

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

Form 10-Q

- (Mark One)
- ☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended May 27, 2018
- or
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 002-90139

LEVI STRAUSS & CO.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

94-0905160

(I.R.S. Employer
Identification No.)

1155 Battery Street, San Francisco, California 94111
(Address of Principal Executive Offices) (Zip Code)

(415) 501-6000
(Registrant's Telephone Number, Including Area Code)

None
(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 ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐
Emerging growth company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
The Company is privately held. Nearly all of its common equity is owned by descendants of the family of the Company's founder, Levi Strauss, and their relatives. There is no trading in the common equity and therefore an aggregate market value based on sales or bid and asked prices is not determinable.
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock \$.01 par value — 37,667,623 shares outstanding on July 5, 2018

LEVI STRAUSS & CO. AND SUBSIDIARIES
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FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

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PART I — FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

LEVI STRAUSS & CO. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	May 27, 2018	November 26, 2017
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 698,724	\$ 633,622
Trade receivables, net of allowance for doubtful accounts of \$10,717 and \$11,726	342,322	485,485
Inventories:		
Raw materials	4,817	3,858
Work-in-process	4,131	3,008
Finished goods	833,620	752,530
Total inventories	842,568	759,396
Other current assets	120,740	118,724
Total current assets	2,004,354	1,997,227
Property, plant and equipment, net of accumulated depreciation of \$990,122 and \$951,249	413,243	424,463
Goodwill	237,186	237,327
Other intangible assets, net	42,865	42,893
Deferred tax assets, net	397,891	537,923
Other non-current assets	124,537	118,005
Total assets	\$ 3,220,076	\$ 3,357,838
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 23,122	\$ 38,451
Accounts payable	328,787	289,505
Accrued salaries, wages and employee benefits	196,724	227,251
Restructuring liabilities	522	786
Accrued interest payable	6,378	6,327
Accrued income taxes	27,230	16,020
Other accrued liabilities	320,933	300,730
Total current liabilities	903,696	879,070
Long-term debt	1,034,036	1,038,860
Long-term capital leases	16,329	16,524
Postretirement medical benefits	84,465	89,248
Pension liability	225,773	314,525
Long-term employee related benefits	87,977	90,998
Long-term income tax liabilities	7,517	20,457
Other long-term liabilities	77,800	78,733
Total liabilities	2,437,593	2,528,415
Commitments and contingencies		
Temporary equity	190,268	127,035
Stockholders' Equity:		
Levi Strauss & Co. stockholders' equity		
Common stock — \$.01 par value; 270,000,000 shares authorized; 37,667,623 shares and 37,521,447 shares issued and outstanding	377	375
Accumulated other comprehensive loss	(408,619)	(404,381)
Retained earnings	992,396	1,100,916
Total Levi Strauss & Co. stockholders' equity	584,154	696,910
Noncontrolling interest	8,061	5,478

Total stockholders' equity	592,215	702,388
Total liabilities, temporary equity and stockholders' equity	\$ 3,220,076	\$ 3,357,838

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
	(Dollars in thousands) (Unaudited)			
Net revenues	\$ 1,245,742	\$ 1,067,855	\$ 2,589,427	\$ 2,169,846
Cost of goods sold	574,865	509,463	1,180,426	1,046,901
Gross profit	670,877	558,392	1,409,001	1,122,945
Selling, general and administrative expenses	594,353	495,741	1,158,378	951,954
Operating income	76,524	62,651	250,623	170,991
Interest expense	(14,465)	(17,895)	(29,962)	(37,829)
Loss on early extinguishment of debt	—	(22,793)	—	(22,793)
Other income (expense), net	13,653	(18,087)	4,076	(17,679)
Income before income taxes	75,712	3,876	224,737	92,690
Income tax (benefit) expense	(1,320)	(13,847)	166,334	14,846
Net income	77,032	17,723	58,403	77,844
Net income attributable to noncontrolling interest	(2,100)	(207)	(2,483)	(185)
Net income attributable to Levi Strauss & Co.	\$ 74,932	\$ 17,516	\$ 55,920	\$ 77,659

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
	(Dollars in thousands) (Unaudited)			
Net income	\$ 77,032	\$ 17,723	\$ 58,403	\$ 77,844
Other comprehensive income (loss), before related income taxes:				
Pension and postretirement benefits	3,157	3,769	6,517	7,460
Net investment hedge gains (losses)	28,975	(29,640)	6,127	(29,640)
Foreign currency translation (losses) gains	(34,353)	20,903	(14,572)	28,587
Unrealized (losses) gains on marketable securities	(116)	875	174	1,875
Total other comprehensive (loss) income, before related income taxes	(2,337)	(4,093)	(1,754)	8,282
Income taxes (expense) benefit related to items of other comprehensive income	(7,229)	8,984	(2,383)	6,173
Comprehensive income, net of income taxes	67,466	22,614	54,266	92,299
Comprehensive income attributable to noncontrolling interest	(1,939)	(226)	(2,583)	(12)
Comprehensive income attributable to Levi Strauss & Co.	\$ 65,527	\$ 22,388	\$ 51,683	\$ 92,287

The accompanying notes are an integral part of these consolidated financial statements.

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

	Six Months Ended	
	May 27, 2018	May 28, 2017
	(Dollars in thousands) (Unaudited)	
Cash Flows from Operating Activities:		
Net income	\$ 58,403	\$ 77,844
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,695	55,829
Unrealized foreign exchange (gains) losses	(10,678)	23,434
Realized loss (gain) on settlement of forward foreign exchange contracts not designated for hedge accounting	18,148	(4,078)
Employee benefit plans' amortization from accumulated other comprehensive loss and settlement loss	6,517	7,457
Loss on early extinguishment of debt	—	22,793
Stock-based compensation	10,822	5,662
Other, net	3,767	3,579
Provision for (benefit from) deferred income taxes	135,168	(3,523)
Change in operating assets and liabilities:		
Trade receivables	135,739	172,382
Inventories	(95,690)	(54,723)
Other current assets	(1,580)	4,755
Other non-current assets	(7,435)	(3,794)
Accounts payable and other accrued liabilities	38,284	(7,696)
Restructuring liabilities	(254)	(3,285)
Income tax liabilities	(980)	(12,165)
Accrued salaries, wages and employee benefits and long-term employee related benefits	(127,321)	(66,750)
Other long-term liabilities	(47)	(635)
Net cash provided by operating activities	227,558	217,086
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(61,153)	(52,889)
(Payments) proceeds on settlement of forward foreign exchange contracts not designated for hedge accounting	(18,148)	4,078
Net cash used for investing activities	(79,301)	(48,811)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	—	502,835
Repayments of long-term debt	—	(525,000)
Proceeds from short-term credit facilities	22,689	15,557
Repayments of short-term credit facilities	(20,673)	(13,221)
Other short-term borrowings, net	(14,537)	(10,747)
Payment of debt extinguishment costs	—	(21,899)
Payment of debt issuance costs	—	(10,101)
Repurchase of common stock, including shares surrendered for tax withholdings on equity award exercises	(22,027)	(11,462)
Dividend to stockholders	(45,000)	(35,000)
Other financing, net	(241)	(3,440)
Net cash used for financing activities	(79,789)	(112,478)
Effect of exchange rate changes on cash and cash equivalents	(3,366)	6,157
Net increase in cash and cash equivalents	65,102	61,954
Beginning cash and cash equivalents	633,622	375,563
Ending cash and cash equivalents	\$ 698,724	\$ 437,517
Noncash Investing Activity:		
Property, plant and equipment acquired and not yet paid at end of period	\$ 14,454	\$ 8,191
Property, plant and equipment additions due to build-to-suit lease transactions	1,822	6,419
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	\$ 25,824	\$ 28,795
Cash paid for income taxes during the period, net of refunds	35,066	26,134

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 1 : SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Levi Strauss & Co. (the "Company") is one of the world's largest brand-name apparel companies. The Company designs, markets and sells – directly or through third parties and licensees – products that include jeans, casual and dress pants, tops, shorts, skirts, jackets, footwear and related accessories for men, women and children around the world under the Levi's[®], Dockers[®], Signature by Levi Strauss & Co.[™] and Denizen[®] brands. The Company operates its business through three geographic regions: Americas, Europe and Asia.

