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Levi Strauss & Co. News

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LEVI STRAUSS & CO. ANNOUNCES FOURTH-QUARTER AND FISCAL-YEAR 2006 FINANCIAL RESULTS

Fourth-Quarter Growth Completes Fiscal Year

SAN FRANCISCO (February 13, 2007) – Levi Strauss & Co. (LS&CO.) today announced financial results for the fourth quarter and fiscal year ended November 26, 2006 and filed its 2006 Form 10-K with the Securities and Exchange Commission.

Fourth-quarter results reflect improvements across key operating measures. Net revenues for the quarter increased 4 percent or \$48 million and net income increased 119 percent or \$52 million.

Fiscal-year 2006 results show continued profitability improvements with stable net revenues. Net income improved 53 percent or \$83 million.

"Our fourth-quarter performance was encouraging, with net revenue growth in each of our three regions," said John Anderson, chief executive officer. "For the full year, we delivered stable revenues and strong profits, and paid down debt. The year ended with improved performance in virtually all of our business units. I am pleased with our positive momentum heading into 2007."

Fourth-Quarter 2006 Highlights

- Fourth-quarter net revenues increased 4 percent to \$1.24 billion compared to \$1.19 billion for the same period in 2005. Net revenues increased in all three regions.
- Gross profit increased 9 percent to \$593 million compared with \$542 million for the same period of 2005. Gross margin increased 240 basis points to 48.0 percent of revenues for the fourth quarter of 2006 compared to 45.6 percent of revenues in the fourth quarter of 2005. The margin increase was primarily due to increased sales of higher margin products.
- Selling, general and administrative expenses increased 1 percent or \$5 million to \$422 million for the quarter from \$417 million in the 2005 period. Higher SG&A expenses in the 2006 period were primarily attributable to an increase in company-operated retail stores and the impact of currency translations, partially offset by lower advertising and promotion expense in Europe.
- Operating income for the fourth quarter increased \$49 million to \$170 million compared to \$121 million for the 2005 period. The 40 percent increase was primarily due to higher net revenues and improved gross margin.
- Net income for the fourth quarter was \$96 million compared to \$44 million in same period of 2005. The improvement was driven primarily by higher operating income and lower tax expense primarily attributable to a \$29 million net reversal of valuation allowances due to operating profits in certain jurisdictions.

Fiscal-Year 2006 Highlights

- Net revenues for the fiscal year were \$4.19 billion compared to \$4.22 billion in 2005, a 0.8 percent decrease. Stable net revenue reflects higher net revenues in the U.S. Levi's®, U.S. Dockers® and Asia Pacific businesses, offset by lower net revenues in the Europe and U.S. Levi Strauss Signature® businesses and currency translation.
- Selling, general and administrative expenses decreased 2 percent or \$33 million to \$1.3 billion for 2006 compared to the prior year. The decrease reflects reduced advertising and promotion expense and a \$29 million third-quarter benefit plan curtailment gain, partially offset by costs related to new company-operated retail stores.

- Operating income increased \$24 million to \$614 million compared to \$589 million in 2005. The increase was driven primarily by lower selling, general and administrative expenses. The operating margin for 2006 was 14.6 percent compared to 13.9 percent in 2005.
- Interest expense for the year decreased \$13 million to \$251 million compared to \$264 million in 2005. The decrease was primarily attributable to lower debt levels and lower average interest rates in 2006.
- Net income for 2006 was \$239 million compared to \$156 million in the prior year. The increase in net income was primarily due to the curtailment gain, lower losses on early extinguishment of debt, and lower income tax and interest expense. The effective tax rate for 2006 was 30.8% compared to 44.8% for 2005, driven by a \$32 million benefit resulting from a modification of the ownership structure of certain of our foreign subsidiaries in the second quarter of 2006 and a \$29 million net reversal of valuation allowances in certain jurisdictions in the fourth quarter of 2006.
- Strong cash flow in 2006 is attributable to lower income tax payments, improved working capital management, and lower restructuring and interest payments.

"We accomplished our objectives for 2006," said Hans Ploos van Amstel, chief financial officer. "We ended the year with revenues growing, and we sustained our strong margins while increasing our investments in our brands, retail expansion and SAP. We also delivered strong cash flow, which is a key priority for us. For 2007, we expect to continue our strong profits and cash flow and, at minimum, achieve revenue stability."

