily to a higher level of interest income. Kellwood ended the quarter with considerable liquidity and a strong balance sheet. Inventory decreased \$16 million to \$240 million from \$256 million at the end of the second quarter last year, with 55 days supply versus 54 days last year.

As for forward guidance, please refer to the tables on pages 12 and 13 of our press release. For the third quarter we expect net sales to be approximately \$520 million versus \$549 million from ongoing operations

in the same period last year. We are forecasting sales of Women's Sportswear to be in the range of \$302 million versus \$346 million last year. Men's Sportswear sales are expected to increase to \$138 million versus \$132 million last year, as a result of higher sales at Smart Shirts and Phat Farm. Sales of Other Soft Goods are also anticipated to rise to \$80 million versus \$71 million last year, driven by increased sales of sleeping bags and tents and new product expansions in American Recreation Products as well as higher replenishment and seasonal product sales at Gerber Childrenswear.

Operating earnings from ongoing operations (which we define as gross profit less SG&A expense before amortization of intangible assets and expensing stock options) in the third quarter are expected to be flat with last year in the range of \$33 million. Net earnings from ongoing operations for the third quarter are expected to be in the range of \$18 million or approximately \$0.69 per diluted share, inclusive of stock option expense of \$0.5 million before tax, \$0.3 million after tax or \$0.01 per diluted share. This compares to net earnings from ongoing operations of \$17.1 million or \$0.64 per diluted share in the third quarter of fiscal 2005.

For the full year we are now forecasting sales from ongoing operations to be in the range of \$1.97 billion. Previously we had expected sales to be in the range of \$2 billion. This compares to actual sales from ongoing operations of \$2.065 billion in fiscal 2005.

Operating earnings before stock option expense of \$4.3 million are now forecasted to be in the range of \$95 million versus \$100 million last year. Our earlier guidance for fiscal 2006 called for operating earnings of approximately \$105 million. The decrease in operating earnings from our earlier guidance for the year is largely sales volume related.

Net earnings for fiscal 2006 continue to be estimated in the range of \$45 million or \$1.75 per diluted share on an ongoing basis. For fiscal year 2005 net earnings from ongoing operations were \$45.6 million or \$1.68 per diluted share. Included in the forecast for fiscal year 2006, net earnings and earnings per share is \$4.3 million before tax, \$2.8 million after tax or \$0.11 per diluted share related to stock option expense.

This concludes our formal comments and we will now open up the conference call for your questions.

Operator: Thank you. If you would like to ask a question, please do so by pressing the star key, followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, star, one if you have a question. We'll pause for just a moment to assemble our roster.

We'll go first to Jeffrey Edelman with UBS.

Jeffrey Edelman: Thank you. Good morning. A few questions.

Robert C. Skinner, Jr.: Good morning Jeff.

Jeffrey Edelman: Good morning. Bob, could you share with us your thought as to where you think your better volume as a percentage of sales would be this year and as we look out into next year where that might fall?

Robert C. Skinner, Jr.: Jeff, we don't report it that way currently, but I will tell you that we plan for our better percentage to increase at a higher rate than the rest of our businesses in 2007 and beyond. When you look at David Meister, Calvin Klein, O Oscar, XOXO, Phat Farm and Baby Phat we see the growth there being robust.

Jeffrey Edelman: Okay. And I believe when Calvin Klein was initially rolled out you were looking at first year volume in the area of \$50 million or so, I could be wrong, could you share with us some sort of ballpark number in terms of doors and volume we could start looking at this progression since most people seem to be just focused on this one brand?

Robert C. Skinner, Jr.: Again, we don't report sales by brand. It's within the women's segment. I will tell you that again we're very excited about the new assortments we have on the floor. The August receipts and beyond for Calvin Klein have gotten a lot of nice comments from retailers. We have gotten some good early selling results, but it is early, so we're cautiously optimistic. We've got some nice comments from our friends at PVH, our licensor, and we did say at that time we didn't quantify doors and say we're in about 275 doors compared to about 120 to 130 in Spring '06, so there's been a significant increase in doors that has just started and we see that continuing into the future, Jeff.

Jeffrey Edelman: Okay, thank you. And Lee, could you give us a number for interest income and interest expense for the balance of the year?