Basis of Presentation and Principles of Consolidation

The unaudited consolidated financial statements of the Company and its wholly-owned and majority-owned foreign and domestic subsidiaries are prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") for interim financial information. In the opinion of management, all adjustments necessary for a fair statement of the financial position and the results of operations for the periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended November 26, 2017, included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 7, 2018.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. Management believes the disclosures are adequate to make the information presented herein not misleading. The results of operations for the three and six months ended May 27, 2018 may not be indicative of the results to be expected for any other interim period or the year ending November 25, 2018.

The Company's fiscal year ends on the last Sunday of November in each year, although the fiscal years of certain foreign subsidiaries end on November 30. Each quarter of both fiscal years 2018 and 2017 consists of 13 weeks. All references to years relate to fiscal years rather than calendar years.

Subsequent events have been evaluated through the issuance date of these financial statements.

Certain insignificant amounts on the Consolidated Balance Sheets and Consolidated Statements of Cash Flows have been conformed to the May 27, 2018 presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes to the consolidated financial statements. Estimates are based upon historical factors, current circumstances and the experience and judgment of the Company's management. Management evaluates its estimates and assumptions on an ongoing basis and may employ outside experts to assist in its evaluations. Changes in such estimates, based on more accurate future information, or different assumptions or conditions, may affect amounts reported in future periods.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

Recently Issued Accounting Standards

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements and footnote disclosures, from those disclosed in the Company's 2017 Annual Report on Form 10-K, except for the following, which have been grouped by their effective dates for the Company:

First Quarter of 2019

- In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. Under the new standard and its related amendments (collectively known as Accounting Standards Codification ("ASC 606")), an entity recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. Enhanced disclosures will be required regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Company has established an implementation team to assist with its assessment of the impact that the new standard will have on its processes and controls, consolidated financial statements and related disclosures. This includes a review of current accounting policies and practices to identify potential differences that would result from applying ASC 606.

The Company has identified its major revenue streams as sales of products to wholesale customers, including franchised stores, direct sales to consumers at the company-operated stores, including e-commerce, and company-operated shop-in-shops and performed an analysis of its contracts with customers to evaluate the impact ASC 606 will have on the timing and classification of revenue. The majority of the Company's revenue relates to product sales of which revenue is recognized when products are shipped or delivered to the customer or provided directly to consumers through retail locations. In addition, impacts associated with variable consideration received for items such as loyalty rewards, gift cards, discounts and retailer promotions are not expected to be material as the Company is currently accounting for this consideration consistent with the new standard.

The Company has identified certain changes in balance sheet classification under ASC 606. Allowances for estimated returns, discounts and retailer promotions and other similar incentives will be presented as other accrued liabilities rather than netted within accounts receivable and the estimated cost of inventory associated with allowances for estimated returns will be included as other current assets rather than inventories. The Company will be adopting the standard as of November 26, 2018, and is still evaluating the transition method and potential practical expedient elections.

First Quarter of 2020

- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for operating or financing lease arrangements exceeding a twelve month term, a right-of-use asset and a lease obligation will be recognized on the balance sheet of the lessee while the income statement will reflect lease expense for operating leases and amortization and interest expense for financing leases. The Company is in the process of gathering information to evaluate real estate, personal property, and other arrangements that may meet the definition of a lease. Given the significant number of leases, the Company anticipates the new guidance will have a material impact on the consolidated balance sheets.
- In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the December 22, 2017 Tax Cuts and Jobs Act (the "Tax Act") on items within accumulated other comprehensive income (loss). The guidance will be effective for the Company in the first quarter of fiscal 2020 with early adoption permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 2 : FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company's financial instruments that are carried at fair value:

	May 27, 2018			November 26, 2017		
	Fair Value Estimated Using			Fair Value Estimated Using		
	Fair Value	Level 1 Inputs (1)	Level 2 Inputs (2)	Fair Value	Level 1 Inputs (1)	Level 2 Inputs (2)
	(Dollars in thousands)					
Financial assets carried at fair value						
Rabbi trust assets	\$ 31,741	\$ 31,741	\$ —	\$ 31,139	\$ 31,139	\$ —
Forward foreign exchange contracts ⁽³⁾	9,620	—	9,620	6,296	—	6,296
Total	<u>\$ 41,361</u>	<u>\$ 31,741</u>	<u>\$ 9,620</u>	<u>\$ 37,435</u>	<u>\$ 31,139</u>	<u>\$ 6,296</u>
Financial liabilities carried at fair value						
Forward foreign exchange contracts ⁽³⁾	\$ 11,300	\$ —	\$ 11,300	\$ 23,799	\$ —	\$ 23,799

- (1) Fair values estimated using Level 1 inputs are inputs which consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Rabbi trust assets consist of a diversified portfolio of equity, fixed income and other securities.
- (2) Fair values estimated using Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, and include among other things, quoted prices for similar assets or liabilities in markets that are active or inactive as well as inputs other than quoted prices that are observable. For forward foreign exchange contracts, inputs include foreign currency exchange and interest rates and, where applicable, credit default swap prices.
- (3) The Company's over-the-counter forward foreign exchange contracts are subject to International Swaps and Derivatives Association, Inc. master agreements. These agreements permit the net settlement of these contracts on a per-institution basis. Effective as of the first quarter of 2018, the Company recorded and presented the fair values of derivative over-the-counter forward foreign exchange contracts on a gross basis in its consolidated balance sheets, including those subject to master netting arrangements. The comparative period was revised to reflect the change from a net basis to a gross basis.

The following table presents the carrying value, including related accrued interest, and estimated fair value of the Company's financial instruments that are carried at adjusted historical cost:

	May 27, 2018		November 26, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(Dollars in thousands)				
Financial liabilities carried at adjusted historical cost				
5.00% senior notes due 2025 ⁽¹⁾	\$ 486,437	\$ 488,860	\$ 485,419	\$ 507,185
3.375% senior notes due 2027 ⁽¹⁾	553,440	563,742	559,037	590,266
Short-term borrowings	23,405	23,405	38,727	38,727
Total	<u>\$ 1,063,282</u>	<u>\$ 1,076,007</u>	<u>\$ 1,083,183</u>	<u>\$ 1,136,178</u>

- (1) Fair values are estimated using Level 1 inputs and incorporate mid-market price quotes. Level 1 inputs are inputs which consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 3 : DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As of May 27, 2018 , the Company had forward foreign exchange contracts to buy \$516.9 million and to sell \$158.3 million against various foreign currencies. These contracts are at various exchange rates and expire at various dates through May 2019 .

