HARTMARX CORP/DE
Form 10-Q
July 10, 2007

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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended May 31, 2007

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8501

HARTMARX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	36-3217140
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

101 North Wacker Drive Chicago, Illinois	60606
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 312/372-6300

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ____ Accelerated filer X ____ Non-accelerated filer ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes ____ No X ____

At June 30, 2007 there were 36,695,456 shares of the Company's common stock outstanding.

Definitions

As used in this Quarterly Report on Form 10-Q, unless the context requires otherwise, the "Company" or "Hartmarx" means Hartmarx Corporation and its consolidated subsidiaries. The following terms represent:

FASB	Financial Accounting Standards Board
SFAS	Statement of Financial Accounting Standards
FIN	FASB Interpretation Number
SEC	Securities and Exchange Commission
Zooey	Zooey Apparel, Inc.
Sweater.com	Sweater.com, Inc.
Simply Blue	Simply Blue, Inc. and Seymour Blue, LLC
Misook	Exclusively Misook, Inc.

The following terms represent the period noted:

Fiscal 2007 or 2007	The respective three months or six months ended May 31, 2007
Fiscal 2006 or 2006	The respective three months or six months ended May 31, 2006

HARTMARX CORPORATION

INDEX

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

HARTMARX CORPORATION
UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS
(000's Omitted, except per share amounts)

	Three Months Ended May 31,		
	2007	2006	2007
Net sales	$ 155,935	$ 152,566	$ 27
Licensing and other income	526	398	
	156,461	152,964	27
Cost of goods sold	100,051	102,922	17
Selling, general and administrative expenses	45,212	41,511	8
	145,263	144,433	26
Operating earnings	11,198	8,531	
Interest expense	2,591	2,441	
Earnings before taxes	8,607	6,090	
Tax provision	3,228	2,210	
Net earnings	$ 5,379	$ 3,880	$

Earnings per share:			
Basic	$ .15	$ .11	$
Diluted	$ .15	$ .10	$
Dividends per common share	$ -	$ -	$
Average shares outstanding:			
Basic	36,070	36,814	3
Diluted	36,625	37,545	3

(See accompanying notes to unaudited condensed consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
ASSETS
(000's Omitted)

	May 31, 2007	Nov. 30, 2006
CURRENT ASSETS		
Cash and cash equivalents	$ 2,165	$ 2,304
Accounts receivable, less allowance for doubtful accounts of $4,948, $4,792 and $5,023	96,919	113,688
Inventories	153,221	146,440
Prepaid expenses	11,014	8,708
Deferred income taxes	22,815	21,990
Total current assets	286,134	293,130
GOODWILL	31,995	27,957
INTANGIBLE ASSETS	55,249	55,501
DEFERRED INCOME TAXES	15,812	17,322
OTHER ASSETS	12,277	8,660
PREPAID / INTANGIBLE PENSION ASSET	38,000	36,550

PROPERTIES		
Land	1,878	1,883
Buildings and building improvements	42,776	42,676
Furniture, fixtures and equipment	104,709	103,667
Leasehold improvements	27,368	28,183
	176,731	176,409
Accumulated depreciation and amortization	(143,836)	(142,445
Net properties	32,895	33,964
TOTAL ASSETS	$ 472,362	$ 473,084

(See accompanying notes to unaudited condensed consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY
(000's Omitted, except share data)

	May 31, 2007	Nov. 30 2006
CURRENT LIABILITIES		
Current portion of long-term debt	$ 25,060	$ 2
Accounts payable and accrued expenses	68,473	7
Total current liabilities	93,533	9
NON-CURRENT LIABILITIES	18,054	2
LONG-TERM DEBT	87,883	8
ACCRUED PENSION LIABILITY	8,426	
SHAREHOLDERS' EQUITY		
Preferred shares, $1 par value; 2,500,000 authorized and unissued	-	
Common shares, $2.50 par value; 75,000,000 shares authorized; 38,235,648 shares issued at May 31, 2007, 37,748,354 shares issued at November 30, 2006 and 37,342,720 shares issued at May 31, 2006.	95,589	9
Capital surplus	89,265	8
Retained earnings	86,383	8
Common shares in treasury, at cost 1,507,580 shares at May 31, 2007, 1,167,800 shares at November 30, 2006 and 325,000 shares at May 31, 2006	(10,232)	(

Accumulated other comprehensive income (loss)	3,461	
Total shareholders' equity	264,466	26
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 472,362	$ 47

(See accompanying notes to unaudited condensed consolidated financial statements)

HARTMARX CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENT
OF CASH FLOWS
(000's Omitted)

Increase (Decrease) in Cash and Cash Equivalents	Six Mo Ma 2007
Cash Flows from operating activities:	
Net earnings	$ 1,967
Reconciling items to adjust net earnings to net cash used in operating activities:	
Depreciation and amortization of fixed assets	2,624
Amortization of intangible assets and long lived assets	2,001
Stock compensation expense	1,394
Taxes and deferred taxes on earnings	679
Changes in assets and liabilities:	
Accounts receivable, inventories, prepaid expenses and other assets	9,203
Accounts payable, accrued expenses and non-current liabilities	(1,235)
Net cash provided by operating activities	16,633
Cash Flows from investing activities:	
Payments made re: acquisitions	(9,359)
Capital expenditures	(5,388)
Net cash used in investing activities	(14,747)
Cash Flows from financing activities:	
Payments under Credit Facility	(22)
Payment of other debt	(390)
Grant proceeds related to facility modernization	-
Change in checks drawn in excess of bank balances	(1,542)
Proceeds from sale of shares to employee benefit plans and other equity transactions	790
Proceeds from exercise of stock options	700

Tax effect of option exercises	277
Purchase of treasury shares	(1,838)
Net cash used in financing activities	(2,025)
Net increase (decrease) in cash and cash equivalents	(139)
Cash and cash equivalents at beginning of period	2,304
Cash and cash equivalents at end of period	$ 2,165

(See accompanying notes to unaudited condensed consolidated financial statements)

HARTMARX CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Principles of Consolidation

The accompanying financial statements are unaudited, but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations, financial position and cash flows for the applicable period presented. Results of operations for any interim period are not necessarily indicative of results for any other periods or for the full year. The November 30, 2006 condensed balance sheet data was derived from the audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These unaudited interim financial statements should be read in conjunction with the financial statements and related notes contained in the Annual Report on Form 10-K for the year ended November 30, 2006.

The accompanying Condensed Consolidated Statement of Cash Flows for the six months ended May 31, 2007 reflects capitalized software acquisition and related costs as cash flows used in investing activities. For the three months ended February 28, 2007, the Condensed Consolidated Statement of Cash Flows reflected $2.6 million of such costs as used in operating activities, which should have been reflected as used in investing activities. The Company does not consider this change to be material to the Condensed Consolidated Statement of Cash Flows for the three months ended February 28, 2007.