Lee Capps: This should trend very similar to what we have experienced in the second quarter and year-to-date. We certainly don't break those two numbers down in our forecast for the rest of the year.

Jeffrey Edelman: Okay, great.

Lee Capps: Yeah, but I don't see any significant change in the direction.

Jeffrey Edelman: Fair enough. Okay, thank you.

Robert C. Skinner, Jr.: Thank you Jeff.

Operator: We'll go next to Liz Dunn with Prudential.

Liz Dunn: Hi. Good morning.

Robert C. Skinner, Jr.: Good morning Liz.

Liz Dunn: First on the advertising, how much incremental advertising spending are you doing associated with Sag Harbor? Because you talked about Christie Brinkley and the various other things that you're doing.

Robert C. Skinner, Jr.: Sure, I'd be happy to. We've signed a long-term arrangement with Christie that goes through 2008 so we will have a sustained increase to advertising spend starting in the second half of this year and continuing through 2008. We're very excited about that. We think it will drive sales of the brand. It'll be both media and on theater screens in select markets. We also think that we can fund a large part of it through reduced spending in other categories, Liz, of SG&A. So we've kind of worked on that equation very carefully and again we feel good about it.

Liz Dunn: Okay. And then looking at spending in the aggregate, you've had some nice reductions in SG&A year-to-date thus far, should we see a similar pace of reduction in SG&A or maybe a little bit more stabilization as we look at the back half of the year?

Lee Capps: Yeah, we continue our programs of controlling SG&A expenses as well as burdens. Bob mentioned that we are offsetting some of the improved advertising costs with SG&A spending and you also know at this point that in the first half we have been able to come in favorable versus last year. We're looking at for the year at this point being closer to, you know, 2005 rather than what we had said earlier, which would indicate that we will continue to control SG&A expenses but not to the same degree as the first half.

Liz Dunn: Okay. And then I guess my final question is on Sag Harbor. As we're looking at the guidance for women's wear for Q3 and what I'm now assuming for Q4, it looks like you're planning for women's sportswear in total to be down double-digits versus a high single-digit level in the first half. Are you experiencing, I mean are the retailers cutting back, they must be, more in the Sag Harbor business than they did in the first half, particularly since you should have an assumption of an offset from Calvin Klein? And if so, you know, why would they be cutting more at this point from a volume standpoint because I think for several quarters you've been talking about improved sell throughs already?

Robert C. Skinner, Jr.: I think I discerned the question, but some way we'll try to answer about Sag Harbor volume. Yeah, we said in our comments that retailers want to see improved sell throughs at retail before they commit to larger Sag Harbor open-to-buy and we think that's a reasonable position. The new assortments, the new line from our new team has just hit the selling floor now so we've just had the opportunity to see those increases. So certainly, Liz, Fall '06 was affected by the fact that our Spring '06 sell throughs at retail were less than we would have desired. By the way, our early read again on Sag Harbor, on the new line that's been on the floor since the first week in August or the second week of August is good, so we're cautiously optimistic, realizing that August does not a season make.

Liz Dunn: Okay, so the reason that Fall '06 is down more than Spring '06 is because Spring '06 didn't perform, is that the answer? I was trying to discern an answer in there just as you were trying to discern a question.

Robert C. Skinner, Jr.: Yes.

Liz Dunn: Okay, thank you.

Operator: We'll go next to Brad Stephens with Morgan Keegan.

Brad Stephens: Hi, good morning guys.

Robert C. Skinner, Jr.: Good morning Brad.

Lee Capps: Good morning Brad.

Brad Stephens: First of all, congratulations Roger on your retirement. We wish you all the best of luck.

Roger Joseph: Well thank you Brad.

Brad Stephens: A couple of questions for you. When I look at the, even though the minimal shortfall to your sales guidance, it looks like it came actually out of men's and other soft, which is you know, been two of your better performing of the divisions obviously, does that have to do with the retailers maybe making you hold inventories longer? Or can you just give us a little color even though it was minimal miss?

Lee Capps: No, I would indicate an answer on that one. This is Lee. It is primarily women's. Other soft goods did fine and men's was very slight.

Brad Stephens: Okay, I just had you a couple of million light in other soft, it was...

Lee Capps: Yeah.