Effective as of the first quarter of 2018, the Company recorded and presented the fair value of its derivative assets and liabilities on a gross basis in the consolidated balance sheets based on contractual maturity dates, including those subject to master netting arrangements. The comparative period was revised to reflect the change from a net basis to a gross basis.

The table below provides data about the carrying values of derivative instruments and non-derivative instruments:

	May 27, 2018			November 26, 2017		
	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value
(Dollars in thousands)						
Derivatives not designated as hedging instruments						
Forward foreign exchange contracts ⁽¹⁾	\$ 9,620	\$ —	\$ 9,620	\$ 6,296	\$ —	\$ 6,296
Forward foreign exchange contracts ⁽²⁾	—	(11,300)	(11,300)	—	(23,799)	(23,799)
Total	<u>\$ 9,620</u>	<u>\$ (11,300)</u>		<u>\$ 6,296</u>	<u>\$ (23,799)</u>	
Non-derivatives designated as hedging instruments						
Euro senior notes	<u>\$ —</u>	<u>\$ (556,653)</u>		<u>\$ —</u>	<u>\$ (562,780)</u>	

(1) Included in "Other current assets" or "Other non-current assets" on the Company's consolidated balance sheets.

(2) Included in "Other accrued liabilities" or "Other long-term liabilities" on the Company's consolidated balance sheets.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

The Company's over-the-counter forward foreign exchange contracts are subject to International Swaps and Derivatives Association, Inc. master agreements. These agreements permit the net settlement of these contracts on a per-institution basis; however, the Company records the fair value on a gross basis on its consolidated balance sheets based on maturity dates, including those subject to master netting arrangements. The table below presents the gross and net amounts of these contracts recognized on the Company's consolidated balance sheets by type of financial instrument:

	May 27, 2018			November 26, 2017		
	Gross Amounts of Assets / (Liabilities) Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amounts of Assets / (Liabilities)	Gross Amounts of Assets / (Liabilities) Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amounts of Assets / (Liabilities)
(Dollars in thousands)						
Over-the-counter forward foreign exchange contracts						
Financial assets	\$ 7,617	\$ (5,186)	\$ 2,431	\$ 3,218	\$ (3,146)	\$ 72
Financial liabilities	(7,026)	5,186	(1,840)	(20,876)	3,146	(17,730)
Total			<u>\$ 591</u>			<u>\$ (17,658)</u>
Embedded derivative contracts						
Financial assets	\$ 2,003	\$ —	\$ 2,003	\$ 3,078	\$ —	\$ 3,078
Financial liabilities	(4,274)	—	(4,274)	(2,923)	—	(2,923)
Total			<u>\$ (2,271)</u>			<u>\$ 155</u>

The table below provides data about the amount of gains and losses related to derivative instruments and non-derivative instruments designated as net investment hedges included in "Accumulated other comprehensive loss" ("AOCI") on the Company's consolidated balance sheets:

	Gain or (Loss) Recognized in AOCI (Effective Portion)	
	As of May 27, 2018	As of November 26, 2017
(Dollars in thousands)		
Forward foreign exchange contracts	\$ 4,637	\$ 4,637
Yen-denominated Eurobonds	(19,811)	(19,811)
Euro-denominated senior notes	(69,569)	(75,697)
Cumulative income taxes	33,629	35,253
Total	<u>\$ (51,114)</u>	<u>\$ (55,618)</u>

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

The table below provides data about the amount of gains and losses related to derivatives not designated as hedging instruments included in "Other income (expense), net" in the Company's consolidated statements of income:

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
	(Dollars in thousands)			
Forward foreign exchange contracts:				
Realized (loss) gain	\$ (7,845)	\$ (4,998)	\$ (18,148)	\$ 4,078
Unrealized gain (loss)	21,556	(10,132)	15,772	(29,452)
Total	<u>\$ 13,711</u>	<u>\$ (15,130)</u>	<u>\$ (2,376)</u>	<u>\$ (25,374)</u>

NOTE 4 : DEBT

The following table presents the Company's debt:

	May 27, 2018	November 26, 2017
	(Dollars in thousands)	
Long-term debt		
5.00% senior notes due 2025	\$ 484,632	\$ 483,683
3.375% senior notes due 2027	549,404	555,177
Total long-term debt	<u>\$ 1,034,036</u>	<u>\$ 1,038,860</u>
Short-term debt		
Short-term borrowings	\$ 23,122	\$ 38,451
Total debt	<u>\$ 1,057,158</u>	<u>\$ 1,077,311</u>

Senior Revolving Credit Facility

The Company's unused availability under its senior secured revolving credit facility was \$698.1 million at May 27, 2018, as the Company's total availability of \$744.3 million was reduced by \$46.2 million of letters of credit and other credit usage allocated under the credit facility.

Interest Rates on Borrowings

The Company's weighted-average interest rate on average borrowings outstanding during the three and six months ended May 27, 2018 was 5.19% and 5.00%, respectively, as compared to 5.66% and 6.17%, respectively, in the same periods of 2017.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 5 : EMPLOYEE BENEFIT PLANS

The following table summarizes the total net periodic benefit cost for the Company's defined pension plans and postretirement benefit plans:

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
(Dollars in thousands)				
Net periodic benefit cost:				
Pension Benefits	\$ 766	\$ 3,070	\$ 1,615	\$ 5,962
Postretirement Benefits	926	1,147	1,852	2,295
Net periodic benefit cost	<u>\$ 1,692</u>	<u>\$ 4,217</u>	<u>\$ 3,467</u>	<u>\$ 8,257</u>

The Company has increased the estimated contributions to its pension plans in 2018 from \$94.7 million to \$124 million .

NOTE 6 : COMMITMENTS AND CONTINGENCIES

Forward Foreign Exchange Contracts

The Company uses over-the-counter derivative instruments to manage its exposure to foreign currencies. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward foreign exchange contracts. However, the Company believes that its exposures are appropriately diversified across counterparties and that these counterparties are creditworthy financial institutions. See Note 3 for additional information.

Other Contingencies

Litigation. In the ordinary course of business, the Company has various pending cases involving contractual matters, facility and employee-related matters, distribution matters, product liability claims, trademark infringement and other matters. The Company does not believe any of these pending legal proceedings will have a material impact on its financial condition, results of operations or cash flows.

Customs Duty Audits. The Company imports both raw materials and finished garments into all of the operating regions and as such, is subject to numerous countries complex customs laws and regulations with respect to our import and export activity. The Company is currently undergoing audit assessments and the related legal appeal processes with various customs authorities. While the Company is vigorously defending its position and does not believe any of the claims for customs duty and related charges have merit, the ultimate resolution of these assessments and legal proceedings are subject to risk and uncertainty.

NOTE 7 : DIVIDEND

In the first quarter of 2018, the Company's Board of Directors declared a cash dividend of \$90 million , payable in two \$45 million installments. The Company paid the first installment in the first quarter of 2018 . The second installment of \$45 million is expected to be paid in the fourth quarter of 2018 based on the holders of record on October 5, 2018, and was recorded in "Other accrued liabilities" in the Company's consolidated balance sheets.