Note 2 - Per Share Information

The calculation of basic earnings per share for each period is based on the weighted average number of common shares outstanding. The calculation of diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock using the treasury stock method. The number of shares used in computing basic and diluted shares were as follows (000's omitted):

	Three Months Ended May 31,	Six Months May 3

	2007	2006	2007
Basic	36,070	36,814	36,057
Dilutive effect of:			
Stock options and awards	433	653	458
Restricted stock awards	122	78	120
Diluted	36,625	37,545	36,635

For the three months and six months ended May 31, 2007 and May 31, 2006, the following number of options and restricted stock awards were not included in the computation of diluted earnings per share as the average price per share of the Company's common stock was below the grant or award price for the respective period (000's omitted):

	Three Months Ended May 31,		Six Months May 3
	2007	2006	2007
Anti-dilutive:			
Stock options	921	5	907
Restricted stock awards	345	187	350

Note 3 - Stock Based Compensation

The Compensation and Stock Option Committee of the Board of Directors approved the grant of 322,000 stock options with a grant date effective December 1, 2006. The weighted average fair value of options granted in 2007 was calculated to be $2.46 per share using the following assumptions: risk-free interest rate - 4.4%, expected life (in years) - 3.6, expected volatility - 44% and expected dividend yield - 0%. Pursuant to the terms of the 2006 Stock Compensation Plan for Non-Employee Directors, each non-employee director was awarded 5,000 fair market value stock options (40,000 options in total), effective April 11, 2007. The weighted average fair value of these options was calculated to be $2.83 per share using assumptions similar to those used for employee stock options. The Company estimates the fair value of its option awards using the Black-Scholes option valuation model. The stock volatility for each grant is measured using the weighted average of historical daily price changes of the Company's common stock over the most recent period equal to the expected life of the grant. The expected term of options granted is derived from historical data to estimate option exercises and employee terminations, and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Additionally, on April 11, 2007, each non-employee director was credited with 2,681 Deferred Director Stock Awards ("DDSA"). The total expense related to these DDSA's was $160. On April 10, 2007, 169,500 restricted stock awards were granted with a weighted average grant date fair value per share of $7.46. Compensation expense is recognized on a straight-line basis over the five year vesting period, or on an accelerated

basis if the share price exceeds the vesting threshold price of $12.00 for thirty consecutive days.

During the first quarter of 2007, there was an accelerated vesting of 15,000 restricted stock awards, which increased stock compensation expense by approximately $77. Stock compensation expense for the respective period consisted of (000's omitted):

	Three Months Ended May 31,		Six M
	2007	2006	2007
Stock options	$ 437	$ 306	$ 803
Restricted stock awards	216	157	503
Discount on shares sold to Company sponsored defined contribution plan	43	39	88
	$ 696	$ 502	$ 1,394

Note 4 - Financing

Long-term debt comprised the following (000's omitted):

	May 31, 2007	Nov. 30, 2006	May 31, 2006
Borrowings under Credit Facility	$ 79,647	$ 79,670	$ 75,34
Industrial development bonds	17,250	17,250	17,25
Mortgages and other debt	16,046	16,435	16,81
Total debt	112,943	113,355	109,40
Less - current	25,060	25,040	24,75
Long-term debt	$ 87,883	$ 88,315	$ 84,65

Pursuant to an amendment dated January 3, 2005, and effective January 1, 2005, the Credit Facility was amended, extending its original term by three years to February 28, 2009; the Company retained its option to extend the term for an additional year, to February 28, 2010. The Credit Facility provides for a $50 million letter of credit sub-facility. Interest rates under the Credit Facility are based on a spread in excess of LIBOR or prime as the benchmark rate and on the level of excess availability. The weighted average interest rate was approximately 7.1% at May 31, 2007, based on LIBOR and prime rate loans. The Credit Facility provides for an unused commitment fee of .375% per annum based on the $200 million maximum, less the outstanding borrowings and letters of credit issued. Eligible receivables and inventories provide the principal collateral for the borrowings, along with certain other tangible and intangible assets of the Company.

The Credit Facility includes various events of default and contains certain restrictions on the operation of the business, including covenants pertaining to minimum net worth, operating leases, incurrence or existence of additional indebtedness and liens, asset sales and limitations on dividends, as well as other customary covenants, representations and warranties, and events of default. As of and for the period ending May 31, 2007, the Company was in compliance with all covenants under the Credit Facility and its other borrowing agreements. At May 31, 2007, the Company had approximately $20 million of letters of credit outstanding, relating to either contractual commitments for the purchase of inventories from unrelated third parties or for such matters as workers' compensation requirements in lieu of cash deposits. Such letters of credit are issued pursuant to the Credit Facility and are considered as usage for purposes of determining borrowing availability. During the trailing twelve months ended May 31, 2007, borrowing availability ranged from $48 million to $115 million. At May 31, 2007, additional borrowing availability under the Credit Facility was approximately $91 million.

Mortgages and other debt include $13.5 million remaining principal amount of mortgages on two of the Company's owned manufacturing facilities, which mature in 2011 and 2016, respectively. Also included in mortgages and other debt is the Company's ongoing guarantee of a $2.5 million industrial development bond retained by a former subsidiary, due September 1, 2007, on which the annual interest rate of 8.5% is paid semi-annually and there is no collateral. The $25.1 million of principal reductions at May 31, 2007, reflected as current, consists of $5.1 million of required payments and $20.0 million representing the Company's estimate of additional debt reduction over the twelve-month period subsequent to May 31, 2007.

Note 5 - Pension Plans

Components of net periodic pension expense for the Company's defined benefit and non-qualified supplemental pension plans for the three months and six months ended May 31, 2007 and 2006 were as follows (000's omitted):

	Three Months Ended May 31,		
	2007	2006	2007
Service cost	$ 1,101	$ 1,339	$
Interest cost	3,714	3,614	
Expected return on plan assets	(5,467)	(4,904)	(
Recognized net actuarial gain	(42)	(21)	
Net amortization	869	885	
Net periodic pension expense	$ 175	$ 913	$

As the Company had not completed its actuarial valuation as of the respective interim dates, the above amounts for the three months and six months ended May 31, 2007 and 2006 have been calculated based upon the Company's estimate of pension expense for the respective period.

During the six months ended May 31, 2007, the Company contributed $2.0 million

to its principal pension plan. Based on the current interest rate environment and plan asset values, the Company anticipates that aggregate contributions to all its plans will be in the range of $5 million to $7 million during fiscal 2007.

