KENNETH COLE

PRODUCTIONS, INC.

ANNUAL REPORT '02

OUR JOURNEY OVER THE PAST 20 YEARS HAS BEEN EXTRAORDINARY. IT HAS CREATED AN OPPORTUNITY TO LOOK BACK ON THE PAST, BUT EVEN MORE SO, TO REFLECT AND IDENTIFY OPPORTUNITIES THAT LIE BEFORE US. THERE IS STILL MUCH SOLE SEARCHING AHEAD.

FROM KENNETH

In business as well as in life, it's sometimes best to take a step back in order to take two forward. Coming off the most challenging year in our history, we began 2002 with a steadfast resolve to reposition ourselves in an unstable market and volatile retail environment. Twelve months later, we're proud to announce we've achieved better than expected results. We've identified opportunities across each business sector and responded appropriately. By knowing our capabilities and implementing an intense focus on strategy, we are more efficient and more versatile—and a stronger company as a result.

Last year the company's net income grew 57.3%—from $16.6 million to $26.1 million. Consolidated revenues were a record $433 million, an 11.6% increase over 2001. We witnessed impressive gains in the wholesale and licensing segments of our business; 18.9% and 29.8% respectively. While we're proud of our accomplishments in 2002, which included our highly anticipated launch into the fragrance arena, there's much to look forward to in the year to come.

Foremost, we are very excited about entering our 20th year in business and we intend to pay tribute accordingly. Expect to see new product offerings as well as some innovative marketing and advertising initiatives—including a book launch toward the 2nd half of the year. Based on last year's success, as evidenced by our strong 4th quarter performance in 2002, our second holiday "gift giving" campaign will launch and is expected to help provide another strong finish as we close 2003. Above all, we're eager to share our remarkable milestone with those who have directly contributed to our success—our customers.

Overall confidence in our performance remains strong, and with three lifestyle brands and total control of the business from creation to consumption, we feel more cohesive and focused as an organization. This is evident by our retail performance returning improved gross margins while remaining appropriately diversified across business segments and product classifications in terms of brand names and gender offerings. We're extremely proud of our licensee partnerships, which continue to appear seamless. I'm certain we can capitalize on opportunities that exist internationally as well as new undertakings in the ever-growing children's market. In regards to the future, our track record shows we can perform well in a bad market and we expect to perform even better in a good one.

Our journey over the past 20 years has been extraordinary. It has created an opportunity to look back on the past, but even more so, to reflect and identify opportunities that lie before us. There is still much sole searching ahead. I'd like to personally thank everyone who has contributed to our success—from our dedicated employees and associates, to our loyal customers and shareholders. We don't take lightly this support and we intend to continue to earn it. Here's to the first step towards the next 20 years.

—Kenneth Cole

KENNETH COLE

REACTION

UNLISTED

LICENSING

Our licensing business continued to thrive in 2002, bolstered by our first ever fragrance launch. We considered the launching of men's and women's fragrances simultaneously an overall success. In the end, the men's fragrance was a top 10 performer as expected, while the women's performed respectably. We intend to take what we have learned and launch two more derivative scents; the first a seasonal scent and the latter to coincide with our 20th anniversary campaign.

The sales of our licensed Kenneth Cole men's businesses continue to be strong despite the extremely promotional and competitive market place for those goods. Several newly launched Reaction Kenneth Cole men's classification businesses yielded results that beat the expectations of the retail community in 2002. The Kenneth Cole men's sportswear collections continue to exceed plans at the retail level. With our focused merchandising strategy with an emphasis on "wear now" designed products as well as the introduction of a casual component of the line, we are now one of the best performing collections in our segment of the business. In addition, our women's sportswear line now includes petite sizes enabling us to cater to the needs of more customers. We are also very excited about a new relationship that will expand our existing offerings of men's dress and classification pants. We expect that, with our strength in men's wear, this association will yield exceptional results.

We're very excited about the potential of Reaction Kenneth Cole boy's sportswear, which debuted in the fall with an innovative and targeted marketing campaign. It was well received by the consumer, producing sell-thru results that exceeded department store averages. In 2003, we will continue our commitment to the growth of children's sportswear as a classification with the launch of Infant and Toddler, and with the introduction of girl's collections to follow.

We have just witnessed a very successful re-launch of women's jewelry to deliver in the 1st quarter of 2003. We are very encouraged with the retail reception and estimate our sales will far exceed the planned first year projections. Our watch business continues to enjoy increasing sales growth, and consumers have positively received the recent introduction of watches under the Reaction Kenneth Cole brand.

Globally, expansion continues to be supported by an increased demand for the product in various international markets. Last year, pursuant to a licensing arrangement, we proudly launched our Kenneth Cole business in the UK. Our licensee partner marked this entry by opening a showroom and two full lifestyle stores in London (Sloane Street and Kings Road), in addition to placing our footwear and handbags in over 30 concession doors in prime UK department stores.

Based on our previous success, we continued our expansion in the Latin American market, as our licensee partner opened Kenneth Cole stores in Panama, Ecuador, Peru, Colombia, and El Salvador, in addition to increasing our wholesale distribution in the Caribbean. We took a larger step in our plan to grow the Asian business by forming new relationships in South Korea, where five shop-in-shops in key top tier department stores were opened during the fall of 2002. Asian expansion continued by opening a freestanding store in the Philippines, as well as renovating our stores in Harbour City and Landmark in Hong Kong. We also saw the opening of new shop-in-shops in Takashimaya, Singapore and Seibu Department store in Pacific Place, Hong Kong. Our relationships throughout North America continue to flourish as we continue seeking new opportunities in appropriate markets.

We continue to be pleased with the licensing segment of our business and understand the integral role these programs continue to provide our existing and forthcoming business endeavors. We look forward to exploring additional business opportunities domestically and abroad.

WHOLESALE

Following a difficult climate in 2001, our wholesale business enjoyed a hearty resurgence in 2002. Our focus on product, planning and analysis at point-of-sale allowed us to capitalize on opportunities, while remaining conservative in our inventory management.

The Reaction Kenneth Cole men's footwear business saw impressive growth and outperformed most other vendors at retail across the country. Reaction Kenneth Cole ladies was also strong. Both genders had lean inventory positions early in the year due to a prudent inventory management in the wake of September 11th. This allowed for a healthy business while minimizing inventory risks.

Unlisted ladies footwear also had very healthy growth and was consistently a top contributor to our customers' sales and gross margins. Both our traditional dress product, and some newer "young fashion" items were integral to its success. Unlisted men's, though still our smallest men's business, experienced significant growth over the last year. With the price pressures that still persist in the department store sector, we anticipate this right-priced excellent value line continuing to outperform in 2003.

In a conservative consumer market, the higher-priced products remained the most challenging across the industry. Despite this, our Kenneth Cole businesses, men's in particular, gained ground. We delivered fashion items more often, giving the customer fresh items to choose from more frequently, thereby stimulating demand.

Overall, we are excited by both the improved growth and promising future of our wholesale business. With a focus on more "trend right" product assortments, we see a genuine opportunity for all three of our lifestyle brands in 2003.

CONSUMER DIRECT

Understanding our consumer as well as increasing brand identity is integral to our success. While traditional "brick and mortar" retail continues to be the emphasis of the Kenneth Cole world, over the course of the past year, we've continued to invest in the Internet and other emerging technologies, demonstrating our commitment to meeting the needs of our customers. By expanding product offerings both online and through the catalog, our multi-channel distribution strategy enables us to grow that part of the business. Test and React programs, as well as our "private label" offerings, continue to be a focus as we continue to seek to bring on-trend fashionable merchandise to market as quickly as possible. Kenneth Cole is continually focused on customer loyalty programs that better help us target our audience and maximize the opportunities for our family of brands.

Despite an unstable economy, our retail business expanded, allowing us to increase our presence in exciting new markets with the openings of new Kenneth Cole and Reaction Kenneth Cole stores in Orlando, Florida. Additionally, two outlet stores were opened in Myrtle Beach, South Carolina and Colorado Mills, Colorado as our outlets continue to be successful vehicles in reaching an expanded customer base. While for accounting purposes we took an asset impairment charge on our Rockefeller Center store, we still believe this high profile location is imperative to telling our brand stories and maintaining our image and brand presence.

We have also expanded some of our more successful stores in San Francisco and SoHo, New York as well as the Outlets in Napa Valley, California and Secaucus, New Jersey. Expansion remains a large part of our focus as we continue to accommodate our growing product categories and cultivate the Kenneth Cole brand.

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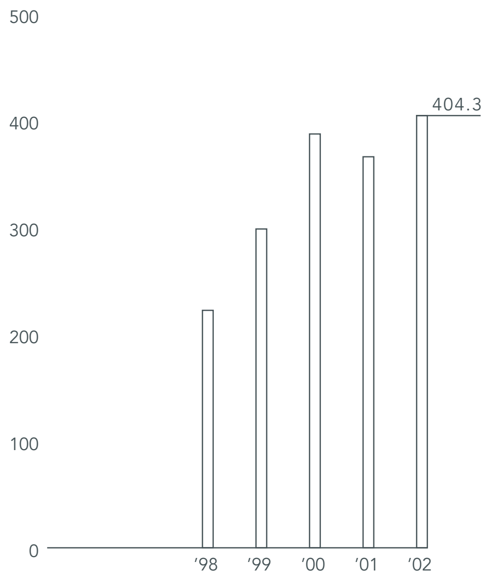
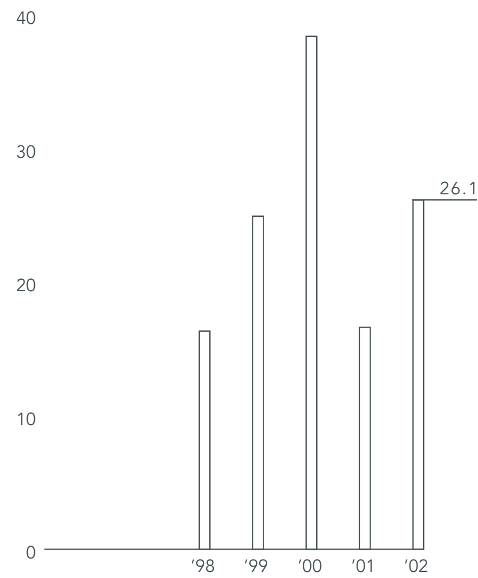

Net Sales
dollars in millions
500
400
300
200
100
0
404.3
'98
'99
'00
'01
'02


Net Income
dollars in millions
40
30
20
10
0
26.1
'98
'99
'00
'01
'02

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto that appear elsewhere in this Annual Report.