The Company does not have an established dividend policy. The Company will continue to review its ability to pay cash dividends at least annually, and dividends may be declared at the discretion of the Company's Board of Directors depending upon, among other factors, the Company's financial condition and compliance with the terms of the Company's debt agreements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 8 : ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of the components of "Accumulated other comprehensive loss," net of related income taxes:

	May 27, 2018	November 26, 2017
	(Dollars in thousands)	
Pension and postretirement benefits	\$ (227,464)	\$ (232,181)
Net investment hedge losses	(51,114)	(55,618)
Foreign currency translation losses	(124,578)	(111,092)
Unrealized gains on marketable securities	4,175	4,048
Accumulated other comprehensive loss	(398,981)	(394,843)
Accumulated other comprehensive income attributable to noncontrolling interest	9,638	9,538
Accumulated other comprehensive loss attributable to Levi Strauss & Co.	\$ (408,619)	\$ (404,381)

No material amounts were reclassified out of "Accumulated other comprehensive loss" into net income other than insignificant amounts that pertain to the Company's pension and postretirement benefit plans. These amounts are included in "Selling, general and administrative expenses" in the Company's consolidated statements of income.

NOTE 9 : OTHER INCOME (EXPENSE), NET

The following table summarizes significant components of "Other income (expense), net":

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
	(Dollars in thousands)			
Foreign exchange management gains (losses) ⁽¹⁾	\$ 13,711	\$ (15,130)	\$ (2,376)	\$ (25,374)
Foreign currency transaction (losses) gains ⁽²⁾	(2,698)	(3,623)	619	6,053
Interest income	1,401	694	3,830	1,311
Investment (expense) income	—	(11)	428	342
Other, net	1,239	(17)	1,575	(11)
Total other income (expense), net	\$ 13,653	\$ (18,087)	\$ 4,076	\$ (17,679)

(1) Gains and losses on forward foreign exchange contracts primarily resulted from currency fluctuations relative to negotiated contract rates. Gains in the three-month period ended May 27, 2018 were primarily due to favorable currency fluctuations relative to negotiated contract rates on positions to sell the Euro, Mexican Peso and British Pound. Losses in the three-month and six-month periods ended May 28, 2017 were primarily due to unfavorable currency fluctuations relative to negotiated contract rates on positions to sell the Mexican Peso and Euro.

(2) Foreign currency transaction gains and losses reflect the impact of foreign currency fluctuation on the Company's foreign currency denominated balances. Gains in the six-month period ended May 28, 2017 were primarily due to the strengthening of the Mexican Peso and Euro against the US dollar.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 10 : INCOME TAXES

On December 22, 2017, the Tax Act was enacted in the U.S. The Tax Act introduced many changes, including lowering the U.S. corporate tax rate from 35% to 21%, changes in incentives, provisions to prevent U.S. base erosion and significant changes in the taxation of international income, and provisions which allow for the repatriation of foreign earnings without U.S. tax. By operation of tax law, the Company will apply a blended U.S. statutory federal income tax rate of 22.4% for fiscal year 2018 based on the pro rata number of days in the fiscal year before and after the effective date of the Tax Act. The enactment of the Tax Act resulted in a provisional charge of \$137 million to tax expense in the first half of fiscal year 2018. This charge was comprised of a \$99 million re-measurement of the Company's deferred tax assets and liabilities based on the lower rates at which they are expected to reverse in the future as well as a \$38 million one-time U.S. transition tax on undistributed foreign earnings.

The provisions in the Tax Act are complex and broad. All components of the provisional charge of \$137 million are based on the Company's estimates as of May 27, 2018. Specifically, the transition tax and the re-measurement of deferred tax balances are provisional and have been calculated based on existing tax law and the best information available as of May 27, 2018. The final impact of U.S. tax reform may differ, possibly materially, due to factors such as changes in interpretations of the Tax Act, legislative action to address uncertainties that arise because of the Tax Act, changes to estimates the Company has utilized to calculate the provisional impacts, and additional guidance that may be issued by the U.S. government, among other items. As these various factors are finalized, any change will be recorded as an adjustment to the provision for income taxes in the period the amounts are determined during a measurement period granted by the Securities and Exchange Commission of up to one year after the enactment date of the Tax Act to finalize the accounting of the related income tax impacts, not to exceed 12 months from the date of enactment of the Tax Act.

In addition, the Company is still evaluating the Global Intangible Low Tax Income ("GILTI") provisions of the Tax Act and their impact, if any, on the consolidated financial statements beginning fiscal year 2019, including whether the Company adopts an accounting policy to treat such taxes as a current-period expense when incurred or whether such amounts should be factored into the Company's measurement of deferred taxes. As a result, the Company has not included an estimate of the tax expense related to this item as of May 27, 2018.

The effective income tax benefit rate of 1.7% for the three months ended May 27, 2018 was driven by a 17.5% discrete tax benefit from release of reserves for uncertain tax positions due to finalization of a foreign audit in the second quarter of 2018.

The effective income tax rate was 74.0% for the six months ended May 27, 2018, compared to 16.0% for the same period ended May 28, 2017. The increase in the effective tax rate in 2018 as compared to 2017 was driven by a 61% one-time tax charge related to the impact of the U.S. tax reform described above, offset by a 5.9% discrete tax benefit from release of reserves for uncertain tax positions due to finalization of a foreign audit in the second quarter of 2018.

NOTE 11 : RELATED PARTIES

Charles V. Bergh, President and Chief Executive Officer, Peter E. Haas Jr., a director of the Company, Kelly McGinnis, Senior Vice President of Corporate Affairs and Chief Communications Officer, and Elizabeth O'Neill, Senior Vice President and Chief Supply Chain Officer, are board members of the Levi Strauss Foundation, which is not a consolidated entity of the Company. Seth R. Jaffe, Executive Vice President and General Counsel, is Vice President of the Levi Strauss Foundation. During the three-month and six-month periods ended May 27, 2018, the Company donated \$0.4 million and \$6.9 million, respectively, to the Levi Strauss Foundation as compared to \$0.4 million and \$6.7 million for the same prior-year periods.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED MAY 27, 2018

NOTE 12 : BUSINESS SEGMENT INFORMATION

The Company manages its business according to three regional segments: the Americas, Europe and Asia. The Company considers its chief executive officer to be the Company's chief operating decision maker. The Company's chief operating decision maker manages business operations, evaluates performance and allocates resources based on the regional segments' net revenues and operating income.

Business segment information for the Company is as follows:

	Three Months Ended		Six Months Ended	
	May 27, 2018	May 28, 2017	May 27, 2018	May 28, 2017
(Dollars in thousands)				
Net revenues:				
Americas	\$ 669,791	\$ 602,063	\$ 1,326,988	\$ 1,179,970
Europe	366,836	280,386	819,558	590,703
Asia	209,115	185,406	442,881	399,173
Total net revenues	<u>\$ 1,245,742</u>	<u>\$ 1,067,855</u>	<u>\$ 2,589,427</u>	<u>\$ 2,169,846</u>
Operating income:				
Americas	\$ 97,212	\$ 101,879	\$ 208,457	\$ 192,221
Europe	53,173	34,703	168,459	99,242
Asia	16,410	9,468	57,119	45,409
Regional operating income	166,795	146,050	434,035	336,872
Corporate expenses	90,271	83,399	183,412	165,881
Total operating income	76,524	62,651	250,623	170,991
Interest expense	(14,465)	(17,895)	(29,962)	(37,829)
Loss on early extinguishment of debt	—	(22,793)	—	(22,793)
Other income (expense), net	13,653	(18,087)	4,076	(17,679)
Income before income taxes	<u>\$ 75,712</u>	<u>\$ 3,876</u>	<u>\$ 224,737</u>	<u>\$ 92,690</u>

Item 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Overview

We design, market and sell – directly or through third parties and licensees – products that include jeans, casual and dress pants, tops, shorts, skirts, jackets, footwear and related accessories for men, women and children around the world under our Levi's[®], Dockers[®], Signature by Levi Strauss & Co.[™] ("Signature") and Denizen[®] brands.