Brad Stephens: Given that Wal-mart is a pretty big customer in that zone I was wondering if they were forcing to hold it a little bit longer. Moving on then. Talking about the Baby Phat business, which I think is on fire pretty much everywhere; can we talk about the size of that and the importance to you going forward?

Robert C. Skinner, Jr.: Yeah, our Baby Phat by Kimora Lee Simmons business is quite strong because our licensee there, BP Fashions, has done an

excellent job executing on the product, building the brand. Kimora and her design team have done a great job. Also in the shoe business, our licensee, Vida Shoes, in accessories as well in outerwear, so yes, it's quite important to us. Again, we're not going to break out the individual sales of Baby Phat but it is considerable to us, certainly Brad.

Brad Stephens: And that just all flows straight through as licensing income so 100% gross margin, correct?

Robert C. Skinner, Jr.: Yes, I would temper that statement with the fact that we spend a significant amount on advertising and building the brand, which we think is appropriate. So, but yes, it's a traditional licensing model Brad.

Brad Stephens: Okay. Lee, while we're here, do you have the general corporate expense for the quarter that you usually break out in the Q?

Lee Capps: No, I don't have that with me.

Brad Stephens: Okay.

Lee Capps: But the Q will be filed shortly.

Brad Stephens: Okay. And then on the M&A front and on the store-opening front, could you kind of update us on where you're at with those?

Robert C. Skinner, Jr.: Sure, I'd be happy to Brad. Again, what we've said on the store opening, I'll take the last one first is that this is the year of experimentation for us so we have various retail formats: Koret outlet stores, which has already established 60 plus stores; Koret regular price retail, which we're just opening; Sag Harbor outlet stores and Sag Harbor regular price stores that we are just opening and Phat Farm/Baby Phat combination stores mainly overseas. We want to read these results, these

stores are, with the exception of Koret outlet, opening in the second half of the year, of this year, we want to read these results before we decide on any roll out strategy. So this is the year of experimentation; depending on what happens we will decide on a go-forward strategy in '07.

As it relates to M&A, the first part of your question, Brad, we continue to evaluate the marketplace, looking for ways to build shareholder value and looking for things that we think would be the right thing to do. We publicly said in the past that we will keep our strict criteria for acquisition; obviously we haven't done anything since Phat Fashions in 2004. We also said that in the past year we would focus, since we announced our restructuring plan, we would focus on getting our house in order and we've been doing that. Now we don't think our turnaround's complete but we think we've made substantial progress. So we continue to evaluate the M&A market is true.

Brad Stephens: Is it as hot as it's ever been or is it cooling off a little with interest rates rising?

Robert C. Skinner, Jr.: We see an increased amount -- or excuse me, I would say about the same amount of deal flow out there of potential targets, but that doesn't mean they're all good. And again, I don't want to give the impression that we're looking to jump at something at all. We're being conservative and trying to understand what's the best way to build shareholder value and for the last year or so we believe that's been focusing heavily on our turnaround inside and that will always be a component of our go-forward strategy as well as looking at M&A.

Brad Stephens: Okay, and back to the stores real quick. In the Sag Harbor stores do you have any of those open yet?

Robert C. Skinner, Jr.: We have a number of outlet stores open. We have not yet opened the regular price stores Brad, but we will do so in the second half of the year.

Brad Stephens: All right, thanks guys.

Robert C. Skinner, Jr.: Thank you.

Operator: We'll go next to Jody Kane with Sidoti & Company.

Jody Kane: Hi, thanks. Just a quick question on the SG&A line. It's a lot lower than the 350 that you originally planned, I was just wondering how you were getting it lower, is it sort of a reduction in bonuses or if there's some way that you can explain how SG&A is coming in much lower?

Lee Capps: No, we anticipated at the start of the year that the sales line would be somewhat challenged and we started programs in the second half of last year to look at our SG&A expenses along with our burden expenses and we've been implementing those programs over the last six to eight months.

Jody Kane: Okay, so then does that mean...

Lee Capps: Primarily headcount related.

Jody Kane: Is it headcount related?

Lee Capps: Yes.

Jody Kane: And then going sort of forward for the next two quarters sort of is there extra SG&A that could be cut out again?