Note 6 - Inventories

Inventories at each date consisted of (000's omitted):

	May 31, 2007	Nov. 30, 2006	May 31, 2006
Raw materials	$ 43,275	$ 38,621	$ 42,523
Work-in-process	5,637	5,756	6,914
Finished goods	104,309	102,063	107,441
	$ 153,221	$ 146,440	$ 156,878

Inventories are stated at the lower of cost or market. At May 31, 2007, November 30, 2006 and May 31, 2006, approximately 43%, 45% and 49%, respectively, of the Company's total inventories are valued using the last-in, first-out method representing certain tailored clothing work-in-process and finished goods in the Men's Apparel Group. The first-in, first-out method is used for substantially all raw materials and the remaining inventories.

Note 7 - Acquisitions

On August 29, 2006, the Company acquired certain assets, properties and operations of Sweater.com, a designer and marketer of high quality women's knitwear, tops and related products sold to leading specialty stores under its One Girl Who ... brand and directly through its Sweater.com website. The purchase price for Sweater.com as of the acquisition date was $12.4 million. Additional cash purchase consideration is due if Sweater.com achieves certain specified financial performance targets over a five-year period commencing December 1, 2006. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement, must be achieved during any of the annual periods in order for the additional cash consideration to be paid. At the minimum level of performance (annualized operating earnings, as defined in the purchase agreement, of at least $2.0 million), additional annual consideration of $.5 million would be paid over the five-year period commencing December 1, 2006. The amount of consideration increases with increased level of earnings and there is no maximum amount of incremental purchase price. No additional consideration was recorded for the six months ended May 31, 2007.

Effective December 11, 2006, the Company acquired certain assets and operations related to the Zooey brand marketed principally to upscale women's specialty stores. The purchase price for Zooey as of the acquisition date was $3.0 million. Additional cash purchase consideration is due if Zooey achieves certain specified financial performance targets over a five-year period commencing December 1, 2006. This additional contingent cash purchase consideration is calculated based on a formula applied to operating results. A minimum level of performance, as defined in the purchase agreement, must be achieved during any of the annual periods in order for the additional consideration to be paid. At the minimum level of performance (annualized operating earnings, as defined in the purchase agreement, of at least $1.0 million), additional annual

consideration of $.15 million would be paid over the five-year period commencing December 1, 2006. The amount of consideration increases with increased levels of earnings and there is no maximum amount of incremental purchase price. No additional consideration was recorded for the six months ended May 31, 2007.

The acquisitions of Sweater.com and Zooey are expected to provide for strategic growth opportunities in womenswear and further diversification of product categories.

These acquisitions are being accounted for under the purchase method of accounting. Accordingly, the results of Sweater.com and Zooey are included in the consolidated financial statements from the respective acquisition dates. Sweater.com's and Zooey's results of operations and assets are included in the Women's Apparel Group segment.

The Company has allocated the purchase price to the Sweater.com and Zooey assets acquired and liabilities assumed at estimated fair values, considering a number of factors, including the assistance of an independent third party appraisal for Sweater.com. For Sweater.com, the excess of fair value of the net assets acquired compared to the amount paid as of the acquisition date has been reflected as "estimated amount due seller", in accordance with SFAS No. 141 ("Business Combinations"). Any contingent consideration payable subsequent to the acquisition date is first applied to reduce the amount recorded as "estimated amount due seller", and thereafter to goodwill. For Zooey, any contingent consideration payable subsequent to acquisition will increase goodwill. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (000's omitted):

	Sweater.com	Zooey
Cash consideration	$ 12,354	$ 3,000
Direct acquisition costs	135	75
Total purchase price	$ 12,489	$ 3,075
Allocation of purchase price:		
Cash	$ 6	$ -
Accounts receivable	1,315	18
Inventories	2,620	604
Other current assets	312	58
Intangible assets	8,765	1,255
Goodwill	-	1,414
Property, plant and equipment	228	24
Other assets	52	-
Current liabilities	(475)	(298)
Estimated amount due seller	(334)	-
Total purchase price	$ 12,489	$ 3,075

The components of the Intangible Assets listed in the above table as of the acquisition date for Sweater.com were determined by the Company with the assistance of an independent third party appraisal. Intangible assets for Sweater.com and Zooey included the following (000's omitted):

	Sweater.com	Zooey

	Amount	Life	Amount	Life
Tradename	$ 6,540	Indefinite	$ 625	Indefinite
Customer relationships	2,050	10 years	600	10 years
License agreement	75	5 years	-	
Covenant not to compete	100	10 years	30	10 years
	$ 8,765		$ 1,255	

The tradenames were deemed to have an indefinite life and, accordingly, are not being amortized, but will be subject to periodic impairment testing at future periods in accordance with SFAS No. 142 ("Goodwill and Other Intangible Assets"). The customer relationships, license agreement and covenant not to compete are being amortized based on estimated weighted cash flows over their life. Pro forma financial information is not included as the amounts would not be significant.

These acquisitions were financed utilizing borrowing availability under the Company's Credit Facility.

In July 2004 and October 2005, the Company acquired certain assets, properties and operations of Misook and Simply Blue, respectively. Additional cash purchase consideration is due to the extent that Misook achieves specified performance targets over a five-year period commencing August 1, 2004 and Simply Blue

achieves specified performance targets over a five-year period commencing December 1, 2005. The amount of contingent consideration related to fiscal 2006 accrued as of November 30, 2006 for Misook of approximately $4.7 million was paid in the first quarter of fiscal 2007 and for Simply Blue of approximately $1.7 million was paid in the second quarter of fiscal 2007.

Note 8 - Shipping and Handling

Amounts billed to customers for shipping and handling are included in sales. The cost of goods sold caption includes the following components: product cost, including inbound freight, duties, internal inspection costs, internal transfer costs, production labor and other manufacturing overhead costs. The warehousing, picking and packing of finished products totaled $5.6 million in the second quarter of 2007 and $5.7 million for the second quarter of 2006; for the six months, the total was $11.3 million in 2007 and $11.1 million in 2006. Such amounts are included as a component of Selling, General and Administrative Expenses.

Note 9 - Operating Segments

The Company is engaged in the manufacturing and marketing of apparel and has two operating segments for purposes of allocating resources and assessing performance, which are based on products distributed. The Company's customers comprise major department and specialty stores, value oriented retailers and direct mail companies. Products are sold over a wide range of price points under a broad variety of apparel brands, both owned and under license, to an extensive range of retail channels. The Company's operations are comprised of the Men's Apparel Group and Women's Apparel Group. The Men's Apparel Group designs,

manufactures and markets tailored clothing, slacks, sportswear and dress furnishings. The Women's Apparel Group designs and markets women's career apparel, designer knitwear, sportswear, including denim products, and accessories to both retailers and to individuals who purchase women's apparel through its catalogs and e-commerce websites.