Critical Accounting Policies and Estimates

General The Company's management's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, investments, income taxes, financing operations, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Inventory The Company writes down its inventory for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Sales Returns and Allowances The Company's ability to collect factor chargebacks for deductions taken from its customers for returns, discounts, and allowances as well as potential future customer deductions is significant to its operations. The Company reserves against known chargebacks as well as potential future customer deductions, based on a combination of historical activity and current market conditions. Actual results may differ from these estimates under different assumptions or conditions, which may have a significant impact on the Company's results.

Allowance for Doubtful Accounts The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. These customers include non-factored accounts and credit card receivables from third party service providers. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Contingencies In the ordinary course of business, the Company is involved in and subject to compliance and regulatory reviews and audits by numerous authorities, agencies and other governmental agents and entities

from various jurisdictions. The Company is required to assess the likelihood of any adverse outcomes of these matters. A determination of the amount of reserves required, if any, for these reviews is made after careful analysis of each individual issue. The reserves may change in the future due to new developments or final resolution in each matter, which may have a significant impact on the Company's results.

Results of Operations

The following table sets forth certain operating data of the Company as a percentage of net revenues for the periods indicated below:

Year Ended December 31,	2002	2001	2000
Net sales	93.4%	94.3%	94.7%
Royalty revenue	6.6	5.7	5.3
Net revenues	100.0	100.0	100.0
Cost of goods sold	54.3	56.0	53.1
Gross profit	45.7	44.0	46.9
Selling, general and administrative expenses	35.2	37.6	32.0
Impairment of long-lived assets	1.1		
Operating income	9.4	6.4	14.9
Income before provision for income taxes	9.7	6.9	15.7
Provision for income taxes	3.7	2.6	6.3
Net income	6.0%	4.3%	9.4%

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net revenues increased $45.1 million, or 11.6% to $433.0 million in 2002 from $387.9 million in 2001. This increase is due to revenue increases in each of the Company's business segments: Wholesale, Consumer Direct and Licensing/International.

Wholesale net sales (excluding sales to the Consumer Direct business segment) increased $37.7 million, or 18.9% to $236.6 million in 2002 from $199.0 million in 2001. This increase is attributable to improved sales across the Company's footwear and handbag brands: *Kenneth Cole New York*, *Reaction Kenneth Cole* and *Unlisted*. The highly competitive consumer environment coupled with decreased consumer confidence has led to a continued promotionally driven price sensitive marketplace. The Company's primary brand, *Kenneth Cole New York* accompanied by its diffusion brands, *Reaction Kenneth Cole* and *Unlisted* has limited the Company's exposure to reductions in sales through varying price point ranges and multiple distribution channels. The Company believes its focus on improving product offerings, advertising campaigns, marketing efforts, website, catalogs and growing retail presence, combined with the marketing efforts of its licensees, will be significant factors to strengthen its three distinct brands, *Kenneth Cole New York*, *Reaction Kenneth Cole* and *Unlisted* across all product classifications, thereby increasing consumer demand for the Company's brands in the future.

Net sales in the Company's Consumer Direct segment increased $1.1 million, or .7% to $167.1 million in 2002 from $166.0 million in 2001. Of the total increase, $11.3 million was attributable to new store sales in 2002 plus that portion of 2002 sales for stores not open for all of 2001, which was offset by a decrease of $10.2 million in comparable store

sales and comparable catalog and internet sales. The Company believes the decrease in comparable store sales in the Consumer Direct segment is due to the effects of a promotionally driven and highly competitive retail store environment and less consumer spending due to the ongoing Middle East tension, potential additional terrorist attacks and general economic conditions. In an effort to overcome these challenges, the Company continues to analyze inventory, focus on products and further scrutinize consumer trends.

Royalty revenue increased $6.6 million, or 29.8% to $28.7 million in 2002 from $22.1 million in 2001. The increase primarily reflects revenues from the launch of the Company's men's and women's fragrance during the third quarter of 2002 and the launch of the Company's children's apparel line of products. Additional sales from men's and women's sportswear and accessory categories including neckwear, watches, dress shirts and optical wear improved revenues offset by decreases in men's and women's leather outerwear. The addition of fragrance, through a worldwide launch and the initiation of children's wear into the market place, continued the Company's strategic plan to grow its global business through licensing partners. The Company believes consumers look toward brands they know and feel comfortable with as a lifestyle; therefore the synergies from its efforts to reinforce its brand identities through greater marketing efforts, by itself and its licensees across all product categories, will continue to propel licensee sales both domestically and internationally.

Consolidated gross profit as a percentage of net revenues increased to 45.7% in 2002 from 44.0% in 2001. The increase is attributable to improvements across all three business segments: Wholesale, Consumer Direct and Licensing/International. The primary increase is attributable to the Wholesale segment volume increase and improved gross profit percentage. The Wholesale segment, which operates at a lower gross profit level than the Consumer Direct segment, increased its percentage of net revenue to 54.6% for the year ended December 31, 2002 from 51.3% for the year ended December 31, 2001, while the Consumer Direct segment as a percentage of net revenue decreased to 38.6% for the year ended December 31, 2002 from 42.8% for the year ended December 31, 2001. Wholesale gross profit as a percentage of sales increased primarily from *Reaction Kenneth Cole* branded footwear and handbags from improved sell-thrus at retail and from well-managed inventories. The increase in the Consumer Direct segment gross profit was attributable to a reduction in markdowns compared with the highly competitive promotionally driven retail environment after the September 11 tragedy and a gain of $860,000 recorded in the third quarter 2002. This gain, included in gross profit, resulted from price adjustments on certain products sold to the *Kenneth Cole* retail stores, after conducting audits of certain licensees as part of the Company's rotational licensee audit program. Licensing revenue, which has nominal associated cost of goods, increased as a percentage of net revenues to 6.8% for the year ended December 31, 2002 from 5.9% for the year ended December 31, 2001.

Selling, general and administrative expenses, including shipping and warehousing ("SG&A"), increased $6.7 million, or 4.6% to $152.6 million (or 35.2% of net revenues) in 2002 from $145.9 million (or 37.6% of net revenues) in 2001. The decrease as a percentage of net revenues is primarily from the economies of scale over the Company's fixed base of general and administrative costs offset by rent and labor costs within the Consumer Direct segment. The decrease is further attributable to the continued focus on the Company's cost-containment program implemented at the end of 2001 in response to a challenging economic environment that continues to persist.

The Company recorded a charge of $4.4 million during the year ended December 31, 2002 due to a write-down of the leasehold improvements associated with the Company's flagship retail location at Rockefeller Center in New York City. This charge, which represented 1.1% of net revenues for the year ended December 31, 2002, is included within operating income.

Interest and other income decreased to $1.1 million in 2002 from $2.1 million in 2001. The decrease is due to lower average short-term interest rates.

The Company's effective tax rate decreased to 37.5% for the year ended December 31, 2002 from 38.3% in the corresponding period last year. The decrease is due to the relative level of earnings in the various state and local taxing jurisdictions to which the Company's earnings are subject.

As a result of the foregoing, net income including an asset impairment charge of $4.4 million and a gain included in gross profit of $860,000 increased $9.5 million, or 57.3% to $26.1 million (6.0% of net revenue) for the year ended December 31, 2002 from $16.6 million (4.3% of net revenue) for the year ended December 31, 2001.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net revenues decreased $20.8 million, or 5.1% to $387.9 million in 2001 compared to $408.8 million in 2000. This decrease is primarily attributable to a decline in Wholesale net sales, offset by an increase in sales from new retail stores within the Consumer Direct segment.

Wholesale net sales (excluding sales to its Consumer Direct business segment) decreased $38.0 million, or 16.0% to $199.0 million in 2001 from $236.9 million in 2000. This decrease is attributable to a decrease in sales across all branded footwear and handbag product lines, *Kenneth Cole New York*, *Reaction Kenneth Cole* and *Unlisted*. Collapsing consumer confidence led to lessening customer demand, coupled with higher inventory levels of outdated core product and resulted in reduced sales. Further, the Company's decision not to participate in very aggressive promotional activities in order to maintain the integrity of its brands compounded constraints on distribution, placing additional downward pressure on short-term sales volume. The Company believes its focus on improving product offerings, advertising campaigns, marketing efforts,

website, catalogs and growing retail presence, combined with the marketing efforts of its licensees, will be significant factors to strengthen its three distinct brands, *Kenneth Cole New York*, *Reaction Kenneth Cole* and *Unlisted* across all product classifications, thereby increasing consumer demand in the future.

Net sales in the Company's Consumer Direct segment increased $17.7 million, or 11.9% to $166.0 million in 2001 from $148.2 million in 2000. Of the total increase, $33.6 million was attributable to new store sales in 2001 plus that portion of 2001 sales for stores not open for all of 2000 and was offset by a decrease of $14.7 million in comparable store sales. The Company believes that the retail stores convey the Company's image and seamlessly showcase both Company and licensee products, and that this comprehensive presentation reinforces the lifestyle brand, thus increasing consumer demand across all channels of distribution. The Company's catalog and Internet sales decreased $1.2 million in 2001 from the comparable period in 2000.