Investor Conference Call

The company's full-year 2006 and fourth-quarter investor conference call will be available through a live audio Webcast at <u>http://levistrauss.com/news/webcast.htm</u> today, February 13, 2007, at 1 p.m. PST/4 p.m. EST. A replay is available on the Web site the same day and will be archived for one month. A telephone replay also is available through February 20 at 800-642-1687 in the United States and Canada, or 706-645-9291 internationally; I.D. No. 8121313.

This news release contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current assumptions, expectations and projections about future events. We use words like "believe," "anticipate," "intend, "estimate," "expect," "project" and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these words. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Investors should consider the information contained in our filings with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended 2006, especially in the Management's Discussion and Analysis - "Financial Condition and Results of Operations" and "Risk Factors" sections, our most recent Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. In light of these risks, uncertainties, assumptions and factors, the forward-looking events discussed in this news release may not occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated, or if no date is stated, as of the date of this news release. We are not under any obligation and do not intend to make publicly available any update or other revisions to any of the forward-looking statements contained in this news release to reflect ticcumstances existing after the date of this news believe or other revisions to any of the forward-looking statements contained in this news release to reflect ticcumstances existing after the date of t

LEVI STRAUSS & CO. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

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Accrued salaries, wages and employee benefits 261,234 277,007 Accrued interest payable 61,827 61,996 Accrued taxes 14,226 30,300 Total current liabilities 2,206,323 2,230,902 Long-term debt, less current maturities 2,206,323 2,230,902 Long-term capital leases, less current maturities 3,086 4,077 Postretirement medical benefits 3,086 4,077 Postretirement medical benefits 3,086 4,077 Long-term employee related benefits 136,408 156,327 Long-term fabilities 136,408 156,327 Long-term liabilities 19,994 17,396 Other long-term liabilities 16,635 41,659 Minority interest 17,138 17,891 Total liabilities 3,796,156 4,026,219 Commitments and contingencies (Note 7) 1,956 - Temporary equity (Note 14) 1,956 - Stockholders' deficit: 237,373 373 Additional paid-in capital 89,837 8,808 Accumulated deficit (959,478) (1,198,481) <td>Restructuring liabilities</td> <td>13,080</td> <td>14,594</td>	Restructuring liabilities	13,080	14,594	
Accrued interest payable $61,827$ $61,996$ Accrued taxes $14,226$ $30,300$ Total current liabilities $803,294$ $903,799$ Long-term debt, less current maturities $2,206,323$ $2,230,902$ Long-term capital leases, less current maturities $3,086$ $4,077$ Postretirement medical benefits $379,188$ $458,229$ Pension liability $184,090$ $195,939$ Long-term employee related benefits $136,408$ $156,327$ Long-term liabilities $136,408$ $156,327$ Long-term liabilities $14,6635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ - Temporary equity (Note 14) $1,956$ - Stockholders' deficit: 373 373 Common stock— $$.01$ par value; 270,000,000 shares authorized; $37,278,238$ 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accum	Accrued liabilities	194,601	187,145	