Information on the Company's operations and total assets for the three months and six months ended and as of May 31, 2007 and May 31, 2006 is summarized as follows (in millions):

	Men's Apparel Group	Women's Apparel Group	Adj.	Consol.
Three Months Ended May 31, 2007				
Sales	$ 122.6	$ 33.3	$ -	$ 155.9
Earnings (loss) before taxes	10.7	4.0	(6.1)	8.6
2006				
Sales	$ 122.9	$ 29.7	$ -	$ 152.6
Earnings (loss) before taxes	8.1	4.1	(6.1)	6.1

	Men's Apparel Group	Women's Apparel Group	Adj.	Consol.
Six Months Ended May 31, 2007				
Sales	$ 212.8	$ 63.2	$ -	$ 276.0
Earnings (loss) before taxes	8.3	7.9	(13.1)	3.1
Total assets	281.1	104.8	86.5	472.4
2006				
Sales	$ 243.6	$ 53.2	$ -	$ 296.8
Earnings (loss) before taxes	17.3	5.4	(12.4)	10.3
Total assets	300.7	88.2	96.0	484.9

During the three months and six months ended May 31, 2007, there was $.1 million of sales from the Men's Apparel Group to the Women's Apparel Group (none in 2006). These sales have been eliminated from Men's Apparel Group sales. During each period, there was no change in the basis of measurement of group earnings or loss.

Operating expenses incurred by the Company in generating sales are charged against the respective group; indirect operating expenses are allocated to the groups benefitted. Group results exclude any allocation of general corporate expense, interest expense or income taxes.

Amounts included in the "adjustment" column for earnings (loss) before taxes consist principally of interest expense and general corporate expenses. Adjustments of total assets are for cash, deferred income taxes, investments, other assets, corporate properties and the prepaid/intangible pension asset.

Goodwill and intangible assets related to acquisitions were as follows (in millions):

	May 31, 2007	Nov. 30, 2006	May 31, 2006
Men's Apparel Group:			
Goodwill	$ 24.3	$ 24.2	$ 24.3
Women's Apparel Group:			
Intangible assets	$ 55.2	$ 55.5	$ 48.2
Goodwill	$ 7.7	$ 3.8	$ 2.6

Sales and long-lived assets by geographic region are as follows (in millions):

	Sales				Long-Live	
	Three Months Ended May 31,		Six Months Ended May 31,		May 31,	Nov.
	2007	2006	2007	2006	2007	200
USA	$ 149.5	$ 145.5	$ 264.1	$ 284.5	$ 166.9	$ 15
Canada	5.9	6.6	11.0	11.6	3.5	
All Other	.5	.5	.9	.7	-	
	$ 155.9	$ 152.6	$ 276.0	$ 296.8	$ 170.4	$ 16

Sales by Canadian subsidiaries to customers in the United States are included in USA sales. Sales to customers in countries other than the USA or Canada are included in All Other.

Long-lived assets includes the prepaid/intangible pension asset, net properties, goodwill, intangible assets and other assets.

Note 10 - Other Comprehensive Income

Comprehensive income, which includes all changes in the Company's equity during the period, except transactions with stockholders, was as follows (000's omitted):

	Six Months Ended May 31,	
	2007	2006
Net earnings	$ 1,967	$ 6,465
Other comprehensive income:		

Change in fair value of foreign exchange contracts	9	36
Currency translation adjustment	1,029	783
Comprehensive earnings	$ 3,005	$ 7,284

The pre-tax amounts, the related income tax provision and after-tax amounts allocated to each component of the change in other comprehensive income was as follows (000's omitted):

	Pre-tax	Tax	Af
Six months ended May 31, 2007			
Fair value of foreign exchange contracts	$ 15	$ (6)	$
Foreign currency translation adjustment	1,029		
	$ 1,044	$ (6)	$

	Pre-tax	Tax	Af
Six months ended May 31, 2006			
Fair value of foreign exchange contracts	$ 59	$ (23)	$
Foreign currency translation adjustment	783	-	
	$ 842	$ (23)	$

The change in Accumulated Other Comprehensive Income (Loss) was as follows (000's omitted):

	Minimum Pension Liability	Fair Value of Foreign Exchange Contracts	Foreign Currency Translation Adjustment
Fiscal 2007			
Balance November 30, 2006	$ -	$ -	$ 2,423
Change in fiscal 2007	-	9	1,029
Balance May 31, 2007	$ -	$ 9	$ 3,452
Fiscal 2006			

Balance November 30, 2005	$ (9,895)	$ 1	$ 2,166
Change in fiscal 2006	-	36	783
Balance May 31, 2006	$ (9,895)	$ 37	$ 2,949

Note 11 - Recent Accounting Pronouncements

The Company adopted SFAS 154, "Accounting for Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3" as of December 1, 2006. SFAS 154 changes the requirements with regard to the accounting for and reporting a change in an accounting principle. The provisions of SFAS 154 require, unless impracticable, retrospective application to prior periods presented in financial statements for all voluntary changes in an accounting principle and changes required by the adoption of a new accounting pronouncement in the unusual instance that the new pronouncement does not indicate a specific transition method. SFAS 154 also requires that a change in depreciation, amortization or depletion method for long-lived, non-financial assets be accounted for as a change in an accounting estimate, which requires prospective application of the new method. Adoption of SFAS 154 had no effect on the Company's financial condition, results of operations or cash flows.

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. FIN 48 is effective for the Company's 2008 fiscal year beginning December 1, 2007. The Company has not yet determined the impact, if any, of adopting FIN 48 on its financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosure about fair value measurements. SFAS 157 is effective for the Company's 2008 fiscal year beginning December 1, 2007. The Company has not yet determined the impact, if any, of adopting SFAS 157 on its financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R". SFAS 158 requires employers to recognize, on a prospective basis, the funded status of their defined benefit pension and other postretirement plans on their consolidated balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs. SFAS 158 also requires additional disclosures in the notes to financial statements. SFAS 158 is effective no later than the end of the Company's fiscal year ending November 30, 2007. The Company is currently assessing the impact of adopting SFAS 158 on its consolidated financial statements. However, based on the unfunded obligation as of November 30, 2006, the adoption of SFAS 158 would have decreased total assets by approximately $18 million, increased total liabilities by approximately $12 million and reduced total shareholders equity by approximately $30 million. The adoption of SFAS 158 will not affect the Company's results of operations. The