Royalty revenue increased 2.3% to $22.1 million in 2001 from $21.6 million in 2000. The increase primarily reflects revenues from sales of womenswear, which produced a fall and spring line during 2001 as compared to the single fall line in 2000 for the Company's initial launch into the womenswear market and incremental revenues from accessory categories including luggage, men's jewelry and women's belts and hosiery. In addition, the Company has continued to implement its strategic plan to grow its global business through licensing partners. The Company believes its men's and women's apparel and the highly anticipated debut of its fragrance collection come at an opportune time as consumers look toward brands they know and feel comfortable with as a lifestyle. The Company believes the synergies from its efforts to reinforce its brand identities through greater marketing efforts, by itself and its licensees across all product categories, should continue to propel licensee sales both domestically and internationally.

Gross profit as a percentage of net revenues decreased to 44.0% in 2001 from 46.9% in 2000. The decrease in gross profit is primarily attributable to decreased gross margins in the Consumer Direct segment as a result of higher markdowns at the Company owned stores necessitated by the challenging economic conditions throughout 2001. In addition, the Consumer Direct segment's proportion of total revenue was greater than the comparable period. Sales from the Consumer Direct segment were 42.8% of consolidated net revenue in 2001 compared with 36.3% in 2000. Licensing revenue, which has no associated cost of goods sold, increased as a percentage of net revenues to 5.9% in 2001 from 5.8% in 2000. The Company's wholesale gross profit decreased across men's and ladies' *Kenneth Cole New York* and *Reaction Kenneth Cole* footwear and handbags as a result of poorer sell-thrus at retail. This was offset slightly by the improvement in gross margin in *Unlisted* ladies footwear sales, which experienced an improvement in sell-thrus at retail on lesser volume than the comparable year.

Selling, general and administrative expenses, including shipping and warehousing ("SG&A"), increased $15.0 million, or 11.4% to $145.9 million (or 37.6% of net revenues) in 2001 from $131.0 million (or 32.0% of net revenues) in 2000. The increase in SG&A as a percentage of net revenue is primarily attributable to the Company achieving sales levels well below operating plans, resulting in a reduction in the leverage over fixed operating expenses. The increase is further attributable to the expansion of the Company's retail and outlet stores, which operate at a higher cost structure than its Wholesale and Licensing/International segments. In response to the challenging economic environment the Company heightened its focus on its cost-reduction program. As part of this comprehensive program, the Company continues to evaluate consolidating responsibilities and reorganizing certain administrative functions and during the fourth quarter of 2001 eliminated approximately ten percent of its corporate staff.

Interest and other income decreased to $2.1 million in 2001 from $3.2 million in 2000. The decrease is due to lower average cash balances and declines in short-term interest rates.

The Company's effective tax rate decreased to 38.3% for the year ended December 31, 2001 from 40.0% in the corresponding period last year. The decrease is due to the relative level of earnings in the various state and local taxing jurisdictions to which the Company's earnings are subject.

As a result of the foregoing, net income decreased $21.8 million, or 56.7% in 2001 to $16.6 million (4.3% of net revenue) from $38.4 million (9.4% of net revenue) in 2000.

Liquidity and Capital Resources

The Company's cash requirements are generated primarily from working capital needs, retail expansion, enhanced technology, and other corporate activities. The Company primarily relies upon internally generated cash flows from operations to finance its operations and growth; however, it also has the ability to borrow up to $25.0 million under its line of credit facility. Cash flows may vary from time to time as a result of seasonal requirements of inventory, the timing of the delivery of merchandise to customers and the level of accounts receivable and payable balances. At December 31, 2002, working capital was $124.1 million compared to $96.7 million at December 31, 2001.

Net cash provided by operating activities was $33.4 million in 2002 compared to $25.2 million in 2001. This increase was primarily attributable to increased earnings and timing of payables partially offset by increased inventory levels.

Net cash used in investing activities was $7.3 million in 2002 compared to $9.0 million in 2001. Capital expenditures were approximately

$7.3 million, $10.6 million and $24.1 million for 2002, 2001 and 2000, respectively. Expenditures on furniture, fixtures and leasehold improvements for new retail store openings and expansions were $3.9 million, $8.6 million and $10.2 million in 2002, 2001 and 2000, respectively. The remaining expenditures were primarily for leasehold improvements for the renovation of the Company's new corporate headquarters and information system enhancements.

Net cash used in financing activities was $3.5 million in 2002 compared to $21.8 million in 2001. This is principally attributable to the Company's purchase of 200,000 shares of its Class A Common Stock at an average price of $22.81 per share compared to 981,700 shares of Class A Common Stock purchased during 2001 at an average price of $22.77 per share under its stock repurchase program. In February 2001, the Board of Directors authorized the repurchase from time to time, subject to market conditions, of an additional 2 million shares of Class A Common Stock under the Company's repurchase program. As of December 31, 2002, the Company has 4,250,000 shares authorized for repurchase with 1,561,600 shares remaining from its buyback authorization.

The Company currently sells substantially all of its account receivables to one factor without recourse. In circumstances where a customer's account cannot be factored without recourse, the Company may take other measures to reduce its credit exposure, which could include requiring the customer to pay in advance, or to provide a letter of credit covering the sales price of the merchandise ordered.

The Company's material obligations under contractual agreements, including commitments for future payments under capital lease and operating lease agreements as of December 31, 2002 are summarized as follows:

		Payments Due by Period			
Contractual Obligations	Total	1 year or less	2–3 years	4–5 years	After 5 years
Capital Lease	$ 171,000	$ 171,000			
Operating Leases	202,960,000	22,090,000	$43,531,000	$39,052,000	$98,287,000
Total Contractual Obligations	$203,131,000	$22,261,000	$43,531,000	$39,052,000	$98,287,000

The Company currently has a line of credit, as amended, under which up to $25.0 million is available to finance working capital requirements and letters of credit to finance the Company's inventory purchases. Borrowings available under the line of credit are determined by a specified percentage of eligible accounts receivable and inventories and bear interest at (i) the higher of The Bank of New York's prime lending rate or the Federal Funds rate plus 0.5% at the date of borrowing or (ii) a negotiated rate. In connection with the line of credit, the Company has agreed to eliminate all the outstanding borrowings under the facility for at least 30 consecutive days during each calendar year. In addition, borrowings under the line of credit are secured by certain receivables of the Company. The Company had no outstanding advances during 2002 and 2001 under this line of credit, however amounts available under the line were reduced by $1.3 million open letters of credit and $2.8 million standby letters of credit to $20.9 million at December 31, 2002.

During 2003, the Company anticipates opening or expanding approximately 5 to 9 retail and outlet stores that will require aggregate capital expenditures and initial inventory requirements of these new and expanded stores of approximately $6.0 million. The Company also anticipates that it will require increased capital expenditures to support its growth, including an increase in its office space and enhancements to its information systems.

In December 1998, the Company entered into a 15-year lease, which will provide the Company with approximately 119,500 square feet of office space. During 2000, the Company relocated its corporate headquarters to this larger location in New York City. The Company completed phase I and began phase II of its renovations, incurring approximately $14.0 million in capital expenditures. Currently, the Company expects to incur approximately $6 million over the next one to two years.

The Company believes that it will be able to satisfy its current expected cash requirements for 2003, including requirements for its retail expansion, corporate office build-out and information systems improvements, primarily with cash flow from operations.

Exchange Rates

The Company routinely enters into forward exchange contracts for its future purchases of inventory denominated in foreign currencies, primarily the Euro. At December 31, 2002, forward exchange contracts with a notional value totaling $7.8 million were outstanding with settlement dates ranging from January 2003 through April 2003. Gains and losses on forward exchange contracts that are used for hedges are accounted for on the balance sheet as inventory and an adjustment to equity, and are subsequently accounted for as part of the purchase price of the inventory upon execution of the contract. Those gains and losses on contracts that are not deemed effective hedges are immediately adjusted through income. At December 31, 2002, the unrealized gain on these outstanding forward contracts is approximately $391,000, net of taxes. The Company

expects to continue to routinely enter into additional foreign exchange contracts throughout the year. While the Company believes that its current procedures with respect to the reduction of risk associated with currency exchange rate fluctuations are adequate, there can be no assurance that such fluctuations will not have a material adverse effect on the results of operations of the Company in the future.

Inventory from contract manufacturers in the Far East and Brazil are purchased in United States dollars and the recent changes of many of these currencies against the United States dollar has not had any material adverse impact on the Company. However, future purchase prices for the Company's products may be impacted by fluctuations in the exchange rate between the United States dollar and the local currencies of the contract manufacturer, which may affect the Company's cost of goods in the future. The Company does not believe the potential effects of such fluctuations would have a material adverse effect on the Company.

Effects of Inflation

The Company does not believe that the relatively low rates of inflation experienced over the last few years in the United States, where it primarily competes, have had a significant effect on revenues or profitability.

Quantitative and Qualitative Disclosures About Market Risk

The Company does not believe it has a material exposure to market risk. The Company is primarily exposed to currency exchange rate risks with respect to its inventory transactions denominated in Euro. During the second half of 2001, the Company converted all of its Lira transactions to the Euro and effectively ceased conducting business with the Italian Lira currency. Business activities in various currencies expose the Company to the risk that the eventual net dollar cash flows from transactions with foreign suppliers denominated in foreign currencies may be adversely affected by changes in currency rates. The Company manages these risks by utilizing foreign exchange contracts. The Company does not enter into foreign currency transactions for speculative purposes.