Our business is operated through three geographic regions: Americas, Europe and Asia. Our products are sold in approximately 50,000 retail locations in more than 110 countries. We support our brands through a global infrastructure, developing, sourcing and marketing our products around the world. We distribute our Levi's[®] and Dockers[®] products in the United States primarily through chain retailers and department stores; and outside of the United States primarily through department stores, specialty retailers and approximately 2,100 franchised or other brand-dedicated stores and shop-in-shops. We also distribute our Levi's[®] and Dockers[®] products through 776 company-operated retail stores located in 32 countries, including the United States, and through the e-commerce sites we operate. Our company-operated retail stores and e-commerce sites generated approximately 32% of our net revenues in both the first six months of 2018 and the same period in 2017, with our e-commerce sites representing approximately 15% of this company-operated revenue in both 2018 and 2017. In addition, we distribute our Levi's[®] and Dockers[®] products through e-commerce sites operated by certain of our key wholesale customers and other third parties. We distribute products under our Signature and Denizen[®] brands primarily through mass channel retailers in the Americas.

Our Europe and Asia businesses, collectively, contributed approximately 49% of our net revenues and 52% of our regional operating income in the first six months of 2018, as compared to 46% of our net revenues and 43% of our regional operating income in the same period in 2017. Sales of Levi's[®] brand products represented approximately 87% of our total net sales in both the first six-month periods of 2018 and 2017.

Trends Affecting Our Business

We believe the key business and marketplace factors that are impacting our business include the following:

- Factors that impact consumer discretionary spending, which remains volatile globally, continue to create a complex and challenging retail environment for us and our customers, characterized by unpredictable traffic patterns and a general promotional environment. In developed economies, mixed real wage growth and shifting in consumer spending also continue to pressure global discretionary spending. Consumers continue to focus on value pricing and convenience with the off-price retail channel remaining strong and increased expectation for real-time delivery.
- More competitors are seeking growth globally, thereby raising the competitiveness across regions. Some of these competitors are entering into markets where we already have a mature business such as the United States, Mexico, Western Europe and Japan, and may provide consumers discretionary purchase alternatives or lower-priced apparel offerings.
- Wholesaler/retailer dynamics and wholesale channels remain challenged by mixed growth prospects due to increased competition from e-commerce shopping, pricing transparency enabled by proliferation of online technologies, and vertically-integrated specialty stores. Retailers, including our top customers, may decide to consolidate, undergo restructurings or rationalize their stores which could result in reduction in the number of stores that carry our products.
- Many apparel companies that have traditionally relied on wholesale distribution channels have invested in expanding their own retail store and e-commerce distribution and consumer-facing technologies, which has increased competition in the retail market.
- Competition for, and price volatility of, resources throughout the supply chain have increased, causing us and other apparel manufacturers to continue to seek alternative sourcing channels and create new efficiencies in our global supply chain. Trends affecting the supply chain include the proliferation of lower-cost sourcing alternatives, resulting in reduced barriers to entry for new competitors, and the impact of fluctuating prices of labor and raw materials as well as the consolidation of suppliers. Trends such as these can bring additional pressure on us and other wholesalers and retailers to shorten lead-times, reduce costs and raise product prices.
- Foreign currencies continue to be volatile. Significant fluctuations of the U.S. Dollar against various foreign currencies, including the Euro, Mexican Peso and British Pound, will impact our financial results, affecting translation, and revenue, operating margins and net income.
- The current environment has introduced greater uncertainty with respect to potential tax and trade regulations. Most recently, the U.S. enacted new tax legislation, which is intended to stimulate economic growth and capital investments

in the U.S. by, amongst its other provisions, lowering tax rates for both corporations and individuals alike. In addition, the current domestic and international political environment, including potential changes to other U.S. policies related to global trade and tariffs, have also resulted in uncertainty surrounding the future state of the global economy. Such changes may require us to modify our current sourcing practices, which may impact our product costs, and, if not mitigated, could have a material adverse effect on our business and results of operations. For more information on the risk factors affecting our business, see Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q.

These factors contribute to a global market environment of intense competition, constant product innovation and continuing cost pressure, and combine with the continuing global economic conditions to create a challenging commercial and economic environment. We evaluate these factors as we develop and execute our strategies. For more information on the risk factors affecting our business, see our 2017 Annual Report on Form 10-K, Item 1A "Risk Factors".

Our Second Quarter 2018 Results

- *Net revenues.* Compared to the second quarter of 2017, consolidated net revenues increased 17% on a reported basis and increased 13% on a constant-currency basis driven by broad-based growth across all regions.
- *Gross margin.* Compared to the second quarter of 2017, consolidated gross margin percentage increased 1.6% primarily due to revenue growth in our company-operated retail network and favorable transactional currency impacts.
- *Operating income.* Compared to the second quarter of 2017, consolidated operating income increased by 22% and operating margin increased to 6.1%, primarily reflecting higher net revenues and improved gross margin, partially offset by higher selling, general and administrative expenses ("SG&A") associated with the expansion of our company-operated retail network and higher advertising and promotion expense.
- *Net income.* Compared to the second quarter of 2017, consolidated net income increased \$59.3 million, primarily due to an increase in net gains on foreign exchange contracts and the \$22.8 million loss on early extinguishment of debt in the second quarter of 2017.

Financial Information Presentation

Fiscal year. Our fiscal year ends on the last Sunday of November in each year, although the fiscal years of certain foreign subsidiaries end on November 30. Each quarter of fiscal years 2018 and 2017 consists of 13 weeks.

Segments. We manage our business according to three regional segments: the Americas, Europe and Asia.

Classification. Our classification of certain significant revenues and expenses reflects the following:

- Net revenues is primarily comprised of sales of products to wholesale customers, including franchised stores, and direct sales to consumers at our company-operated e-commerce sites and stores and at our company-operated shop-in-shops located within department stores. Net revenues include discounts, allowances for estimated returns and incentives.
- Cost of goods sold is primarily comprised of product costs, labor and related overhead, sourcing costs, inbound freight, internal transfers, and the cost of operating our remaining manufacturing facilities, including the related depreciation expense.
- Selling costs include, among other things, all occupancy costs and depreciation associated with our company-operated stores and commissions associated with our company-operated shop-in-shops, as well as costs associated with our e-commerce operations.
- We reflect substantially all distribution costs in selling, general and administrative expenses, including costs related to receiving and inspection at distribution centers, warehousing, shipping to our customers, handling, and certain other activities associated with our distribution network.

Gross margins may not be comparable to those of other companies in our industry since some companies may include, among other things, costs related to their distribution network and occupancy costs associated with company-operated stores in cost of goods sold.

Constant currency. Constant-currency comparisons are based on translating local currency amounts in the prior-year period at actual foreign exchange rates for the current year. We routinely evaluate our financial performance on a constant-currency basis in order to facilitate period-to-period comparisons without regard to the impact of changing foreign currency exchange rates.