ultimate amounts recorded are dependent on a number of assumptions, including the discount rate in effect at November 30, 2007, the actual rate of return on pension assets for 2007 and the tax effects of the adjustment upon adoption. Changes in those assumptions since the last measurement date could increase or decrease the expected impact of implementing SFAS 158 on the Company's consolidated financial statements at November 30, 2007. Adoption of SFAS 158 will not have any effect on the Company's compliance with its debt covenants.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities; Including an Amendment of FASB Statement No. 115". SFAS 159 gives entities the option to measure eligible items at fair value at specified dates. Unrealized gains and losses on the eligible items for which the fair value option has been elected should be reported in earnings. SFAS 159 is effective for the Company's 2008 fiscal year beginning December 1, 2007. The Company has not yet determined the impact, if any, of adopting SFAS 159 on its financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company operates exclusively in the apparel business. Its operations are comprised of the Men's Apparel Group and Women's Apparel Group. The Men's Apparel Group designs, manufactures and markets men's tailored clothing, slacks, sportswear (including golfwear) and dress furnishings (shirts and ties). Products are sold at luxury, premium and moderate price points under a broad variety of apparel brands, both owned and under license, to an extensive range of retail channels. The Women's Apparel Group designs and markets women's career apparel, designer knitwear, sportswear, including denim products, and accessories to department and specialty stores under owned and licensed brand names and directly to consumers, through its catalogs and its e-commerce websites. For the six months ended May 31, Men's Apparel Group segment sales represented 77% of consolidated sales in 2007 compared to 82% in 2006; Women's Apparel Group segment sales represented 23% of consolidated sales in 2007 compared to 18% in 2006.

The Company's principal operational challenges have been to address the following:

> The trend to casual dressing in the workplace has been a major contributor to the overall market decline for tailored clothing products (suits and sportcoats) over the past decade, especially for tailored suits, the Company's core product offering.

> The need to diversify the Company's product offerings in non-tailored product categories in light of the reduced demand for tailored clothing, largely affecting the moderate priced category, e.g., at retail price points below $350.

> The continuing consolidation and ownership changes of national and regional retailers, an important distribution channel for the Company, along with certain large retailers' increasing emphasis on direct sourcing of their product offerings.

> Ongoing deflation of apparel prices and related shifting of product sourcing.

Regarding its tailored clothing product offerings, the Company began reducing the number of its domestically owned tailored clothing facilities during the 1990's in response to declining demand, and initiated sourcing of moderate-priced tailored clothing to non-domestic unaffiliated contractors in order to lower costs and improve margins. During 2001, the recessionary economic climate and generally weak retail apparel sales resulted in the Company accelerating its gross margin improvement and cost reduction actions initiated previously. The actions during 2001 included the wind-up of certain moderate-priced tailored clothing operations, the closing of six facilities engaged in fabric cutting and sewing operations, one distribution center and several administrative offices, early voluntary retirement programs and other administrative workforce reductions. One additional manufacturing facility was closed in 2002. During the 2003-2005 period, operating earnings improved significantly on small revenue increases, as product mix changes, largely from acquisitions and a more stable tailored clothing environment, resulted in improved gross margins.

The 2006 full year decline in consolidated earnings compared to 2005 was largely attributable to the moderate priced tailored clothing and pant product categories marketed principally to the mainstream department store channel included in the Men's Apparel Group segment results. Moderate priced tailored clothing and pant profitability was adversely impacted by, among other things, wholesale pricing and allowance pressures from certain large retailers, as well as certain retailers increasing their direct sourcing of apparel products, including tailored clothing. The Company also elected not to renew two tailored clothing licenses which generated fiscal 2006 revenues of over $19 million. During 2006 the Company accelerated its actions to reduce its overall investment relating to this product category. Actions included reductions in staffing levels, the closing of one pant manufacturing facility, one coat sewing facility and one cutting facility; these closings were completed in December 2006, the first month of the Company's fiscal 2007 year. Domestic tailored clothing manufacturing levels overall in 2006 were lower compared to the prior year which further affected gross margins unfavorably due to under utilization of manufacturing and sourcing capacities. The above noted conditions were the principal factors contributing to the first quarter revenue decline and operating loss. The improved fiscal 2007 second quarter operating results reflected favorable product mix of brands serving the better, bridge and luxury price points and normalized tailored clothing manufacturing activity, which more than offset ongoing revenue and margin pressure in certain tailored clothing product lines.

Regarding product diversification, the Company has continued to expand its non-tailored clothing product offerings, most importantly through acquisitions, but also from internally developed programs and new

licensing arrangements. Sales of non-tailored apparel product categories (men's sportswear, golfwear, slacks and womenswear) represented 51% of total sales during the first half of 2007 compared to 48% for the first half of 2006. For the fiscal year ended November 30, non-tailored apparel sales represented 48% of total sales in 2006 compared to 46% in 2005.

The Company's most recent acquisitions of women's apparel businesses are as follows:

Company / Product Line	Date of Acquisition

Zooey	December 1, 2006
Sweater.com / One Girl Who ...	August 29, 2006
Simply Blue	October 31, 2005
Misook	July 20, 2004

These acquisitions, financed through the Company's Credit Facility and from cash generated from operating activities, provide for strategic growth opportunities in womenswear and further diversification of non-tailored product categories.

In 2001, the Company acquired the Consolidated Apparel Group, a marketer of moderate priced men's sportswear. These product diversification actions, along with the introductions of Bobby Jones and Nicklaus golfwear in earlier years, have opened up or expanded distribution channels for the Company's non-tailored products, such as through "green grass" and resort shops for golfwear and warehouse clubs for moderate-priced sportswear. Although representing only a small percentage of consolidated revenues, direct-to-consumer marketing is increasing, including internet-based marketing for certain womenswear and higher end men's sportswear products.

Liquidity and Capital Resources

November 30, 2006 to May 31, 2007

For the six months ended May 31, 2007, net cash provided by operating activities was $16.6 million compared to $21.0 million for the six months ended May 31, 2006. The $4.4 million lower cash provided by operating activities was primarily attributable to the lower year-to-date earnings. Since November 30, 2006, net accounts receivable decreased $16.8 million or 15% to $96.9 million, principally attributable to the lower sales and seasonal collections. Inventories of $153.2 million increased $6.8 million or 5%, reflecting the seasonal production or receipt of goods in advance of anticipated shipments during the second half. Cash used in investing activities was $14.7 million in 2007 compared to $5.6 million in 2006. The increase reflected the $3.1 million related to the Zooey acquisition in December 2006, higher contingent earnout payments applicable to acquisitions consummated in prior years and $3.9 million of capitalized software acquisition and related costs applicable to the future upgrading of certain of the Company's computer systems. Cash used in financing activities was $2.0 million this year compared to $10.1 million last year. The $8.1 million lower cash used in financing activities primarily reflected lower payments under the Credit Facility this year compared to last year. Total debt, including current maturities, decreased $.4 million to $112.9 million and represented 30% of total capitalization at both May 31, 2007 and November 30, 2006.