Accrued taxes $14,226$ $30,300$ Total current liabilities $803,294$ $903,799$ Long-term debt, less current maturities $2,206,323$ $2,230,902$ Long-term capital leases, less current maturities $3,086$ $4,077$ Postretirement medical benefits $379,188$ $458,229$ Pension liability $184,090$ $195,939$ Long-term employee related benefits $136,408$ $156,327$ Long-term liabilities $19,994$ $17,396$ Other long-term liabilities $46,635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ - Temporary equity (Note 14) $1,956$ - Stockholders' deficit: $250,000,000$ shares authorized; $37,278,238$ 373 373 Additional paid-in capital $89,837$ $88,808$ $Accumulated deficit$ $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(11,27,85)$ $(994,047)$ $(1,222,085)$	Accrued salaries, wages and employee benefits	261,234	277,007	
$ \begin{array}{c c c c c c c c c c c c c c c c c c c $	Accrued interest payable	61,827	61,996	
$\begin{array}{c c} \mbox{Long-term debt, less current maturities} & 2,206,323 & 2,230,902 \\ \mbox{Long-term capital leases, less current maturities} & 3,086 & 4,077 \\ \mbox{Postretirement medical benefits} & 379,188 & 458,229 \\ \mbox{Pension liability} & 184,090 & 195,939 \\ \mbox{Long-term employee related benefits} & 136,408 & 156,327 \\ \mbox{Long-term tax liabilities} & 19,994 & 17,396 \\ \mbox{Other long-term liabilities} & 46,635 & 41,659 \\ \mbox{Minority interest} & 17,138 & 17,891 \\ \mbox{Total liabilities} & 3,796,156 & 4,026,219 \\ \mbox{Commitments and contingencies (Note 7)} \\ \mbox{Temporary equity (Note 14)} & 1,956 & - \\ \mbox{Stockholders' deficit} & 373 & 373 \\ \mbox{Additional paid-in capital} & 89,837 & 88,808 \\ \mbox{Accumulated deficit} & (959,478) & (1,198,481) \\ \mbox{Accumulated other comprehensive loss} & (124,779) & (112,785) \\ \mbox{Stockholders' deficit} & (994,047) & (1,222,085) \\ \mbox{Stockholders' deficit} & (954,78) & (1,98,481) \\ \mbox{Stockholders' deficit} & (994,047) & (1,222,085) \\ \mbox{Stockholders' deficit} & (954,78) & (1,98,481) \\ \mbox{Stockholders' deficit} & (994,047) & (1,222,085) \\ \mbox{Stockholders' deficit} & (994,047) & (1,222,085) \\ \mbox{Stockholders' deficit} & (954,78) & (1,98,78) \\ \mbo$	Accrued taxes	14,226	30,300	
	Total current liabilities	803,294	903,799	
Postretirement medical benefits $379,188$ $458,229$ Pension liability $184,090$ $195,939$ Long-term employee related benefits $136,408$ $156,327$ Long-term tax liabilities $19,994$ $17,396$ Other long-term liabilities $46,635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ -Temporary equity (Note 14) $1,956$ -Stockholders' deficit: 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(112,785)$ Stockholders' deficit $(994,047)$ $(1,222,085)$	Long-term debt, less current maturities	2,206,323	2,230,902	
Pension liability $184,090$ $195,939$ Long-term employee related benefits $136,408$ $156,327$ Long-term tax liabilities $19,994$ $17,396$ Other long-term liabilities $46,635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ -Temporary equity (Note 14) $1,956$ -Stockholders' deficit: 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(1122,785)$ Stockholders' deficit $(994,047)$ $(1,222,085)$	Long-term capital leases, less current maturities	3,086	4,077	
Long-term employee related benefits136,408156,327Long-term tax liabilities19,99417,396Other long-term liabilities46,63541,659Minority interest17,13817,891Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7)1,956-Temporary equity (Note 14)1,956-Stockholders' deficit: 373 373 Additional paid-in capital89,83788,808Accumulated deficit(959,478)(1,198,481)Accumulated other comprehensive loss(124,779)(112,785)Stockholders' deficit(994,047)(1,222,085)	Postretirement medical benefits	379,188	458,229	
Long-term tax liabilities $19,994$ $17,396$ Other long-term liabilities $46,635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ -Temporary equity (Note 14) $1,956$ -Stockholders' deficit: 373 373 Common stock— $\$.01$ par value; 270,000,000 shares authorized; $37,278,238$ 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(112,785)$ Stockholders' deficit $(994,047)$ $(1,222,085)$	Pension liability	184,090	195,939	