Results of Operations for Three and Six Months Ended May 27, 2018 , as Compared to Same Periods in 2017

The following table summarizes, for the periods indicated, our consolidated statements of income, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended					Six Months Ended				
	May 27, 2018	May 28, 2017	% Increase (Decrease)	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues	May 27, 2018	May 28, 2017	% Increase (Decrease)	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues
(Dollars in millions)										
Net revenues	\$ 1,245.7	\$ 1,067.9	16.6 %	100.0 %	100.0 %	\$ 2,589.4	\$ 2,169.9	19.3 %	100.0 %	100.0 %
Cost of goods sold	574.8	509.5	12.8 %	46.1 %	47.7 %	1,180.4	1,047.0	12.7 %	45.6 %	48.2 %
Gross profit	670.9	558.4	20.1 %	53.9 %	52.3 %	1,409.0	1,122.9	25.5 %	54.4 %	51.8 %
Selling, general and administrative expenses	594.4	495.7	19.9 %	47.7 %	46.4 %	1,158.4	952.0	21.7 %	44.7 %	43.9 %
Operating income	76.5	62.7	22.0 %	6.1 %	5.9 %	250.6	170.9	46.6 %	9.7 %	7.9 %
Interest expense	(14.5)	(17.9)	(19.0)%	(1.2)%	(1.7)%	(30.0)	(37.8)	(20.6)%	(1.2)%	(1.7)%
Loss on early extinguishment of debt	—	(22.8)	(100.0)%	—	(2.1)%	—	(22.8)	(100.0)%	—	(1.1)%
Other income (expense), net	13.7	(18.1)	(175.7)%	1.1 %	(1.7)%	4.1	(17.7)	(123.2)%	0.2 %	(0.8)%
Income before income taxes	75.7	3.9	*	6.1 %	0.4 %	224.7	92.6	142.7 %	8.7 %	4.3 %
Income tax (benefit) expense	(1.3)	(13.8)	(90.6)%	(0.1)%	(1.3)%	166.3	14.8	*	6.4 %	0.7 %
Net income	77.0	17.7	*	6.2 %	1.7 %	58.4	77.8	(24.9)%	2.3 %	3.6 %
Net income attributable to noncontrolling interest	(2.1)	(0.2)	*	(0.2)%	—	(2.5)	(0.2)	*	(0.1)%	—
Net income attributable to Levi Strauss & Co.	<u>\$ 74.9</u>	<u>\$ 17.5</u>	*	6.0 %	1.6 %	<u>\$ 55.9</u>	<u>\$ 77.6</u>	(28.0)%	2.2 %	3.6 %

* Not meaningful

Net revenues

The following table presents net revenues by reporting segment for the periods indicated and the changes in net revenues by reporting segment on both reported and constant-currency bases from period to period.

	Three Months Ended				Six Months Ended			
	May 27, 2018	May 28, 2017	% Increase		May 27, 2018	May 28, 2017	% Increase	
			As Reported	Constant Currency			As Reported	Constant Currency
(Dollars in millions)								
Net revenues:								
Americas	\$ 669.7	\$ 602.1	11.2%	11.0%	\$ 1,326.9	\$ 1,180.1	12.4%	11.7%
Europe	366.9	280.4	30.8%	19.0%	819.6	590.7	38.8%	24.7%
Asia	209.1	185.4	12.8%	9.0%	442.9	399.1	11.0%	6.6%
Total net revenues	\$ 1,245.7	\$ 1,067.9	16.6%	12.9%	\$ 2,589.4	\$ 2,169.9	19.3%	14.6%

Total net revenues increased on both a reported and constant-currency basis for the three-month and six-month periods ended May 27, 2018, as compared to the same prior-year periods.

Americas. On both a reported basis and constant-currency basis, net revenues in our Americas region increased for the three-month and six-month periods ended May 27, 2018. Currency translation did not have a significant impact on net revenues for the three-month period and had a favorable impact of approximately \$7 million for the six-month period ended May 27, 2018.

Excluding the effects of currency, the increase in net revenues for the three-month and six-month periods ended May 27, 2018 was due to the strong performance of our company-operated retail network, primarily outlet, and higher wholesales revenues in our Signature, Levi's® and Denizen® brands. The increase reflects strong growth in Levi's® womens products as well as continued improvement in the retail environment, especially the first quarter of 2018 holiday season in the U.S.

Europe. Net revenues in Europe increased on both a reported basis and constant-currency basis for the three-month and six-month periods ended May 27, 2018, with currency affecting net revenues favorably by approximately \$28 million and \$67 million, respectively.

Constant-currency net revenues increased for the three-month and six-month periods ended May 27, 2018 as a result of strong performance in all channels largely driven by our expanded tops and womens products.

Asia. Net revenues in Asia increased on both a reported and constant-currency basis for the three-month and six-month periods ended May 27, 2018, with currency affecting net revenues favorably by approximately \$6 million and \$16 million, respectively.

Excluding the effects of currency, the increase in net revenues for the three-month and six-month periods ended May 27, 2018 was primarily due to the expansion of our company-operated retail network and higher wholesale revenues, partially offset by lower franchised store revenues.

Gross profit

The following table shows consolidated gross profit and gross margin for the periods indicated and the changes in these items from period to period:

	Three Months Ended			Six Months Ended		
	May 27, 2018	May 28, 2017	% Increase	May 27, 2018	May 28, 2017	% Increase
(Dollars in millions)						
Net revenues	\$ 1,245.7	\$ 1,067.9	16.6%	\$ 2,589.4	\$ 2,169.9	19.3%
Cost of goods sold	574.8	509.5	12.8%	1,180.4	1,047.0	12.7%
Gross profit	<u>\$ 670.9</u>	<u>\$ 558.4</u>	20.1%	<u>\$ 1,409.0</u>	<u>\$ 1,122.9</u>	25.5%
Gross margin	53.9%	52.3%		54.4%	51.8%	

Currency translation favorably impacted gross profit by approximately \$22 million and \$54 million for the three-month and six-month periods ended May 27, 2018, respectively. Gross margin increased primarily due to revenue growth in our company-operated retail network and favorable transactional currency impacts.

Selling, general and administrative expenses

The following table shows SG&A for the periods indicated, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended					Six Months Ended				
	May 27, 2018	May 28, 2017	% Increase	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues	May 27, 2018	May 28, 2017	% Increase	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues
(Dollars in millions)										
Selling	\$ 254.2	\$ 208.3	22.0%	20.4%	19.5%	\$ 508.2	\$ 418.4	21.5%	19.6%	19.3%
Advertising and promotion	96.9	76.4	26.8%	7.8%	7.2%	173.1	129.1	34.1%	6.7%	5.9%
Administration	114.1	97.4	17.1%	9.2%	9.1%	222.7	182.0	22.4%	8.6%	8.4%
Other	129.2	113.6	13.7%	10.4%	10.6%	254.4	222.5	14.3%	9.8%	10.3%
Total SG&A	<u>\$ 594.4</u>	<u>\$ 495.7</u>	19.9%	47.7%	46.4%	<u>\$ 1,158.4</u>	<u>\$ 952.0</u>	21.7%	44.7%	43.9%

Currency impacted SG&A unfavorably by approximately \$16 million and \$34 million for the three-month and six-month periods ended May 27, 2018, respectively.