In addition to the information provided below relating to debt, credit facilities, guarantees, future commitments, liquidity and risk factors, the reader should also refer to the Company's Annual Report on Form 10-K for the year ended November 30, 2006.

The Company's borrowing arrangements consist of a senior revolving credit facility ("Credit Facility"), mortgages and industrial development bonds. The current $200 million Credit Facility expires in February 2009 with an additional one-year renewal at the Company's option (i.e., until February 2010), and also provides for a $50 million letter of credit sub-facility. Interest rates under the Credit Facility are based on a spread in excess of either LIBOR or prime as the benchmark rate and on the level of excess availability. The weighted average interest rate was 7.1% at May 31, 2007, based on LIBOR and prime rate loans. The

facility provides for an unused commitment fee of .375% per annum, based on the $200 million maximum, less the outstanding borrowings and letters of credit issued. Eligible receivables and inventories provide the principal collateral for the borrowings, along with certain other tangible and intangible assets of the Company. The weighted average interest rate on all borrowings was approximately 7.5% at May 31, 2007 compared to 7.2% at May 31, 2006.

The Credit Facility includes various events of default and contains certain restrictions on the operation of the business, including covenants pertaining to minimum net worth, operating leases, incurrence or existence of additional indebtedness and liens, asset sales and limitations on dividends, as well as other customary covenants, representations and warranties, and events of default. As of and for the period ending May 31, 2007, the Company was in compliance with all covenants under the Credit Facility and its other borrowing agreements.

There are several factors which are discussed in Item 1-A Risk Factors of the Company's Annual Report on Form 10-K, which could affect the Company's ability to remain in compliance with the financial covenants currently contained in its Credit Facility, and to a lesser extent, in its other borrowing arrangements.

At May 31, 2007, the Company had approximately $20 million of letters of credit outstanding, relating to either contractual commitments for the purchase of inventories from unrelated third parties or for such matters as workers' compensation requirements in lieu of cash deposits. Such letters of credit are issued pursuant to the Credit Facility and are considered as usage for purposes of determining borrowing availability. Availability levels on any date are impacted by the level of outstanding borrowings under the Credit Facility, the level of eligible receivables and inventory and outstanding letters of credit. Availability levels generally decline towards the end of the first and third quarters and increase during the second and fourth quarters. For the trailing twelve months, additional availability levels have ranged from $48 million to $115 million. At May 31, 2007, additional borrowing availability under the Credit Facility was approximately $91 million. The Company has also entered into surety bond arrangements aggregating approximately $12 million with unrelated parties, primarily for the purposes of satisfying workers' compensation deposit requirements of various states where the Company has operations. At May 31, 2007, there were an aggregate of approximately $.4 million of outstanding foreign exchange contracts attributable to the sale of approximately 51 million Japanese Yen primarily for anticipated licensing revenues to be received in the next three months. Other than the Company's ongoing guarantee of a $2.5 million industrial development bond included as a component of consolidated debt, the Company has not committed to and has not provided any guarantees of other lines of credit, repurchase obligations, etc., with respect to the obligations for any unconsolidated entity or to any unrelated third party.

The Company's various borrowing arrangements are either fixed rate or variable rate borrowing arrangements. None of the arrangements have rating agency "triggers" which would impact either the borrowing rate or borrowing commitment.

Off-Balance Sheet Arrangements. The Company has not entered into off balance sheet financing arrangements, other than operating leases, and has made no financial commitments or guarantees with any unconsolidated subsidiaries or special purpose entities. All of the Company's subsidiaries are wholly owned and included in the accompanying consolidated financial statements. There have been no related party transactions nor any other transactions which have not been conducted on an arm's-length basis.

The Company believes its liquidity and expected cash flows are sufficient to

finance its operations after due consideration of its various borrowing arrangements, other contractual obligations and earnings prospects.

May 31, 2006 to May 31, 2007

Net accounts receivable of $96.9 million decreased $15.1 million, principally attributable to the lower year-to-date sales. The current period included $1.1 million of net receivables related to the One Girl Who ... and Zooey product lines acquired in August 2006 and December 2006, respectively. Inventories of $153.2 million decreased $3.7 million or 2% and included $2.1 million attributable to One Girl Who ... and Zooey. Actions have been implemented which have reduced tailored clothing inventories commensurate with reduced sales levels in this product category; actions include decreasing units purchased through off-shore contractors and reduced domestic tailored clothing production. Inventories have been valued at the lower of cost or market at May 31, 2007. The increase in intangible assets to $55.2 million from $48.2 million in the year earlier period was attributable to the fair value of intangible assets acquired in the One Girl Who ... and Zooey transactions, less amortization of intangibles assets with finite lives. Net properties of $32.9 million decreased $3.2 million. Total debt of $112.9 million increased $3.5 million compared to the year earlier level and reflected favorable working capital reductions from the year earlier period which was offset by the $21.7 million of payments related to acquisitions during the past twelve months as well as $7.2 million of incremental treasury share expenditures. Total debt represented 30% of total capitalization at both May 31, 2007 and May 31, 2006.

Results of Operations

Second Quarter 2007 Compared to Second Quarter 2006

Second quarter consolidated sales were $155.9 million compared to $152.6 million in 2006. Men's Apparel Group revenues were $122.6 million compared to $122.9 million in the year earlier period, and reflected approximately $13 million of spring advance tailored clothing orders from a major customer shifted from the first quarter last year to the second quarter this year. The second quarter revenue comparison was also impacted by approximately $4.2 million lower men's tailored clothing sales related to licenses that were not renewed, as well as reduced sales of sportswear and other moderate priced tailored clothing. Women's Apparel Group revenues increased $3.6 million to $33.3 million, attributable to both acquired and ongoing product lines, including $2.0 million attributable to One Girl Who ... and Zooey, and represented approximately 21% of consolidated sales in 2007 and 19% in 2006. Aggregate sportswear and other non-tailored clothing product categories, including women's, represented approximately 50% of total second quarter revenues in both 2007 and 2006.

Men's Apparel Group product mix changes impacted comparability of both unit sales and average wholesale selling prices. Suit unit sales decreased approximately 10%, while sport coat units decreased approximately 32%. However, tailored clothing average wholesale selling prices increased 30% from 2006, reflecting a shift in product mix in 2007 compared to 2006 to more higher price point units, fewer moderate tailored clothing unit sales and less off-price dispositions. Slack average wholesale selling prices increased approximately 15% on a 1% unit decline, reflecting a shift in product mix. Unit sales of sportswear products decreased approximately 15% while average wholesale selling prices were approximately 3% higher than 2006, reflecting lower moderate priced sportswear business.