Other long-term liabilities $46,635$ $41,659$ Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ -Temporary equity (Note 14) $1,956$ -Stockholders' deficit: 373 373 Common stock— $\$.01$ par value; 270,000,000 shares authorized; $37,278,238$ 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(112,785)$ Stockholders' deficit $(994,047)$ $(1,222,085)$	Long-term employee related benefits	136,408	156,327	
Minority interest $17,138$ $17,891$ Total liabilities $3,796,156$ $4,026,219$ Commitments and contingencies (Note 7) $1,956$ $-$ Temporary equity (Note 14) $1,956$ $-$ Stockholders' deficit: Common stock—\$.01 par value; 270,000,000 shares authorized; $37,278,238$ 373 373 Additional paid-in capital $89,837$ $88,808$ Accumulated deficit $(959,478)$ $(1,198,481)$ Accumulated other comprehensive loss $(124,779)$ $(112,785)$ Stockholders' deficit $(994,047)$ $(1,222,085)$		19,994		
Total liabilities3,796,1564,026,219Commitments and contingencies (Note 7) Temporary equity (Note 14)1,956-Stockholders' deficit: Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238 shares issued and outstanding373373Additional paid-in capital Accumulated deficit89,83788,808Accumulated deficit (1559,478)(1,198,481)Accumulated other comprehensive loss Stockholders' deficit(124,779)Stockholders' deficit(994,047)(1,222,085)	c		,	
Commitments and contingencies (Note 7) Temporary equity (Note 14)1,956Stockholders' deficit: Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238 shares issued and outstanding373Additional paid-in capital Accumulated deficit89,837Accumulated deficit Accumulated other comprehensive loss Stockholders' deficit(1,198,481) (1,122,085)	•			
Temporary equity (Note 14)1,956Stockholders' deficit: Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238 shares issued and outstanding373373Additional paid-in capital89,83788,808Accumulated deficit(959,478)(1,198,481)Accumulated other comprehensive loss(124,779)(112,785)Stockholders' deficit(994,047)(1,222,085)	T otal liabilities	3,796,156	4,026,219	
Stockholders' deficit:Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238shares issued and outstandingAdditional paid-in capitalAccumulated deficitAccumulated deficitAccumulated other comprehensive loss(124,779)Stockholders' deficit(994,047)(1,222,085)	Commitments and contingencies (Note 7)			
Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238 373 373 shares issued and outstanding 373 373 Additional paid-in capital 89,837 88,808 Accumulated deficit (959,478) (1,198,481) Accumulated other comprehensive loss (124,779) (112,785) Stockholders' deficit (994,047) (1,222,085)	Temporary equity (Note 14)	1,956	-	
shares issued and outstanding 373 373 Additional paid-in capital 89,837 88,808 Accumulated deficit (959,478) (1,198,481) Accumulated other comprehensive loss (124,779) (112,785) Stockholders' deficit (994,047) (1,222,085)	Stockholders' deficit:			
Additional paid-in capital 89,837 88,808 Accumulated deficit (959,478) (1,198,481) Accumulated other comprehensive loss (124,779) (112,785) Stockholders' deficit (994,047) (1,222,085)	Common stock—\$.01 par value; 270,000,000 shares authorized; 37,278,238			
Additional paid-in capital 89,837 88,808 Accumulated deficit (959,478) (1,198,481) Accumulated other comprehensive loss (124,779) (112,785) Stockholders' deficit (994,047) (1,222,085)		373	373	
Accumulated other comprehensive loss (124,779) (112,785) Stockholders' deficit (994,047) (1,222,085)		89,837	88,808	
Stockholders' deficit (994,047) (1,222,085)	Accumulated deficit	(959,478)	(1,198,481)	
	Accumulated other comprehensive loss	(124,779)	(112,785)	
	Stockholders' deficit	(994,047)	(1,222,085)	
	Total liabilities, temporary equity and stockholders' deficit			