Lee Capps: Well we will continue the programs but as Bob mentioned earlier we do have some marketing and advertising expenses, which will offset some of those savings.

Jody Kane: Okay, so...

Lee Capps: And such, why I indicated it would be closer in line with the 2005 levels in our original forecast.

Jody Kane: Okay, so of that 2005 if it's in line with that is there still some sort of leverage there with in terms of bonuses or anything like that that could bring it even lower?

Lee Capps: We're forecasting a reasonable level of reductions against some additional expenses, so we're comfortable with the level that we're indicating.

Jody Kane: Okay, and then...

Lee Capps: And that is in that reduction.

Jody Kane: Okay. And just last question on the sort of general environment. You know a lot of people are saying that it's getting weaker, the department stores are a little less reluctant to hold inventory and I was just wondering what your thoughts were on it.

Robert C. Skinner, Jr.: Sure Jody. We've focused very hard on inventory reduction and we've talked about that. Our team's done a good job and we have a much lower supply of days of inventory than we did a few years ago, so in the last couple of years we've done a real good job which we think makes us well positioned to supply the stores better. It is correct that they are looking for a faster turn but we're doing the same thing. We've also shortened our cycle times significantly and that's allowed us to hold less

inventory to be more nimble. So we think we're aligned with their desire to flow goods and turn goods faster.

Jody Kane: And last question, you say Calvin Klein and their number of doors have increased. Do you have any other brands that their doors are increasing or even some brands that their doors are decreasing?

Robert C. Skinner, Jr.: You know there's some degree of change probably in all of our brands. Let me just highlight a few where we would have some increases. Certainly it's been true that we have increases at Baby Phat by Kimora Lee Simmons. We are also as Kohl's continues to open stores. Our Candies' private brand business with Kohl's continues to be in all of those doors. So those would be a few places where we are expanding nicely.

Jody Kane: All right, great. Thanks.

Operator: And as a reminder, star, one if you do have a question at this time. We'll go next to Derrick Wenger with Jefferies & Company.

Derrick Wenger: Yes, thank you very much. Can you just tell me your capital expenditure plans from fiscal year January '07 and '08 if you have any preview of that?

Lee Capps: We're still on track on the plans for fiscal year 2006. It's a little early for us to be predicting '07 and '08.

Derrick Wenger: Okay, and what would be the plans for '06?

Lee Capps: We're in the \$28 to \$30 million range for capital expenditures as well as depreciation.

Derrick Wenger: Okay, thank you very much.

Robert C. Skinner, Jr.: Thank you.

Operator: We'll go next to Liz Dunn with Prudential.

Liz Dunn: Hi, I just had two follow-up questions. One, when you say that SG&A is similar to last year do you mean in terms of aggregate dollars or as a percentage of sales?

Lee Capps: In aggregate dollars.

Liz Dunn: Okay. And then on the cash flow, where do you see yourself coming in, cash flow from operations, what's the working capital component going to be? And looking at your cash flow year-to-date it's certainly lower than I had forecasted, do you think that there's any risks to the dividend at this point? Thank you.

Sam Duggan: Hey Liz, this is Sam. With regards to our cash flow I guess we tend to look at our cash flow from a free cash flow basis and when we talk about that we define it as cash flow from operations, excluding working capital changes, but then deducting capital expenditures and dividends. And we look at it for the year we think that's going to be in the \$40 to \$45 million range from a free cash flow basis as we've defined it. And no, we don't believe there's any danger to our dividend, we're planning to continue with the dividend.

Liz Dunn: Okay, thank you. And let me add my congratulations to Roger on his retirement and welcome Sam. I look forward to working with you.

Sam Duggan: Thank you.

Roger Joseph: Thank you Liz.

Operator: We'll go next to Brad Stephens with Morgan Keegan.

Brad Stephens: Yeah, a quick follow-up. On the Candies business, what is longevity of those contracts? Are those competitively bid year after year or is that a long-term deal?

Robert C. Skinner, Jr.: Yeah, we won't comment on competitive issues. We'll only say that we have an excellent relationship with Kohl's on the Candies program as well as other businesses and we're quite pleased with the way the relationship works and we believe that our partners at Kohl's are as well.