At December 31, 2002, the Company had forward exchange contracts totaling with notional values $7.8 million, which resulted in an unrealized gain of approximately $391,000, net of taxes. The Company's earnings may also be effected by changes in short-term interest rates as a result of borrowings under its line of credit facility. A two or less percentage point increase in interest rates effecting the Company's credit facility would not have had a material effect on the Company's 2002 and 2001 net income.

The following selected financial data has been derived from the consolidated financial statements of the Company and should be read in conjunction with the consolidated financial statements and notes thereto that appear elsewhere in this Annual Report and in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Year Ended December 31,	2002	2001	2000	1999	1998
(dollars and share data in thousands)					
Income Statement Data:					
Net sales	$404,336	$365,809	$387,148	$298,262	$222,160
Royalty revenue	28,713	22,116	21,619	14,955	8,357
Net revenue	433,049	387,925	408,767	313,217	230,517
Cost of goods sold	235,255	217,221	217,046	169,976	130,027
Gross profit	197,794	170,704	191,721	143,241	100,490
Selling and general administrative expenses (1)	152,618	145,919	130,967	102,625	73,900
Impairment of long-lived assets	4,446				
Operating income	40,730	24,785	60,754	40,616	26,590
Interest income, net	1,102	2,135	3,228	1,280	404
Income before provision for income taxes	41,832	26,920	63,982	41,896	26,994
Provision for income taxes	15,687	10,304	25,592	16,968	10,663
Net income	26,145	16,616	38,390	24,928	16,331

Year Ended December 31,	2002	2001	2000	1999	1998
(dollars and share data in thousands)					
Earnings per share:					
Basic	$ 1.33	$ .83	$ 1.87	$ 1.24	$ .82
Diluted	$ 1.27	$ .80	$ 1.75	$ 1.18	$ .80
Weighted average shares outstanding:					
Basic	19,643	19,992	20,574	20,102	19,833
Diluted	20,590	20,745	21,892	21,059	20,456

At December 31,	2002	2001	2000	1999	1998
Balance Sheet Data:					
Working capital	$124,103	$ 96,709	$103,768	$106,057	$ 56,644
Cash	91,549	68,966	74,608	71,415	13,824
Inventory	43,724	30,753	42,361	39,553	32,957
Total assets	240,317	201,889	212,370	176,859	96,680
Total debt, including current maturities	171	383	576	758	927
Total shareholders' equity	164,902	140,894	145,636	125,331	73,689

(1) Includes shipping and warehousing expenses.

consolidated STATEMENTS OF INCOME

Year Ended December 31,	2002	2001	2000
Net sales	$404,336,000	$365,809,000	$387,148,000
Royalty revenue	28,713,000	22,116,000	21,619,000
Net revenue	433,049,000	387,925,000	408,767,000
Cost of goods sold	235,255,000	217,221,000	217,046,000
Gross profit	197,794,000	170,704,000	191,721,000
Selling, general, and administrative expenses	152,618,000	145,919,000	130,967,000
Impairment of long-lived assets	4,446,000		
Operating income	40,730,000	24,785,000	60,754,000
Interest and other income, net	1,102,000	2,135,000	3,228,000
Income before provision for income taxes	41,832,000	26,920,000	63,982,000
Provision for income taxes	15,687,000	10,304,000	25,592,000
Net income	$ 26,145,000	$ 16,616,000	$ 38,390,000
Earnings per share:			
Basic	$ 1.33	$ .83	$ 1.87
Diluted	$ 1.27	$ .80	$ 1.75
Shares used to compute earnings per share:			
Basic	19,643,000	19,992,000	20,574,000
Diluted	20,590,000	20,745,000	21,892,000

See accompanying notes to consolidated financial statements

December 31,	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 91,549,000	$ 68,966,000
Due from factor	30,886,000	28,289,000
Accounts receivable, less allowance for doubtful accounts of $475,000 in 2002, and $675,000 in 2001	7,884,000	6,731,000
Inventories	43,724,000	30,753,000
Prepaid expenses and other current assets	1,074,000	873,000
Deferred taxes, net	2,900,000	2,765,000
Total current assets	178,017,000	138,377,000
Property and equipment—at cost, less accumulated depreciation and amortization	36,002,000	40,487,000
Other assets:		
Deferred taxes, net	7,753,000	4,718,000
Deposits and sundry	6,490,000	6,304,000
Deferred compensation plans assets	12,055,000	12,003,000
Total other assets	26,298,000	23,025,000
Total assets	$240,317,000	$201,889,000

See accompanying notes to consolidated financial statements.

December 31,	2002	2001
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 33,634,000	$ 25,932,000
Accrued expenses and other current liabilities	14,040,000	13,487,000
Income taxes payable	6,240,000	2,249,000
Total current liabilities	53,914,000	41,668,000
Accrued rent and other long-term liabilities	9,446,000	7,153,000
Deferred compensation plan liabilities	12,055,000	12,003,000
Obligations under capital lease		171,000
Commitments and contingencies		
Shareholders' equity:		
Series A Convertible Preferred Stock, par value $1.00, 1,000,000 shares authorized, none outstanding		
Class A Common Stock, par value $.01, 20,000,000 shares authorized, 13,921,817 and 13,626,584 issued in 2002 and 2001	139,000	136,000
Class B Convertible Common Stock, par value $.01, 9,000,000 shares authorized, 8,360,497 and 8,498,097 outstanding in 2002 and 2001	84,000	85,000
Additional paid-in capital	63,476,000	61,273,000
Cumulative other comprehensive income	654,000	434,000
Retained earnings	162,244,000	136,099,000
	226,597,000	198,027,000
Class A Common Stock in treasury, at cost, 2,688,400 and 2,488,400 shares in 2002 and 2001	(61,695,000)	(57,133,000)
Total shareholders' equity	164,902,000	140,894,000
Total liabilities and shareholders' equity	$240,317,000	$201,889,000

See accompanying notes to consolidated financial statements.

consolidated STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Class A Common Stock		Class B Common Stock		Series A Convertible Preferred Stock		Additional	Accumulated Other		Treasury Stock		
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Paid-In Capital	Comprehensive Income	Retained Earnings	Number of Shares	Amount	Total
Balance at 1/1/00	13,058,057	$ 131,000	5,785,398	$ 58,000	28,927	$ 29,000	$ 53,140,000	$ 235,000	$ 81,093,000	(723,750)	$ (9,355,000)	$ 125,331,000
Net Income									38,390,000			38,390,000
Translation adjustment												
Foreign currency								168,000				168,000
Comprehensive income												38,558,000
Exercise of stock options												
Related tax benefits of $4,448,000	324,379	3,000					6,951,000					6,954,000
Issuance of Class A Common Stock for ESPP	6,652						209,000					209,000
Conversion of Preferred Stock to Class B Common Stock			2,892,699	29,000	(28,927)	(29,000)						
Purchase of Class A Stock										(782,950)	(25,416,000)	(25,416,000)
Conversion of Class B to Class A common stock	90,000	1,000	(90,000)	(1,000)								
Balance at 12/31/00	13,479,088	135,000	8,588,097	86,000			60,300,000	403,000	119,483,000	(1,506,700)	(34,771,000)	145,636,000
Transition adjustment												
Forward contracts								1,122,000				1,122,000
Net Income									16,616,000			16,616,000
Translation adjustment												
Foreign currency								(19,000)				(19,000)
Forward contracts								(1,072,000)				(1,072,000)
Comprehensive income												16,647,000
Exercise of stock options												
Related tax benefit $232,000	37,422						619,000					619,000
Issuance of Class A Stock for ESPP	20,074						354,000					354,000
Purchase of Class A Stock										(981,700)	(22,362,000)	(22,362,000)
Conversion of Class B to Class A common stock	90,000	1,000	(90,000)	(1,000)								
Balance at 12/31/01	13,626,584	136,000	8,498,097	85,000			61,273,000	434,000	136,099,000	(2,488,400)	(57,133,000)	140,894,000
Net Income									26,145,000			26,145,000
Translation adjustment												
Foreign currency								(121,000)				(121,000)
Forward contracts								341,000				341,000
Comprehensive income												26,365,000
Exercise of stock options												
Related tax benefit $974,000	142,952	2,000					1,994,000					1,996,000
Issuance of Class A Stock for ESPP	14,681						209,000					209,000
Purchase of Class A stock										(200,000)	(4,562,000)	(4,562,000)
Conversion of Class B to Class A shares common stock	137,600	1,000	(137,600)	(1,000)								
Balance at 12/31/02	13,921,817	$139,000	8,360,497	$84,000			$63,476,000	$ 654,000	$162,244,000	(2,688,400)	$(61,695,000)	$164,902,000

See accompanying notes to consolidated financial statements.