In the Women's Apparel Group, the addition of the One Girl Who ... and Zooey product lines significantly increased the number of women's units sold at an average unit price point lower than the other women's products taken as a whole, resulting in an increase in women's units and a decrease in average unit price. Unit sales of women's apparel increased approximately 22%, excluding the newly acquired One Girl Who ... and Zooey product lines, and average selling prices declined approximately 13%, each attributable to Simply Blue with its lower per unit cost relative to other women's products.

The second quarter consolidated gross margin percentage to sales improved to 35.8% this year compared to 32.5% in the second quarter of fiscal 2006, reflecting the favorable impact of product mix changes; gross margins improved in both the Men's Apparel Group and Women's Apparel Group segments. The prior period was adversely impacted by more off-price sales and customer allowances principally in the moderately priced tailored clothing product category. Gross margins may not be comparable to those of other entities since some entities include all of the costs related to their distribution network in arriving at gross margin, whereas the Company included $5.6 million in 2007 and $5.7 million in 2006 of costs related to warehousing, picking and packing of finished products as a component in Selling, General and Administrative Expenses. Consolidated selling, general and administrative expenses were $45.2 million in 2007 compared to $41.5 million in 2006; the ratio to sales was 29.0% in 2007 compared to 27.2% in 2006. The $3.7 million increase reflected, among other things, incremental expenses of $2.2 million related to the Sweater.com and Zooey product lines. The prior year amount also reflected $.8 million received related to an insurance claim (an additional $.6 million is reflected as a reduction of 2006 cost of sales). The increased percentage relative to sales this year reflected, in part, changes in revenue mix towards more women's products with higher gross margin and operating expense ratios to sales.

Operating earnings improved to $11.2 million in 2007 compared to $8.5 million in 2006 and represented 7.2% of sales in 2007 compared to 5.6% of sales in 2006. Men's Apparel Group operating earnings increased to $10.7 million compared to earnings of $8.1 million in 2006, attributable to an improved gross margin rate. Women's Apparel Group operating earnings were $4.0 million in 2007 compared to $4.1 million in 2006, as improvements in ongoing product lines were about offset by product development and administrative expenditures and required purchase accounting adjustments associated with the newly acquired One Girl Who ... and Zooey product lines.

Interest expense was $2.6 million in 2007 compared to $2.4 million in 2006. Consolidated pre-tax earnings were $8.6 million in 2007 compared to $6.1 million in 2006. After reflecting the applicable tax provision, consolidated earnings were $5.4 million in 2007 compared to $3.9 million in 2006. Diluted earnings per share were $.15 in 2007 compared to $.10 per share in 2006.

Six Months 2007 Compared to Six Months 2006

First half consolidated sales were $276.0 million compared to $296.8 million in 2006. Men's Apparel Group revenues were $212.8 million in the current year compared to $243.6 million in the year earlier period. The

first half revenue comparison reflected approximately $6.1 million lower men's tailored sales related to licenses that were not renewed, as well as reduced sales of other men's moderate priced tailored clothing and sportswear lines. Women's Apparel Group revenues of $63.2 million increased $10.0 million, attributable to both ongoing and newly acquired product lines; the current year

included $5.6 million attributable to One Girl Who ... and Zooey. Women's Apparel Group revenues represented approximately 23% of consolidated sales in 2007 and 18% in 2006, reflecting both the higher women's sales and lower Men's Apparel Group revenues. Aggregate sportswear and other non-tailored clothing product categories, including women's, represented approximately 51% of total first half revenues in fiscal 2007 compared to 48% in 2006.

Men's Apparel Group product mix changes impacted comparability of both unit sales and average wholesale selling prices. Tailored clothing average wholesale selling prices increased 20% from 2006, reflecting a shift in product mix in 2007 compared to 2006 to more higher price point units, fewer moderate tailored clothing unit sales and less off-price dispositions. Suit unit sales decreased approximately 22%, while sport coat units decreased approximately 32%. Slack product units decreased approximately 12%. Slack average wholesale selling prices increased approximately 15%, reflecting a shift in product mix. Unit sales of sportswear products decreased approximately 26% and average wholesale selling prices were approximately 6% higher than 2006, reflecting lower moderate priced sportswear business.

In the Women's Apparel Group, the addition of One Girl Who ... and Zooey product lines significantly increased the number of women's units sold at an average unit price lower than the other women's products taken as a whole, resulting in an increase in women's units and a decrease in average unit price. Unit sales of women's apparel increased approximately 19%, excluding the newly acquired One Girl Who ... and Zooey product lines and average selling prices declined approximately 8%, each attributable to Simply Blue with its lower per unit cost relative to other women's products.

The consolidated gross margin percentage to sales improved to 34.8% in the current year compared to 33.0% in the prior year's first half, reflecting the higher percentage of year-to-date non-tailored product sales and the improved second quarter performance described above. The gross margin percentage for the first quarter had been about even with the prior year's percentage, as the favorable impact of product mix changes were largely offset by lower first quarter tailored clothing margins impacted by retailer chargebacks and allowances and the residual effects of unfavorable manufacturing overhead from reduced production schedules in several manufacturing facilities, including the final winddown of a coat sewing facility closed during the first quarter of fiscal 2007. Gross margins may not be comparable to those of other entities since some entities include all of the costs related to their distribution network in arriving at gross margin, whereas the Company included $11.3 million in 2007 and $11.1 million in 2006 of costs related to warehousing, picking and packing of finished products as a component in selling, general and administrative expenses. Consolidated selling, general and administrative expenses were $89.1 million in 2007 compared to $84.3 million in 2006, representing 32.3% of sales in 2007 and 28.4% in 2006. The increase relative to sales was attributable, in part, to changes in revenue mix towards more women's products with higher gross margin and operating expense ratios to sales. The $4.8 million increase reflected, among other things, incremental expenses of $4.4 million related to One Girl Who ... and Zooey and the 2006 insurance recovery noted previously.

Operating earnings were $7.9 million in 2007 compared to $14.8 million in 2006 and represented 2.9% of sales in 2007 and 5.0% of sales in 2006. Men's Apparel Group operating earnings declined to $8.3 million in 2007 compared to $17.3 million in 2006, attributable principally to its $31 million lower sales. Women's

Apparel Group operating earnings improved to $7.9 million in 2007 compared to

$5.4 million in 2006, attributable to its higher sales and improved operating margins.

Interest expense was $4.8 million in 2007 compared to $4.5 million in 2006 with the increase attributable to borrowings associated with acquisitions and share repurchases. Consolidated pre-tax earnings were $3.1 million in 2007 compared to $10.3 million in 2006. After reflecting the applicable tax provision, consolidated net earnings were $2.0 million in 2007 compared to $6.5 million in 2006. Diluted earnings per share were $.05 in 2007 compared to $.17 per share in 2006.