Brad Stephens: Okay. Then on the competitive front in the private label business, given Lee Fung's more aggressive entrance, have you seen a change in the competitive posture out there? And then number two, can you talk about the sourcing environment and I just wanted to see any inflationary pressures overseas?

Robert C. Skinner, Jr.: Yes, first commenting on private label, again, keep in mind Brad that we have kind of two separate components of our private label business. At Smart Shirts we are a world-class manufacturer and we own the means of production. This means, we own factories, so we do business directly. Our sales are good in Smart Shirts. We had mentioned that we have been somewhat margin challenged there because of the entrance of lower cost countries in the last couple of years but we have maintained our market share very nicely.

As it relates to cost increases, much has been said about cost increases of fuel and fuel related products and actually that is a fairly small part of our total product cost. So while there's been some inflationary pressure, I would term it mild.

As it relates to your comment or question rather about Lee Fung and Oxford, the other part of our private label business is fashion related and that would hold true for our Candies business and our George business with Wal-Mart and while those certainly are competitive markets, no, our business is based on our ability to provide fashion. So we think that's a little different than being in the commodity business.

Brad Stephens: Okay. On the inflationary front, with wages going up overseas in some countries anyway, how long does that take the flow through to you? So I guess my question is, how long are your contracts in place for if wages and etcetera are going up now, does that take six months, a year or a year and a half? What would be the kind of the time frame?

Lee Capps: Yeah, this is Lee. Changes of that nature do take probably a season or so, you know four to six months before it kind of flows through to us because we already have our pricing pretty well set. And then also in that time frame we reassess where we're producing, so if obviously there are some significant shifts in a certain part of the world we'll reevaluate other parts of the world.

Brad Stephens: Okay, thanks.

Robert C. Skinner, Jr.: Thank you.

Operator: We'll take our next question from Jacklyn Anderson with Lazard.

Jacklyn Anderson: Hi. Going back to Sag Harbor, where do you see the upside opportunity for '06, is it basically replenishment in the fourth quarter? And where do you see Sag Harbor in terms of size and how big can this brand be if it works?

Robert C. Skinner, Jr.: Well again, it's already quite a big brand. We won't comment on the individual net sales or gross sales of the brand. Where

are the opportunities? We think the opportunities are numerous. One, we have better assortments on the floor right now; they are more wear now than they ever have been. We have a great new assortment of bottoms. We've intensified our bottoms businesses. We think that's an opportunity. So we have replenishment pants on the selling floor in a meaningful way for the first time and we think there's a potential upside there. And of course driven by our new marketing campaign with Christie Brinkley we think that will help drive brand sales for us and for our retail partners.

Jacklyn Anderson: What else is in your guidance for the rest of the year, I mean are you expecting sales, strong sales in the fourth quarter or just replenishment? I mean what is in the numbers at this point?

Lee Capps: Well let me address that. No, we're not expecting a big increase in sales in the second half of the year, but we are focusing on inventory levels, both at retail and wholesale, and comparing those inventory levels and risks associated with those inventory levels against the same period to last year, so that's where a lot of the benefit comes from.

Jacklyn Anderson: All right. And how is another large brand of yours, Briggs, how's that performing?

Robert C. Skinner, Jr.: Very well. We're pleased that we've again, we think that there we hold a significant share of the moderate bottoms category. We are known for our fit. So we do business with virtually all of the large retailers across America, either in the Briggs New York brand, the Pantology brand or in private labels. So we're well satisfied with that business.

Jacklyn Anderson: Are you seeing growth in that business?

Robert C. Skinner, Jr.: I would say the sales are remaining quite strong. If there would be growth it would be modest.

Jacklyn Anderson: All right. Thank you.

Robert C. Skinner, Jr.: Yes.

Operator: We'll go next to Jeffrey Edelman with UBS.

Jeffrey Edelman: Thank you. Just like to explore a couple of things. Bob, I realize that Smart Shirts had the advantage of no quota when everybody else had quota, so you, they, the others became more competitive and you had to move your prices down, so I assume it's not likely we see much margin recovery there.

Robert C. Skinner, Jr.: Well we're trying to -- I mean it's certainly true what you said Jeff, we're trying to and making some progress on offsetting that via greater efficiency in our manufacturing operations. But certainly a true statement, what you said.