	2002	2001	2000
Cash flows from operating activities			
Net income	$ 26,145,000	$ 16,616,000	$ 38,390,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,307,000	8,313,000	5,308,000
Impairment of long-lived assets	4,446,000		
Unrealized loss on deferred compensation plans	781,000	147,000	1,066,000
Unrealized loss on supplemental employee retirement plan	745,000	372,000	
Realized/Unrealized gain on marketable securities		(133,000)	(49,000)
Provision for doubtful accounts	244,000	808,000	270,000
Benefit for deferred taxes	(3,170,000)	(2,799,000)	(1,434,000)
Changes in operating assets and liabilities:			
(Increase) decrease in due from factor	(2,597,000)	(2,223,000)	859,000
(Increase) decrease in accounts receivable	(1,397,000)	1,578,000	(2,397,000)
(Increase) decrease in inventories	(12,630,000)	11,658,000	(2,808,000)
(Increase) decrease in prepaid expenses and other current assets	(201,000)	383,000	(881,000)
Increase in deposits and deferred compensation assets	(1,764,000)	(4,241,000)	(6,731,000)
Increase (decrease) in income taxes payable	4,965,000	(732,000)	4,389,000
Increase (decrease) in accounts payable	7,702,000	(8,756,000)	7,365,000
Increase (decrease) in accrued expenses and other current liabilities	484,000	(1,245,000)	4,329,000
Increase in other non-current liabilities	2,345,000	5,419,000	3,753,000
Net cash provided by operating activities	33,405,000	25,165,000	51,429,000

	2002	2001	2000
Cash flows from investing activities			
Acquisition of property and equipment, net	$ (7,268,000)	$(10,598,000)	$(24,079,000)
Proceeds from sale and purchase of marketable securities		1,624,000	(1,442,000)
Net cash used in investing activities	(7,268,000)	(8,974,000)	(25,521,000)
Cash flows from financing activities			
Proceeds from exercise of stock options	1,022,000	387,000	2,505,000
Proceeds from issuance of stock from purchase plan	209,000	354,000	209,000
Principal payments of capital lease obligations	(212,000)	(193,000)	(182,000)
Purchase of treasury stock	(4,562,000)	(22,362,000)	(25,416,000)
Net cash used in financing activities	(3,543,000)	(21,814,000)	(22,884,000)
Effect of exchange rate changes on cash	(11,000)	(19,000)	169,000
Net increase (decrease) in cash and cash equivalents	22,583,000	(5,642,000)	3,193,000
Cash and cash equivalents, beginning of year	68,966,000	74,608,000	71,415,000
Cash and cash equivalents, end of year	$ 91,549,000	$ 68,966,000	$ 74,608,000
Supplemental disclosures of cash flow information			
Cash paid during the period for:			
Interest	$ 35,000	$ 50,000	$ 80,000
Income taxes	$ 14,757,000	$ 13,467,000	$ 22,569,000

See accompanying notes to consolidated financial statements.

A | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 *Description of business* Kenneth Cole Productions, Inc. and its subsidiaries (the "Company") designs, sources and markets a broad range of quality footwear and handbags, and through license agreements, designs and markets men's, women's and children's apparel and accessories under its *Kenneth Cole New York, Reaction Kenneth Cole* and *Unlisted* brands for the fashion conscious consumer. The Company markets its products for sale to more than 4,500 department stores and specialty store locations in the United States and in several foreign countries, through its retail and outlet store base, and its interactive website. The Company also distributes consumer catalogs that feature a variety of *Kenneth Cole New York* and *Reaction Kenneth Cole* branded products.

2 *Principles of consolidation* The consolidated financial statements include the accounts of Kenneth Cole Productions, Inc. and its wholly owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

3 *Use of estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4 *Cash and cash equivalents* The Company considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

5 *Marketable Securities* The Company records marketable securities as an equity investment, which is classified as "trading," and accordingly, is carried on the balance sheet at fair market value. (See Note C.)

6 *Inventories* Inventories, which consist of finished goods, are stated at the lower of cost or fair market value. Cost is determined by the first-in, first-out method.

7 *Property and equipment* Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the estimated useful lives of the related assets ranging from three to seven years on a straight-line basis.

Leasehold improvements are amortized using the straight-line method over the term of the related lease or the estimated useful life, whichever is less.

The Company reviews long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as measured by comparing the undiscounted future cash flows to the asset's net book value. Impaired assets are recorded at the lesser of their carrying value or fair value.

8 *Income taxes* The Company accounts for income taxes using the liability method. Under this method, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

9 *Revenue recognition* Wholesale revenues are recognized at the time merchandise is shipped to customers. Retail store revenues are recognized at the time of sale. Both wholesale and retail store revenues are shown net of returns, discounts, and other allowances. The Company has also entered into various trade name license agreements that provide revenues based on minimum royalties and additional revenues based on percentage of defined sales. Minimum royalty revenue is recognized on a straight-line basis over each period, as defined in each license agreement. Royalties exceeding the defined annual minimum amounts are recognized as income during the period corresponding to the licensee's net sales as such amounts are exceeded.

10 *Advertising costs* The Company incurred advertising costs, including certain in-house marketing expenses of $18.1 million, $16.7 million and $16.8 million for 2002, 2001 and 2000, respectively. The Company records advertising expense concurrent with the first time the advertising takes place.

11 *Stock-based compensation* The Company measures compensation expense for its stock-based compensation plans using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *"Accounting for Stock Issued to Employees"* ("APB No. 25") and related Interpretations. The Company has adopted disclosure only provisions of Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation"* ("SFAS 123").

Pro forma disclosures, as required by Statement of Financial Accounting Standard No. 148, *"Accounting for Stock-Based Compensation —Transition and Disclosure,"* are computed as if the Company recorded

compensation expense based on the fair value for stock-based awards or grants. The following pro forma information includes the effects of the options discussed above.

Year Ended December 31,	2002	2001	2000
Net income, as reported	$26,145,000	$16,616,000	$38,390,000
Deduct: Stock-based employee compensation expense determined under fair value method, net of related tax effects	2,506,000	2,485,000	2,051,000
Pro forma net income	$23,639,000	$14,131,000	$36,339,000
Earnings per share:			
Basic—as reported	$ 1.33	$ .83	$ 1.87
Basic—pro forma	$ 1.20	$ .71	$ 1.77
Diluted—as reported	$ 1.27	$ .80	$ 1.75
Diluted—pro forma	$ 1.15	$ .68	$ 1.66

The effects of applying SFAS 123 on this pro forma disclosure may not be indicative of future results. SFAS 123 does not apply to grants prior to 1995, and additional awards in future years may or may not be granted.

12 *Derivative instruments and hedging activities* In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and for Hedging Activities"* ("SFAS 133"), which as amended, the Company adopted on January 1, 2001. SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. (See Note H.)

13 *Shipping costs* In accordance with Emerging Issues Task Force Issue No. 00-10, *"Accounting for Shipping and Handling Fees,"* the Company has included in sales amounts billed to customers for shipping

costs. The related cost incurred by the Company has been included in the cost of goods line item on the face of the income statement. Prior periods have been reclassified accordingly.

14 *New Accounting Pronouncements* In April 2001, the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 00-25, *"Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products."* This issue addresses the recognition, measurement and income statement classification of consideration from a vendor to a customer in connection with the customer's purchase or promotion of the vendor's products. The Company's adoption of EITF Issue No. 00-25 on January 1, 2002, which increased both net revenue and expense classifications by approximately $2,090,000, $1,777,000 and $2,435,000 for the years ended December 2002, 2001 and 2000, respectively. Prior periods have been reclassified accordingly.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets"* ("SFAS 144") effective for the fiscal years beginning after December 15, 2001. SFAS 144 supercedes Financial Accounting Standards Board SFAS No. 121 ("SFAS 121"); however, SFAS 144 retains the fundamental provisions of SFAS 121 related to the recognition and measurement of the impairment of long-lived assets to be held and used. SFAS 144 requires that a long-lived asset that is held and used should be reviewed whenever events of changes in circumstances indicate that the carrying amount of the long-lived asset might not be recoverable. If management determines that the long-lived asset is not recoverable, an impairment loss would be calculated based on the excess in the carrying amount of the long-lived asset over its fair value. The Company adopted SFAS 144 on January 1, 2002. (See Note E.)

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS 146"). SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by SFAS 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company is currently evaluating the requirements and impact of SFAS 146 and does not expect that the adoption of SFAS 146 will have a material effect on its consolidated results of operations or financial position.

15 *Reclassifications* Certain amounts included in the 2001 and 2000 financial statements have been reclassified to conform with the year end 2002 presentation.

B | DUE FROM FACTOR AND LINE OF CREDIT FACILITY

The Company sells substantially all of its accounts receivable to a factor, without recourse, subject to credit limitations established by the factor for each individual account. Certain accounts receivable in excess of established limits are factored with recourse. Included in amounts due from factor at December 31, 2002 and 2001 is accounts receivable subject to recourse totaling approximately $286,000 and $339,000, respectively. The agreements with the factors provide for payment of a service fee on receivables sold.

At December 31, 2002 and 2001, the balance due from factor, which includes chargebacks, is net of allowances for returns, discounts, and other deductions of approximately $9,400,000 and $9,165,000, respectively. The allowances are provided for known chargebacks reserved for, but not written off, the Company's financial records and for potential future customer deductions based on management's estimates.

The Company has entered into a Line of Credit Facility (the "Facility") that, as amended, allows for uncommitted borrowings, letters of credit and banker's acceptances subject to individual maximums and in the aggregate, an amount not to exceed the lesser of $25,000,000 or a "Borrowing Base." The Borrowing Base is calculated on a specified percentage of eligible amounts due under factoring arrangements, eligible non-factored accounts receivable, and eligible inventory. Borrowings under the revolving loan portion of the Facility ("Advances") are due on demand. The Company may pay down and re-borrow at will under the Facility. Advances bear interest at the Alternate Base Rate (defined as the higher of the Prime Rate or the Federal Funds in effect at borrowing date plus 1/2 of 1%) or the Note Rate (which will be agreed upon between the lender and the Company). There were no outstanding advances under this agreement at December 31, 2002, 2001 and 2000. Amounts available under the Facility at December 31, 2002 were reduced by $2,779,000 of standby letters of credit and $1,345,000 in open letters of credit to $20,876,000.

In connection with the line of credit, the Company has agreed to eliminate all the outstanding advances under the Facility for at least 30 consecutive days during each calendar year. In addition, borrowings under the line of credit are secured by certain assets of the Company.

C | MARKETABLE SECURITIES

The Company recorded unrealized gains of $44,000 and realized gains of $5,500 during the year ended December 31, 2000, which are included in other income. In 2001, the Company received approximately $1.6 million in proceeds from the sale of all of its remaining marketable securities, which resulted in realized gains of $133,000.

D | PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

December 31,	2002	2001
Property and equipment—at cost:		
Furniture and fixtures	$19,015,000	$16,831,000
Machinery and equipment	11,894,000	10,780,000
Leasehold improvements	38,430,000	35,631,000
Leased equipment under capital lease	967,000	967,000
	70,306,000	64,209,000
Less accumulated depreciation and amortization	34,304,000	23,722,000
Net property and equipment	$36,002,000	$40,487,000

E | IMPAIRMENT OF LONG-LIVED ASSETS

Based upon current performance and the anticipated future outlook of the Company's Rockefeller Center Flagship store located in New York City, the Company recorded a non-cash asset impairment charge of $4,446,000 during the quarter ended September 30, 2002. The Company's management reviewed the store's estimated undiscounted future cash flows and determined that the store's current value was not in excess of expected cash flows and therefore a write-down to current value was required. The write-down of $4,446,000 of the store's lease hold improvements to current value was separately disclosed on the face of the consolidated statement of income. During 2001, the Company recorded a non-cash charge of $182,000 for several of its retail stores, which is included in selling, general and administrative expenses on the face of the consolidated statement of income. Both charges are included within the Company's Consumer Direct segment for segment reporting purposes.

F | ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other current liabilities consist of the following:

December 31,	2002	2001
Rent	$ 487,000	$ 1,143,000
Compensation	7,061,000	4,417,000
Customer credits	1,825,000	987,000
Deferred licensing income	2,299,000	4,144,000
Other	2,368,000	2,796,000
	$14,040,000	$13,487,000

G | SEGMENT REPORTING

Kenneth Cole Productions, Inc. has three reportable segments: Wholesale, Consumer Direct, and Licensing/International. The Wholesale segment designs and sources a broad range of fashion footwear, handbags and accessories and markets its products for sale to more than 4,500 department and specialty store locations and to the Company's Consumer Direct segment. The Consumer Direct segment markets the broad selection of

the Company's branded products, including licensee products, for sale directly to the consumer through its own channels of distribution, which include full price retail stores, outlet stores, e-commerce (at website addresses *www.kennethcole.com* and *www.reactiononline.com*) and catalogs. The Licensing/International segment, through third party licensee agreements, has evolved the Company from a footwear resource to a diverse lifestyle brand competing effectively in approximately 30 apparel and accessories categories for both men and women. The Company maintains control over quality, image and distribution of the licensees. The Company earns royalties on the licensee's sales of Company branded product.

The Company evaluates performance and allocates resources based on profit or loss from each segment. The Wholesale segment is evaluated on income from operations before income taxes. The Consumer Direct segment is evaluated on profit or loss from operations before unallocated corporate overhead and income taxes. The Licensing/ International segment is evaluated based on royalties earned and pretax segment profit. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intersegment sales between the Wholesale and Consumer Direct segment include a markup, which is eliminated in consolidation.

The Company's reportable segments are business units that offer products to overlapping consumers through different channels of distribution. Each segment is managed separately, although planning, implementation and results are reviewed internally by the executive management committee.

Financial information of the Company's reportable segments is as follows:

	Wholesale	Consumer Direct	Licensing/ International	Totals
Year Ended December 31, 2002				
Revenues	$236,615	$167,096	$29,338	$433,049
Intersegment revenues	30,525			30,525
Interest income, net	1,102			1,102
Depreciation and amortization expense	2,307	4,985	15	7,307
Impairment of long-lived assets		4,446		4,446
Segment income (1)(2)	30,713	5,430	21,663	57,806
Segment assets	188,807	49,017	4,459	242,283
Expenditures for long-lived assets	3,389	3,853	26	7,268

	Wholesale	Consumer Direct	Licensing/ International	Totals
Year Ended December 31, 2001				
Revenues	$198,958	$165,950	$23,017	$387,925
Intersegment revenues	31,470			31,470
Interest income, net	2,135			2,135
Depreciation and amortization expense	2,958	5,165	8	8,131
Segment income (1)	22,478	4,352	16,270	43,100
Segment assets	147,834	52,374	3,394	203,602
Expenditures for long-lived assets	2,002	8,592	4	10,598
Year Ended December 31, 2000				
Revenues	$236,944	$148,239	$23,584	$408,767
Intersegment revenues	29,952			29,952
Interest income, net	3,228			3,228
Depreciation and amortization expense	1,719	3,581	8	5,308
Segment income (1)	42,253	22,088	16,976	81,317
Segment assets	155,018	57,336	2,852	215,206
Expenditures for long-lived assets	11,621	12,455	3	24,079

(1) Before elimination of intersegment profit, unallocated corporate overhead and provision for income taxes
(2) Segment income for the Consumer Direct segment includes a gain of $860,000 from price adjustments on certain products sold to Kenneth Cole retail stores, discovered during rotational licensee audits.

The reconciliation of the Company's reportable segment revenues, profit and loss, and assets are as follows:

	2002	2001	2000
Revenues			
Revenues for reportable segments	$433,049	$387,925	$408,767
Intersegment revenues for reportable segments	30,525	31,470	29,952
Elimination of intersegment revenues	(30,525)	(31,470)	(29,952)
Total consolidated revenues	$433,049	$387,925	$408,767

	2002	2001	2000
Income			
Total profit for reportable segments	$ 57,806	$ 43,100	$ 81,317
Elimination of intersegment profit	(7,615)	(7,863)	(9,919)
Unallocated corporate overhead	(8,359)	(8,317)	(7,416)
Total income before provision for income taxes	$ 41,832	$ 26,920	$ 63,982
Assets			
Total assets for reportable segments	$242,283	$203,602	$215,206
Elimination of inventory profit in consolidation	(1,966)	(1,713)	(2,836)
Total consolidated assets	$240,317	$201,889	$212,370

Revenues from international customers are less than two percent of the Company's consolidated revenues.

H | FOREIGN CURRENCY TRANSACTIONS, DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company, in the normal course of business, routinely enters into forward exchange contracts in anticipation of future purchases of inventory denominated in foreign currencies. These forward exchange contracts are used to hedge against the Company's exposure to changes in foreign exchange rates to protect the purchase price of merchandise under such commitments and are not held for the purpose of trading or speculation. The Company has therefore classified these contracts as cash flow hedges. The Company had forward exchange contracts of $7,750,000, $8,000,000 and $16,000,000 at December 31, 2002, 2001 and 2000, respectively. At December 31, 2002, forward exchange contracts have maturity dates through April 2003.

The Company recorded a transition adjustment gain of approximately $1,122,000 in other comprehensive income to recognize at fair value the derivatives that were designated as cash flow hedging instruments upon adoption of SFAS 133 on January 1, 2001. No components of the contracts are excluded in the measurement of the related hedge effectiveness. The critical terms of the foreign exchange contracts are the same as the underlying forecasted transactions, therefore changes in the fair value of the contracts should be highly effective in offsetting changes in the expected cash flows from the forecasted transactions. No gains or losses related to ineffectiveness of cash flow hedges were recognized in earnings during 2002 and 2001. At December 31, 2002, the Company's notional $7,750,000 in forward exchange contracts resulted in an unrealized

gain of approximately $391,000, net of taxes, which was included as an addition to other comprehensive income in the statement of changes in shareholders' equity and an increase to inventory, the underlying exposure on the balance sheet. The Company expects to reclassify all of the unrealized gain from other comprehensive income into earnings within the next four month period due to the actual executions of foreign exchange contracts to purchase merchandise.

I | INCOME TAXES

Significant items comprising the Company's deferred tax assets and liabilities are as follows:

December 31,	2002	2001
Deferred tax assets:		
Inventory allowances and capitalization	$ 932,000	$ 605,000
Allowance for doubtful accounts and sales allowances	1,569,000	1,755,000
Deferred rent	3,223,000	2,653,000
Deferred compensation	5,671,000	4,487,000
Asset impairment	1,668,000	
Other	356,000	229,000
	13,419,000	9,729,000
Deferred tax liabilities:		
Depreciation	(1,459,000)	(1,022,000)
Undistributed foreign earnings	(1,307,000)	(1,224,000)
	(2,766,000)	(2,246,000)
Net deferred tax assets	$10,653,000	$ 7,483,000

The provision (benefit) for income taxes consists of the following:

December 31,	2002	2001	2000
Current:			
Federal	$16,850,000	$12,172,000	$23,322,000
State and local	1,900,000	1,000,000	3,475,000
Foreign	107,000	117,000	69,000
	18,857,000	13,289,000	26,866,000
Deferred:			
Federal	(2,999,000)	(2,750,000)	(1,115,000)
State and local	(171,000)	(235,000)	(159,000)
	(3,170,000)	(2,985,000)	(1,274,000)
	$15,687,000	$10,304,000	$25,592,000

The reconciliation of income tax computed at the U.S. federal statutory tax rate to the effective income tax rate for 2002, 2001 and 2000 is as follows:

	2002	2001	2000
Federal income tax at statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	2.5%	3.3%	5.0%
	37.5%	38.3%	40.0%

J | STOCK OPTION PLANS AND GRANTS

1 *1994 stock option plan* The Company's 1994 Incentive Stock Option Plan, as amended (the "Plan"), authorizes the grant of options to employees for up to 4,800,000 shares of the Company's Class A Common Stock. Certain options granted under the Plan vest in one-third increments in each of the first, second and third years following the date of grant, while certain other options vest over five years. Options granted under the "Plan" have ten year terms. Non-employee Director options granted have ten year terms and vest 50% on the first anniversary of the date of grant and become fully exercisable at the end of two years.