The notes accompanying our consolidated financial statements in our Form 10-K are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	Year Ended November 26, 2006	Year Ended November 27, 2005 (Dollars in thousands)	Year Ended November 28, 2004	
Net sales	\$ 4,106,572	\$ 4,150,931	\$ 4,093,615	
Licensing revenue	86,375	73,879	57,117	
Net revenues	4,192,947	4,224,810	4,150,732	
Cost of goods sold	2,216,562	2,236,962	2,288,406	
Gross profit	1,976,385	1,987,848	1,862,326	
Selling, general and administrative expenses	1,348,577	1,381,955	1,367,604	
Restructuring charges, net of reversals	14,149	16,633	133,623	
Operating income	613,659	589,260	361,099	
Interest expense	250,637	263,650	260,124	
Loss on early extinguishment of debt	40,278	66,066	-	
Other (income) expense, net	(22,418)	(23,057)	5,450	
Income before income taxes	345,162	282,601	95,525	
Income tax expense	106,159	126,654	65,135	
Net income	\$ 239,003	\$ 155,947	\$ 30,390	

The notes accompanying our consolidated financial statements in our Form 10-K are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended November 26, 2006				Year Ended November 28, 2004	
			(Dollars	s in thousands)		
Cash Flows from Operating Activities:	<u>^</u>	220.002	<i>^</i>	155015	¢	20.200
Net income	\$	239,003	\$	155,947	\$	30,390
Adjustments to reconcile net income to net cash provided by (used for)						
operating activities:		62 240		50 422		62 606
Depreciation and amortization		62,249		59,423		62,606 25,204
Asset write-offs associated with reorganization initiatives Gain on disposal of assets		(6,218)		1,610		35,204
Unrealized foreign exchange gains		,		(5,750)		(3,576) (18,395)
Employee benefit plans' curtailment gains		(16,826) (29,041)		(16,504)		,
Write-off of unamortized costs associated with early extinguishment of debt		(29,041) 17,264		12,473		(31,275)
Amortization of deferred debt issuance costs		8,254		12,473		12,676
Stock-based compensation		8,234 2,985		12,304		12,070
(Benefit) provision for doubtful accounts		(1,021)		4,858		7,892
Provision for deferred taxes		(1,021) 39,452		4,838		28,746
		39,432		1,627		28,740
Change in operating assets and liabilities: Decrease (increase) in trade receivables		46,572		(22,110)		(100,547)
(Increase) decrease in inventories		(6,095)		3,130		(100,547)
(Increase) decrease in inventiones		(3,254)		8,191		38,941
Decrease (increase) in other non-current assets		(3,234)		(24,901)		289
Increase (decrease) in accounts payable and accrued liabilities		18,536		(38,444)		105,110
Decrease in income tax liabilities		(14,918)		(78,066)		(42,180)
		(14,918)		(25,648)		(42,180) (45,566)
Decrease in restructuring liabilities (Decrease) increase in accrued salaries, wages and employee benefits		,		(13,005)		(43,300) 113,166
Decrease in long-term employee related benefits		(41,433) (55,655)		(79,329)		(99,458)
Increase (decrease) in other long-term liabilities		(33,033) 3,847		(79,329) (827)		(99,438)
Other, net		(696)		844		3,154
Net cash provided by (used for) operating activities		261,880		(43,777)		199,896
Cash Flows from Investing Activities:		201,000		(43,777)		177,870
Purchases of property, plant and equipment		(77,080)		(41,868)		(16,299)
Proceeds from sale of property, plant and equipment		9,139		11,528		11,351
Acquisition of retail stores		(1,656)		(2,645)		-
Acquisition of Turkey minority interest		-		(3,835)		_
Cash inflow (outflow) from net investment hedges		_		2,163		(7,982)
Net cash used for investing activities		(69,597)		(34,657)		(12,930)
Cash Flows from Financing Activities:		(0),0)1)		(01,007)		(12,750)
Proceeds from issuance of long-term debt		475,690		1,031,255		_
Repayments of long-term debt		(620,146)		(979,253)		(13,532)
Net decrease in short-term borrowings		(63)		(2,975)		(4,018)
Debt issuance costs		(12,176)		(24,632)		(10,844)
Decrease (increase) in restricted cash		1,467		(1,323)		(1,885)
Other, net		-		-		(1,841)
Net cash (used for) provided by financing activities		(155,228)		23,072		(32,120)
Effect of exchange rate changes on cash		2,862		(4,650)		1,305
Net increase (decrease) in cash and cash equivalents		39,917		(60,012)		156,151
Beginning cash and cash equivalents		239,584		299,596		143,445
Ending cash and cash equivalents	\$	279,501	\$	239,584	\$	299,596
Supplemental disclosure of cash flow information:						
Cash paid during the period for:						
Interest	\$	229,789	\$	238,683	\$	233,512
Income taxes		83,492		197,315		82,985
Restructuring initiatives		16,998		43,112		143,593

The notes accompanying our consolidated financial statements in our Form 10-K are an integral part of these consolidated financial statements.