Selling. Currency impacted selling expenses unfavorably by approximately \$9 million and \$20 million for the three-month and six-month periods ended May 27, 2018, respectively. Higher selling expenses primarily reflected costs associated with the increase in performance and expansion of our company-operated retail network. We had 53 more company-operated stores at the end of the second quarter of 2018 than we did at the end of the second quarter of 2017.

Advertising and promotion. Currency impacted advertising and promotion expenses unfavorably by approximately \$3 million and \$5 million for the three-month and six-month periods ended May 27, 2018, respectively. Advertising and promotion expenses increased due to incremental investments in advertising.

Administration. Administration expenses include functional administrative and organization costs. Currency impacted administration expenses unfavorably by approximately \$2 million and \$5 million for the three-month and six-month periods ended May 27, 2018, respectively. As compared to the same prior-year period, administration expenses in 2018 reflect higher stock-based and incentive compensation reflecting outperformance against our internally set objectives.

Other. Other SG&A includes distribution, information resources and marketing organization costs. Currency impacted SG&A other costs unfavorably by approximately \$2 million and \$5 million for the three-month and six-month periods ended May 27, 2018, respectively. The increase in SG&A other costs is primarily due to higher distribution costs as a result of increased volume, and higher information technology expenses.

Operating income

The following table shows operating income by reporting segment and corporate expenses for the periods indicated, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended					Six Months Ended				
	May 27, 2018	May 28, 2017	% Increase / Decrease	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues	May 27, 2018	May 28, 2017	% Increase	May 27, 2018 % of Net Revenues	May 28, 2017 % of Net Revenues
(Dollars in millions)										
Operating income:										
Americas	\$ 97.2	\$ 101.9	(4.6)%	14.5%	16.9%	\$ 208.4	\$ 192.2	8.4%	15.7%	16.3%
Europe	53.2	34.7	53.3 %	14.5%	12.4%	168.5	99.2	69.9%	20.6%	16.8%
Asia	16.4	9.5	72.6 %	7.8%	5.1%	57.1	45.4	25.8%	12.9%	11.4%
Total regional operating income	166.8	146.1	14.2 %	13.4% *	13.7% *	434.0	336.8	28.9%	16.8% *	15.5% *
Corporate expenses	90.3	83.4	8.3 %	7.2% *	7.8% *	183.4	165.9	10.5%	7.1% *	7.6% *
Total operating income	\$ 76.5	\$ 62.7	22.0 %	6.1% *	5.9% *	\$ 250.6	\$ 170.9	46.6%	9.7% *	7.9% *
Operating margin	6.1%	5.9%				9.7%	7.9%			

* Percentage of consolidated net revenues

Currency translation favorably affected total operating income by approximately \$6 million and \$20 million for the three-month and six-month periods ended May 27, 2018, respectively.

Regional operating income.

- *Americas* . Currency did not have a significant impact on operating income in the region for the three-month period ended May 27, 2018 and had a favorable impact of approximately \$2 million for the six-month period ended May 27, 2018 . For the three-month period ended May 27, 2018 , the decrease in operating income is primarily due to continued investments in our company-operated retail network and incremental advertising and promotion costs, partially offset by higher net revenues. For the six-month period ended May 27, 2018 , the increase in operating income is due to higher net revenues and gross margin, partially offset by higher SG&A expense.
- *Europe* . Currency translation favorably affected operating income in the region by approximately \$5 million and \$16 million for the three-month and six-month periods ended May 27, 2018 , respectively. The increase in operating income is due to higher net revenues, partially offset by increased investment in retail expansion and advertising.
- *Asia* . Currency did not have a significant impact on operating income in the region for the three-month period ended May 27, 2018 and had a favorable impact of approximately \$3 million for the six-month period ended May 27, 2018 . The increase in operating income is due to higher net revenues and gross margin, partially offset by higher SG&A expense to support retail expansion.

Corporate . Corporate expenses represent costs that management does not attribute to any of our regional operating segments. Included in corporate expenses are other corporate staff costs and costs associated with our global inventory sourcing organization. Currency translation did not have a significant impact on corporate expenses for the three-month and six-month periods ended May 27, 2018 . The increase in corporate expense for the three-month and six-month periods ended May 27, 2018 is primarily due to an increase in administration expenses relating to incentive compensation, partially offset by purchasing variances related to our global sourcing organization's procurement of inventory on behalf of our regions.

Interest expense

Interest expense was \$14.5 million and \$30.0 million for the three-month and six-month periods ended May 27, 2018 , respectively, as compared to \$17.9 million and \$37.8 million for the same prior-year periods. The decrease in interest expense was primarily related to lower average borrowing rates in 2018 resulting from our 2017 debt refinancing activities, and lower interest expense on our deferred compensation plans.

Our weighted-average interest rate on average borrowings outstanding during the three and six months ended May 27, 2018 was 5.19% and 5.00% , respectively, as compared to 5.66% and 6.17% in the same periods in 2017 .

Loss on early extinguishment of debt

During the three-month and six-month periods ended May 28, 2017, we recorded a \$22.8 million loss on early extinguishment of debt as a result of our debt refinancing activities during the period. The loss included \$21.9 million of tender and call premiums on the retirement of the debt.

Other income (expense), net

Other income (expense), net, primarily consists of foreign exchange management activities and transactions. For the three-month and six-month periods ended May 27, 2018, we recorded income of \$13.7 million and \$4.1 million, respectively, as compared to expense of \$18.1 million and \$17.7 million for the same prior-year periods. The income in the three-month period in 2018 primarily reflected net gains on our foreign exchange derivatives. The income in the six-month period in 2018 primarily reflected investment interest generated from money market funds as the net losses on our foreign exchange derivatives were offset by net gains on our foreign currency denominated balances. The expense in the three-month period in 2017 primarily reflected net losses on our foreign exchange derivatives. The expense in the six-month period in 2017 primarily reflected net losses on our foreign exchange derivatives, partially offset by net gains on our foreign currency denominated balances.

Income tax expense

On December 22, 2017, the 2017 Tax Cuts and Jobs Act was enacted in the U.S. (the "Tax Act"). The Tax Act introduced many changes, including lowering the U.S. corporate tax rate from 35% to 21%, changes in incentives, provisions to prevent U.S. base erosion and significant changes in the taxation of international income, and provisions which allow for the repatriation of foreign earnings without U.S. tax. By operation of tax law, we will apply a blended U.S. statutory federal income tax rate of 22.4% for fiscal year 2018 based on the pro rata number of days in the fiscal year before and after the effective date of the Tax Act. The enactment of the Tax Act resulted in a provisional charge of \$137 million to tax expense in the first-half of fiscal year 2018. This charge was comprised of a \$99 million re-measurement of our deferred tax assets and liabilities based on the lower rates at which they are expected to reverse in the future as well as a \$38 million one-time U.S. transition tax on undistributed foreign earnings.

The provisions in the Tax Act are complex and broad. All components of the provisional charge of \$137 million are based on our estimates as of May 27, 2018. Specifically, the transition tax and the re-measurement of deferred tax balances are provisional and have been calculated based on existing tax law and the best information available as of May 27, 2018. The final impact of U.S. tax reform may differ, possibly materially, due to factors such as changes in interpretations of the Tax Act, legislative action to address uncertainties that arise because of the Tax Act, changes to estimates we have utilized to calculate the provisional impacts, and additional guidance that may be issued by the U.S. government, among other items. As these various factors are finalized, any change will be recorded as an adjustment to the provision for income taxes in the period the amounts are determined during a measurement period granted by the Securities and Exchange Commission of up to one year after the enactment date of the Tax Act to finalize the accounting of the related income tax impacts, not to exceed 12 months from the date of enactment of the Tax Act.