The Company has elected to continue to follow Accounting Principles Board Opinion No. 25 ("APB 25"), in accounting for its employee stock options. Under APB 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions for 2002, 2001 and 2000, respectively: risk-free interest rate of 4.5%, 5.0% and 5.8%; 0% dividend yields; expected volatility factors of 72.4%, 65.5% and 54.6% and expected lives of 4.4, 5.1 and 4.2 years. The weighted-average fair value of options granted during 2002, 2001 and 2000 were $16.31, $10.85 and $15.12, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. As a result of the Company's employee stock options having characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The following table summarizes all stock option transactions from December 31, 1999 through December 31, 2002.

	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 1999	1,730,698	
Granted	433,750	$31.10
Exercised	(274,380)	$ 8.52
Forfeited	(79,023)	$18.41
Outstanding at December 31, 2000	1,811,045	
Granted	1,083,550	$18.18
Exercised	(37,503)	$10.38
Forfeited	(34,301)	$20.68
Outstanding at December 31, 2001	2,822,791	
Granted	73,650	$24.33
Exercised	(97,952)	$ 9.75
Forfeited	(166,509)	$22.18
Outstanding at December 31, 2002	2,631,980	

The following table summarizes information concerning currently outstanding and exercisable stock options at December 31, 2002:

	Outstanding Stock Options			Exercisable Stock Options	
Range of Exercise Prices	Outstanding Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable Shares	Weighted Average Exercise Price
$ 4.00 to $ 12.00	725,598	3.69 years	$ 9.54	642,348	$ 9.27
$12.01 to $ 24.00	1,070,782	7.28 years	$14.96	472,174	$20.47
$24.01 to $ 36.00	835,600	7.51 years	$27.50	269,808	$30.39

2 *Stock option grants* In 1994, the Board of Directors granted non-transferable stock options to an officer of the Company, for the purchase of 334,425 shares of Class A Common Stock at an exercise price of $1.4583 per share. In 2000, 50,000 options were exercised and at December 31, 2001 and 2000, 130,000 options were outstanding and exercisable. During 2002, an additional 45,000 options were exercised leaving 85,000 options outstanding and exercisable at December 31, 2002.

K | BENEFIT PLANS

1 *401(k) plan* The Company's 401(k) profit-sharing plan covers all non-union employees, subject to certain minimum age and length of service requirements, who are permitted to contribute specified percentages of their salary up to the maximum permitted by the Internal Revenue Service. The Company is obligated to make a matching contribution and may make an additional discretionary contribution, as defined. During 2000, the Company amended the plan's matching contribution of 25% of the participant's contribution, up to a maximum of 6% from 4% of the participant's base pay. Contributions to the plan for the years ended December 31, 2002, 2001 and 2000 were approximately $241,000, $267,000 and $200,000, respectively.

2 *Deferred compensation plans* The Kenneth Cole Productions, Inc. Deferred Compensation Plan is a non-qualified plan maintained primarily to provide deferred compensation benefits for a select group of "highly compensated employees." During 2002, the Company added a second plan expanding the definition of "highly compensated employees" to include additional Company management based on salary. The Company accounts for the investments in the deferred compensation plans in accordance with SFAS 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* and such investments have been classified as trading.

3 *Supplemental employee retirement plan* In 2002, 2001 and 2000, the Company deposited $1,408,000, $1,374,000 and $1,308,000, respectively, into Supplemental Executive Retirement Plans ("SERP") for certain key executives. The amounts have been recorded in deposits and sundry on the face of the consolidated balance sheets. These plans are non-qualified deferred compensation plans. Benefits payable under these plans are based upon the performance of the individual directed investments from the Company's initial and future contributions. Benefits earned under the SERP begin vesting after 3 years from issuance, and become 75% vested after 10 years and fully vested upon the participant retiring at age 60 or later. In addition, SERP participants are covered by life insurance through a portion of the Company's contribution. The value of these investments at December 31, 2002 and 2001 were $2,897,000 and $2,234,000, respectively, which the Company accounts for in accordance with SFAS 115, *"Accounting for Certain Investments in Debt and Equity Securities,"* and such investments have been classified as trading. The unrealized loss on the investments was recorded as selling, general and administrative expense within the accompanying statements of income as a general operating expense. In addition, the Company recorded a long-term vested benefit obligation of approximately $641,000 and $324,000 at December 31, 2002 and 2001, respectively, within the accompanying Consolidated Balance Sheets.

4 *Employee stock purchase plan* During 2000, the Company established a qualified employee stock purchase plan ("ESPP"), the terms of which allow for qualified employees (as defined) to participate in the purchase of designated shares of the Company's Class A Common Stock at a price equal to 85% of the lower of the closing price at the beginning or end of each quarterly stock purchase period. On March 7, 2000, the Company filed with the Securities and Exchange Commission Form S-8 registering 150,000 shares of Class A Common Stock for the ESPP. For the year ended December 31, 2002, 2001, and 2000 employees purchased 14,681, 20,074, and 6,652 shares, respectively. Total shares purchased through December 31, 2002 were 41,407.

L | COMMITMENTS AND CONTINGENCIES

1 *Capital lease* Included in property and equipment are assets held under a capital lease of $967,000 less accumulated amortization of $822,000. At December 31, 2002, future minimum lease payments consist of the following:

2003	$ 177,000
2004	0
2005	0
2006	0
Total minimum lease payments	$ 177,000
Less amounts representing interest	(6,000)
Present value of minimum lease payments	171,000
Less current maturities	(171,000)
Capital lease obligation, less current maturities	$ 0

2 *Operating leases* The Company leases office, retail and warehouse facilities under non-cancelable operating leases between 5 and 20 years with options to renew at varying terms. Future minimum lease payments for non-cancelable leases with initial terms of one year or more consisted of the following at December 31, 2002:

2003	$ 22,090,000
2004	22,233,000
2005	21,298,000
2006	20,082,000
2007	18,970,000
Thereafter	98,287,000
Total minimum cash payments	$202,960,000

In addition, certain of these leases contain rent escalation provisions and require additional percentage rent payments to be made.

Rent expense for the years ended December 31, 2002, 2001 and 2000 was $29,062,000, $26,999,000 and $18,477,000, respectively. Sub-tenants rental income for 2002 and 2001 was $967,000 and $708,000, respectively. Future minimum rental income from sub-tenants for the next four years is approximately as follows:

2003	$ 1,223,000
2004	893,000
2005	742,000
2006	742,000
Thereafter	0
Total minimum cash payments	$ 3,600,000

3 *Letters of credit* At December 31, 2002 and 2001, the Company was contingently liable for approximately $1,345,000 and $1,104,000 of open letters of credit, respectively. In addition, at December 31, 2002 and 2001, the Company was contingently liable for approximately $2,779,000 and $2,483,000 of standby letters of credit, respectively.

4 *Concentrations* In the normal course of business, the Company sells to major department stores and specialty retailers and believes that its broad customer base will mitigate the impact that financial difficulties of any such retailers might have on the Company's operations. In 2002, 2001 and 2000, the Company had no customer account for more than 10% of consolidated net sales.

The Company sources each of its product lines separately, based on the individual design, styling and quality specifications of such products. The Company primarily sources its products directly or indirectly through manufacturers in Italy, Spain, Brazil, China and South Korea. The Company attempts to limit the concentration with any one manufacturer. However, approximately 54% of total handbag purchases came from one manufacturer in China during 2002, while 36% of the handbag purchases by the Company were sourced through one agent utilizing several different factories in China during 2001. Approximately 40% and 44% of *Kenneth Cole* and *Reaction Kenneth Cole* men's footwear purchases were from one manufacturer in Italy utilizing many different factories during 2002 and 2001, respectively. Furthermore, approximately 38% and 33% of *Kenneth Cole* ladies' footwear was purchased from one manufacturer in

Italy during 2002 and 2001, respectively, while 42% of *Reaction Kenneth Cole* ladies' footwear purchases were sourced through one agent utilizing several different factories in Brazil in 2002. The Company believes it has alternative manufacturing sources available to meet its current and future production requirements in the event the Company is required to change current manufacturers or current manufacturers are unavailable to fulfill the Company's production needs.

At December 31, 2002, the Company had approximately 8% of its employees covered under a collective bargaining agreement with a local union.

5 *Other* The Company, from time to time, is a party to litigation that arises in the normal course of its business operations. The Company presently is not a party to any such litigation that would have a material adverse effect on its business or operations.

M | SHAREHOLDERS' EQUITY

1 *Common stock* Class A Common Shareholders are entitled to one vote for each share held of record and Class B Common Shareholders are entitled to ten votes for each share held of record. Each share of Class B Common Stock is convertible into one share of Class A Common Stock at the option of the Class B Shareholder. The Class A Common Shareholders vote together with Class B Common Shareholders on all matters subject to shareholder approval, except that Class A Common Shareholders vote separately as a class to elect 25% of the Board of Directors of the Company. Shares of neither class of common stock have preemptive or cumulative voting rights.

2 *Preferred stock* The Company's Certificate of Incorporation authorizes the issuance of 1,000,000 shares of preferred stock. The preferred stock may be issued from time to time as determined by the Board of Directors of the Company, without shareholder approval. Such preferred stock may be issued in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions, as may be fixed by the Board of Directors.

3 *Common stock repurchase* On February 21, 2001, the Board of Directors of the Company authorized management to repurchase, from time to time, an additional 2,000,000 shares up to an aggregate 4,250,000 shares of the Company's Class A Common Stock. As of December 31, 2002, 2,688,400 shares were repurchased in the open market at an aggregate price of $61,695,000, reducing the available shares authorized for repurchase to 1,561,600. The repurchased shares have been recorded as treasury stock.