The actions taken last year to discontinue and reduce several moderate priced tailored clothing lines and to close three production facilities, while appropriate to address the disruptive environment in the mainstream department store channel, had a significant adverse impact on the Company's operating results for 2006 and through the first quarter of fiscal 2007. The improved 2007 second quarter earnings reflect the Company's ongoing strategy of devoting more resources towards those product lines and categories at the better, bridge and luxury price points, while reducing exposure to the mainstream department store channel. First half revenues of product lines directed to the mainstream department store channel represented approximately 13% of revenues this year compared to 19% last year, and this declining trend is anticipated to continue over the balance of the year. Tailored clothing marketed to this channel remains under revenue and margin pressures.

The Company expects that it is positioned for a full year earnings improvement in 2007 compared to 2006. Full year operating margins are expected to increase from higher gross margins resulting from product mix changes currently in place and including the expected further reduction in moderate priced tailored clothing volume as described above. Overall debt reduction is anticipated by year-end 2007, excluding the impact of future acquisitions or share repurchases. Pursuant to the October 2005 authorization to repurchase up to two million shares of the Company's common stock, approximately 1.55 million shares have been repurchased through July 6, 2007, at an average cost of $6.70 per share, including close to .4 million shares acquired to-date in fiscal 2007.

The Company's longer term objectives continue to be directed to increasing revenues and pre-tax margin improvements from a combination of both internal revenue growth and from acquisitions. The Company continues to evaluate acquisition opportunities which can produce positive cash flows, are accretive to earnings in the near to mid-term and which do not create excessive debt leverage.

This quarterly report on Form 10-Q contains forward-looking statements made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The statements could be significantly impacted by such factors as the level of consumer spending for men's and women's apparel, the prevailing retail environment, the Company's relationships with its suppliers, customers, lenders, licensors and licensees, actions of competitors that may impact the Company's business and the impact of unforeseen economic changes, such as interest rates, or in other external economic and political factors over which the Company has no control. The reader is also directed to the Company's 2006 Annual Report on Form 10-K for additional factors that may impact the Company's results of operations and financial condition. Forward-looking statements are not guarantees as actual results could differ materially from those expressed or implied in forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company does not hold financial instruments for trading purposes or engage in currency speculation. The Company enters into foreign exchange forward contracts from time to time to limit the currency risks primarily associated with purchase obligations denominated in foreign currencies. Foreign exchange contracts are generally for amounts not to exceed forecasted purchase obligations or receipts and require the Company to exchange U.S. dollars for foreign currencies at rates agreed to at the inception of the contracts. These contracts are typically settled by actual delivery of goods or receipt of funds. The effects of movements in currency exchange rates on these instruments, which have not been significant, are recognized in earnings in the period in which the purchase obligations are satisfied or funds are received. As of May 31, 2007, the Company had entered into foreign exchange contracts, aggregating approximately $.4 million attributable to the sale of approximately 51 million Japanese Yen for anticipated licensing revenues to be received in the next three months.

The Company is subject to the risk of fluctuating interest rates in the normal course of business, primarily as a result of the variable rate borrowings under its Credit Facility. Rates may fluctuate over time based on economic conditions, and the Company could be subject to increased interest payments if market interest rates rise rapidly. A 1% change in the effective interest rate on the Company's anticipated borrowings under its Credit Facility would impact annual interest expense by approximately $.8 million based on borrowings under the Credit Facility at May 31, 2007. In the last three years, the Company has not used derivative financial instruments to manage interest rate risk.

The Company's customers include major U.S. retailers, certain of which are under common ownership and control. The ten largest customers represented approximately 54% of consolidated sales during fiscal 2006 with the two largest customers representing approximately 21% and 12% of sales, respectively. Recently there were several changes in ownership control regarding several of the Company's customers, including Federated's acquisition of the May Company stores and the sale of certain store groups formerly owned by Saks, Inc. During 2006, the Company experienced declining sales largely in its moderate priced tailored clothing brands marketed to the mainstream department store channel, which has been most impacted by such ownership changes, and decreases have continued during 2007.

Item 4 - Controls and Procedures

(A) Evaluation of Disclosure Controls and Procedures. The Company's management, under the supervision of and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective and are reasonably designed to ensure that all material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

(B) Changes in Internal Control Over Financial Reporting. There have

not been any changes in the Company's internal control over financial reporting, as such term is defined in Rules 13a-15(f) and

15d-15(f) under the Exchange Act during the Company's fiscal quarter ended May 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Part II -- OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchase of equity securities by the issuer and affiliated purchasers.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maxi of That Purch t
March 1, 2007 to March 31, 2007	144,900	$6.74	144,900	
April 1, 2007 to April 30, 2007	-	-	-	
May 1, 2007 to May 31, 2007	103,032	$6.30	103,032	

Total	247,932	247,932

On October 28, 2005, the Board of Directors authorized the repurchase of up to 2,000,000 shares of the Company's $2.50 par value common stock from time to time in the open market, through privately negotiated transactions, block transactions or otherwise. The authorization expires on December 31, 2007.

All shares purchased above were acquired in open-market transactions. Purchases for the period commencing May 1, 2007 included 73,032 shares which were settled after May 31, 2007 at an average price of $6.48 per share.

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

The annual meeting of the stockholders of the Registrant was held on April 11, 2007. The directors listed in the Registrant's Proxy Statement for the Annual Meeting of Stockholders dated February 27, 2007 were elected for one year terms with voting for each as follows:

Director	For	Withheld Authority
Michael F. Anthony	32,654,190	1,027,915
Jeffrey A. Cole	32,409,294	1,272,812
James P. Dollive	32,674,254	1,007,852
Raymond F. Farley	32,601,031	1,081,074
Elbert O. Hand	32,677,401	1,004,704
Dipak C. Jain	32,837,817	844,288
Homi B. Patel	31,605,901	2,076,204
Michael B. Rohlfs	32,505,018	1,177,088
Stuart L. Scott	32,604,923	1,077,182

The reappointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm was ratified with 33,035,222 shares for, 492,318 opposed and 154,566 shares abstaining.

Item 6. Exhibits

4-C-7 Amendment No. 6 to Loan and Security Agreement dated as of May 26, 2007.

31.1 Certification of Chairman, President and Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chairman, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Executive Vice President and Chief Financial Officer,

pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARTMARX CORPORATION

July 10, 2007

By /s/ GLENN R. MORGAN

Glenn R. Morgan
Executive Vice President,
Chief Financial Officer and Treasurer

(Principal Financial Officer)

July 10, 2007

By /s/ ANDREW A. ZAHR

Andrew A. Zahr
Vice President and Controller

(Principal Accounting Officer)