Jeffrey Edelman: Okay. If we sort of exclude that and realize that this year is benefiting from a lot less liquidation, is it possible for you to guess how much of your business is running at what you would consider a normal gross margin?

Robert C. Skinner, Jr.: I'm not sure I know how to answer that one. I think perhaps what you'd like to know is how much margin potential is there and...

Jeffrey Edelman: No, no, I'm saying are all of your product line margins really, you know, low or are a number of them running at a normal level and the recovery is due to several brands?

Robert C. Skinner, Jr.: I think we can make incremental improvement across the board in our margins Jeff, I really do, so and that's in all parts of our

portfolio. Obviously we're running somewhat better than we were and largely that's because our total inventories are better but is there opportunity on the sourcing front, on the sell through front and having the right product to therefore increase our gross margin? Yes, we think there is.

Jeffrey Edelman: Okay. Lee, a question for you. On your overhead, presumably you've cut back a lot of things this year, how much can you contain that as we look out to '07? Will we see things like advertising start to build in sales expense and might not start to build growing in line with sales?

Lee Capps: No we are continuing to look at additional programs that we feel that we can continue to do somewhat of an offset. We may not be able to offset completely in improvements and advertising, but we still have additional programs that we can work on into 2007 and '08.

Jeffrey Edelman: Okay. Great, thanks. And then finally, Roger, good luck to you.

Roger Joseph: Thank you Jeff.

Operator: We'll go next to Bob Bridges with Sterling Capital Management.

Bob Bridges: Hi.

Robert C. Skinner, Jr.: Hi Bob.

Bob Bridges: I wonder if you can just reconcile something in the balance sheet with what you've commented on with Sag Harbor. Inventories sort nicely year-over-year, are you in a position with lower inventories to be able to service what you hope to be the higher level of replenishment demand in terms of orders that might be coming in later in the quarter?

Robert C. Skinner, Jr.: Yes, we think we've done a nice job out of matching our sales projections to the inventory requirements. Again, our cycle time is better than it was a couple of years ago. We've made significant strides. So yes is the answer there.

Bob Bridges: And maybe if you could just build on the comment, could you share the number of days or weeks in your cycle time for the lead order that you've been able to strength through some of those efforts you've made?

Robert C. Skinner, Jr.: You know it really, I would caution you before I give you the answer, it does vary all over the place by product category and some were quite short, things like juniors where we do some work domestically. It can be as little as five weeks and then if you went out to yarn-dyed wovens or constructed jackets produced overseas it would get quite a bit longer. But I would say in total we've made better than 25% progress in our total cycle time. And on average, let's say that was running in the nine months area a couple of years ago, which was too long by the way, and we're down nicely from that, ranging from seven down to five months on certain product categories, four months or sixteen weeks down to six weeks on others and that's not a static point. This is something that you'd continuously work on every aspect of it; whether it's the manufacturing process, pre-production or logistics, and you shave a day here, shave a day there. It's a game of inches. And so far we're doing very well at the game. So we think there's again incremental improvement we can continue to make there, which should be reflected in our inventory. We're carrying at a rate of about 55 days in our wholesale inventories right now and we think that's a good rate, but we can still do better.

Bob Bridges: Great. And are you going to disclose the terms specifically to the Christie Brinkley contract underneath your filings?

Robert C. Skinner, Jr.: No, I disclosed the length a little while ago, but no we do not plan to.

Bob Bridges: Okay, thank you very much.

Robert C. Skinner, Jr.: You're welcome.

Operator: And that concludes the question-and-answer session today. At this time I'd like to turn the conference back over to Mr. Skinner for any additional or closing remarks.

Robert C. Skinner, Jr.: Again, yes, thank you Operator. I'd just like to remind everyone that last Summer and Fall we set up our restructuring program and our turnaround plan to revitalize a number of our brands and that included upgrading our talent and including, it included revising our business processes, it included upping the fashion level or the fashion appropriateness of our products and it also included more aggressive marketing of our brands. Right now that turnaround is by no means over, but we believe we are proceeding nicely. So we appreciate everyone's interest in Kellwood and we look forward to speaking with you again at the end of the third quarter. Thank you for participating.

Operator: Thank you everyone. That does conclude today's conference. You may now disconnect.

THE END