N | EARNINGS PER SHARE

The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, *"Earnings Per Share."*

For the Year Ended December 31,	2002	2001	2000
Weighted average common shares outstanding	19,643,000	19,992,000	20,574,000
Effect of dilutive securities:			
Stock options	947,000	753,000	1,318,000
Weighted average common shares outstanding and common share equivalents	20,590,000	20,745,000	21,892,000

O | LICENSING AGREEMENTS

1 *Fragrance* On March 14, 2001, the Company and American Luxury Brands LLC, a division of Givenchy, Inc., which is a wholly owned subsidiary of LVMH Moet Hennessey Louis Vuitton, Inc., (collectively with its subsidiaries and affiliates, "LVMH") entered into a multi-brand initiative to create, distribute and market fragrance and body products worldwide. The agreement covers the trademarks *Kenneth Cole New York, Reaction Kenneth Cole*, and *Unlisted*. The initial term of the agreement is through December 31, 2007 with options to renew through December 2022 based on LVMH reaching certain sales thresholds during these periods. LVMH is obligated to pay the Company a percentage of net sales based upon the terms of the agreement. LVMH launched under the *Kenneth Cole New York* brand for the Holiday 2002 season mens' and womens' fragrances and the Company expects further launches for its other trademarks.

2 *Children's apparel* On May 4, 2001, the Company signed an agreement with Wear Me Apparel Corporation, doing business as Kids Headquarters, to produce boys' and girls' sportswear under the Reaction Kenneth Cole trademark. The initial term of the agreement is through December 31, 2004 with options to renew through December 31, 2007 based upon certain sales thresholds being met. The Company receives a percentage of net sales from Kids Headquarters. Boy's sportswear was launched during Fall 2002 with girl's sportswear expected to follow.

P | RELATED PARTY TRANSACTIONS

During 2000, the Company contributed $500,000 to the Kenneth Cole Foundation, followed by a contribution of $500,000 to the Kenneth Cole Productions, Inc. Foundation during 2002. Both the Kenneth Cole and the Kenneth Cole Productions, Inc. Foundations are not for profit organizations that foster programs to aid primarily in the fields of arts and culture, education, and medical research. In addition, the Board of Directors authorized an additional $600,000 contribution payable to the Kenneth Cole Productions, Inc. Foundation during 2002.

Q | QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 2002 and 2001 appear below (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Net sales	$87,290	$93,245	$115,325	$108,476
Licensing revenue	5,621	6,005	8,195	8,892
Net revenues	92,911	99,250	123,520	117,368
Gross profit	43,764	46,093	54,221	53,716
Operating income	8,497	8,270	10,509	13,454
Net income	5,521	5,418	6,788	8,418
Earnings per share basic	$ 0.28	$ 0.28	$ 0.34	$ 0.43
Earnings per share diluted	$ 0.27	$ 0.26	$ 0.33	$ 0.41

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2001				
Net sales	$92,298	$82,746	$ 95,311	$ 95,454
Licensing revenue	5,124	5,954	5,916	5,122
Net revenues	97,422	88,700	101,227	100,576
Gross profit	43,988	40,996	44,345	41,375
Operating income	6,452	5,912	9,072	3,349
Net income	4,554	3,983	5,862	2,217
Earnings per share basic	$ 0.22	$ 0.20	$ 0.30	$ 0.11
Earnings per share diluted	$ 0.21	$ 0.19	$ 0.29	$ 0.11

R | SUBSEQUENT EVENT

During March 2003, the Company repurchased 200,000 additional shares of Class A Common Stock of an aggregate market value of approximately $4,526,000. The repurchased shares have been recorded as treasury stock.

Board of Directors and Shareholders
Kenneth Cole Productions, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Kenneth Cole Productions, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kenneth Cole Productions, Inc. and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York
February 21, 2003

MANAGEMENT'S RESPONSIBILITY *for financial statements*

The accompanying consolidated financial statements of Kenneth Cole Productions, Inc. presented in this report were prepared by management, which is responsible for their integrity and objectivity. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Some of the amounts included in the consolidated financial information are necessarily based on estimates and judgments of management.

The Company maintains accounting and related internal control systems designed to provide among other things, reasonable assurance that transactions are executed in accordance with management's authorization and that they are recorded and reported properly. The control environment is complemented by the Company's internal audit function, which performs audits and evaluates the adequacy of and the adherence to these controls, policies and procedures. There are limitations inherent in all systems of internal control based on the recognition that the costs of such systems should be related to the benefits to be derived. We believe the Company's systems provide this appropriate balance.

The consolidated financial statements have been audited by the Company's independent auditors, Ernst & Young LLP. Their primary role is to render an independent professional opinion on the fairness of the financial statements taken as a whole. Their audit, which is performed in accordance with auditing standards generally accepted in the United States, includes an evaluation of the Company's accounting systems and internal control sufficient to express their opinion on those financial statements.

The Audit Committee of the Board of Directors, which is composed of independent directors, who are financially literate, meets regularly with management, internal audit and the Company's independent accountants to review the results of their work and to satisfy itself that their responsibilities are being properly discharged. The independent and internal auditors have unrestricted access to the Audit Committee.

Kenneth D. Cole
Chairman of the Board and
Chief Executive Officer

Stanley A. Mayer
Executive Vice President
and Chief Financial Officer

The Company's Class A Common Stock is listed and traded (trading symbol KCP) on the New York Stock Exchange ("NYSE"). On March 26, 2003 the closing sale price for the Class A Common Stock was $22.46. The following table sets forth the high and low closing sale prices for the Class A Common Stock for each quarterly period for 2001 and 2002, as reported on the NYSE Composite Tape:

2001:	High	Low
First Quarter	42.88	23.35
Second Quarter	32.95	19.14
Third Quarter	20.94	11.81
Fourth Quarter	17.70	11.70

2002:	High	Low
First Quarter	22.19	15.99
Second Quarter	30.12	19.12
Third Quarter	27.94	20.30
Fourth Quarter	25.90	16.76

The number of shareholders of record of the Company's Class A Common Stock on March 26, 2003 was 63.

There were five holders of record of the Company's Class B Common Stock on March 26, 2003. There is no established public trading market for the Company's Class B Common Stock.

On February 21, 2001, the Board of Directors of the Company authorized management to repurchase, from time to time, an additional 2,000,000 shares up to an aggregate 4,250,000 shares of the Company's Class A Common Stock. As of December 31, 2002, 2,688,400 shares were repurchased in the open market at an aggregate price of $61,695,000, reducing the available shares authorized for repurchase to 1,561,600. The repurchased shares have been recorded as treasury stock. Subsequent to December 31, 2002, 200,000 shares of Class A Common Stock were repurchased.

Dividend Policy

The Company currently intends to retain its earnings to finance the development, expansion and growth of its existing business. The payment of any future dividends will be at the discretion of the Company's Board of Directors and will depend, among other things upon, future earnings, operations, capital requirements, proposed tax legislation, the financial condition of the Company and general business conditions.

I, Kenneth D. Cole, certify that:

1. I have reviewed this annual report on Form 10-K of Kenneth Cole Productions, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors and material weaknesses in internal controls; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including the corrective actions with regard to significant deficiencies and material weaknesses.

Kenneth D. Cole
Chief Executive Officer
Date: March 27, 2003

I, Stanley A. Mayer, certify that:

1. I have reviewed this annual report on Form 10-K of Kenneth Cole Productions, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial date and have identified for the registrant's auditors and material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including the corrective actions with regard to significant deficiencies and material weaknesses.

Stanley A. Mayer
Chief Financial Officer
Date: March 27, 2003

Board of Directors

Kenneth D. Cole
Chairman of the Board and Chief Executive Officer

Paul Blum
President

Stanley A. Mayer
Executive Vice President, Chief Financial Officer, Treasurer and Secretary

Robert C. Grayson*
President, Robert C. Grayson & Associates, Inc., Vice Chairman, Berglass-Grayson

Denis F. Kelly*
Managing Partner, Scura, Rise & Partners, LLC

Philip B. Miller*
Principal, Philip B. Miller Associates

*Members of the Audit Committee and Compensation Committee

Executive Officers and Senior Management

Kenneth Cole
Chairman and Chief Executive Officer

Paul Blum
President

Stanley A. Mayer
Executive Vice President, Chief Financial Officer, Treasurer and Secretary

Susan Q. Hudson
Senior Vice President of Wholesale

Lori Wagner
Senior Vice President of Marketing

Harry Kubetz
Senior Vice President of Operations

David Edelman
Senior Vice President of Finance

Michael F. Colosi
Corporate Vice President and General Counsel

Michael DeVirgilio
Corporate Vice President of Licensing

Jeff Glaser
Corporate Vice President of Human Resources and Organizational Development

Ellen Rodriguez
Corporate Vice President of International Licensing and Strategic Planning

Corporate Headquarters

Kenneth Cole Productions, Inc.
603 West 50th Street
New York, New York 10019

Internet Addresses

www.kennethcole.com
www.reactiononline.com

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. Thursday, May 22, 2003 at the Company's Administrative Offices, 2 Emerson Lane, Secaucus, New Jersey 07094.

Class A Common Stock

Shares of the Company's Class A Common Stock are listed and traded on the New York Stock Exchange (trading symbol KCP).

Independent Auditors

Ernst & Young LLP
5 Times Square
New York, New York 10036-6530

Transfer Agent

Bank of New York
Shareholder Relations
Department-11E
P.O. Box 11258
Church Street Station
New York, New York 10286
http://stock.bankofny.com
1-800-524-4458

Information Requests

Copies of the Company's Annual Report on Form 10-K as filed with The Securities and Exchange Commission are available free of charge to shareholders either on the Company's website or upon request to:

Investor Relations

Kenneth Cole Productions, Inc.
2 Emerson Lane
Secaucus, New Jersey 07094
(201) 864-8080
investrelations@kcole.com

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