In addition, we are still evaluating the Global Intangible Low Tax Income ("GILTI") provisions of the Tax Act and their impact, if any, on the consolidated financial statements beginning fiscal year 2019, including whether we adopt an accounting policy to treat such taxes as a current-period expense when incurred or whether such amounts should be factored into our measurement of deferred taxes. As a result, we have not included an estimate of the tax expense related to this item as of May 27, 2018.

The effective income tax benefit rate of 1.7% for the three months ended May 27, 2018 was driven by a 17.5% discrete tax benefit from release of reserves for uncertain tax positions due to finalization of a foreign audit in the second quarter of 2018.

The effective income tax rate was 74.0% for the six months ended May 27, 2018, compared to 16.0% for the same period ended May 28, 2017. The increase in the effective tax rate in 2018 as compared to 2017 was driven by a 61% one-time tax charge related to the impact of the U.S. tax reform described above, offset by a 5.9% discrete tax benefit from release of reserves for uncertain tax positions due to finalization of a foreign audit in the second quarter of 2018.

Liquidity and Capital Resources

Liquidity outlook

We believe we will have adequate liquidity over the next twelve months to operate our business and to meet our cash requirements.

Cash sources

We are a privately-held corporation. We have historically relied primarily on cash flows from operations, borrowings under credit facilities, issuances of notes and other forms of debt financing. We regularly explore financing and debt reduction alternatives, including new credit agreements, unsecured and secured note issuances, equity financing, equipment and real estate financing, securitizations and asset sales.

We have entered into a senior secured revolving credit facility. The facility is an asset-based facility, in which the borrowing availability is primarily based on the value of our U.S. Levi's® trademarks and the levels of accounts receivable and inventory in the United States and Canada. The maximum availability under the facility is \$850 million, of which \$800 million is available to us for revolving loans in U.S. Dollars and \$50 million is available to us for revolving loans either in U.S. Dollars or Canadian Dollars.

As of May 27, 2018, we did not have any borrowings under the credit facility. Unused availability under the credit facility was \$698.1 million, as our total availability of \$744.3 million, based on collateral levels as defined by the agreement, was reduced by \$46.2 million of other credit-related instruments.

As of May 27, 2018, we had cash and cash equivalents totaling approximately \$698.7 million, resulting in a total liquidity position (unused availability and cash and cash equivalents) of approximately \$1.4 billion.

Cash uses

Our principal cash requirements include working capital, capital expenditures, payments of principal and interest on our debt, payments of taxes, contributions to our pension plans and payments for postretirement health benefit plans, settlement of shares issued under our 2016 Equity Incentive Plan, as amended to date ("EIP"), and, if market conditions warrant, occasional investments in, or acquisitions of, business ventures in our line of business. In addition, we regularly evaluate our ability to pay dividends or repurchase stock, all consistent with the terms of our debt agreements.

There have been no material changes to our estimated cash requirements for 2018 from those disclosed in our 2017 Annual Report on Form 10-K, except that estimated pension plan payments for fiscal year 2018 have increased from \$95 million to \$124 million.

Cash flows

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows:

	Six Months Ended	
	May 27, 2018	May 28, 2017
	(Dollars in millions)	
Cash provided by operating activities	\$ 227.6	\$ 217.1
Cash used for investing activities	(79.3)	(48.8)
Cash used for financing activities	(79.8)	(112.5)
Cash and cash equivalents	698.7	437.5

Cash flows from operating activities

Cash provided by operating activities was \$227.6 million for the six-month period in 2018, as compared to \$217.1 million for the same period in 2017. The increase primarily reflects an increase in cash received from customers, partially offset by higher payments for inventory and SG&A to support our growth, as well as additional contributions to our pension plans.

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Cash flows from investing activities

Cash used for investing activities was \$79.3 million for the six-month period in 2018 , as compared to \$48.8 million for the same period in 2017 . The increase in cash used for investing activities primarily reflects increased payments on the settlement of our forward foreign exchange contracts and increased payments for capital expenditures.

Cash flows from financing activities

Cash used for financing activities was \$79.8 million for the six-month period in 2018 , as compared to \$112.5 million for the same period in 2017 . Cash used in 2018 primarily reflects the payment of a \$45.0 million cash dividend and payments made for equity award exercises. Cash used in 2017 primarily reflects the payment of a \$35.0 million cash dividend as well as our refinancing activities and debt reduction during the period, including debt extinguishment costs and debt issuance costs.

Indebtedness

The borrower of substantially all of our debt is Levi Strauss & Co., the parent and U.S. operating company. Of our total debt of \$1.06 billion as of May 27, 2018 , we had fixed-rate debt of \$1.04 billion (98.6% of total debt), net of capitalized debt issuance costs, and variable-rate debt of \$15 million (1.4% of total debt). As of May 27, 2018 , our required aggregate debt principal payments on our unsecured long-term debt were \$1.05 billion in years after 2022. Short-term borrowings of \$23.1 million at various foreign subsidiaries were expected to be either paid over the next twelve months or refinanced at the end of their applicable terms.

Our long-term debt agreements contain customary covenants restricting our activities as well as those of our subsidiaries. We were in compliance with all of these covenants as of May 27, 2018 .

Off-Balance Sheet Arrangements, Guarantees and Other Contingent Obligations

There have been no significant changes to our off-balance sheet arrangements or contractual commitments from those disclosed in our 2017 Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. There have been no significant changes to our critical accounting policies from those disclosed in our 2017 Annual Report on Form 10-K, except for as follow:

On December 22, 2017, the Tax Act was enacted into law and the new legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities. In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We have provided the provisional amounts of the income tax effects of the Tax Act for the transition tax and deferred tax re-measurements. Since the Tax Act was passed in the first quarter of 2018, and ongoing guidance and accounting interpretation are expected over the next 12 months, we expect to complete our analysis within the measurement period in accordance with SAB 118.

Recently Issued Accounting Standards

See Note 1 to our unaudited consolidated financial statements included in this report for recently issued accounting standards, including the expected dates of adoption and estimated effects on our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, including (without limitation) statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain forward-looking statements. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

These forward-looking statements include statements relating to our anticipated financial performance and business prospects, including debt reduction, currency values and financial impact, foreign exchange counterparty exposures, the impact of pending legal proceedings, adequate liquidity levels, dividends and/or statements preceded by, followed by or that include the words "believe", "will", "so we can", "when", "anticipate", "intend", "estimate", "expect", "project", "could", "plans", "seeks" and similar expressions. These forward-looking statements speak only as of the date stated, and we do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these expectations may not prove to be correct or we may not achieve the financial results, savings or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control. These risks and uncertainties, including those disclosed under "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended November 26, 2017, and our other filings with the Securities and Exchange Commission, could cause actual results to differ materially from those suggested by the forward-looking statements and include, without limitation:

- changes in general economic and financial conditions, and the resulting impact on the level of discretionary consumer spending for apparel and pricing trend fluctuations, and our ability to plan for and respond to the impact of those changes;
- our ability to effectively manage any global productivity and outsourcing actions as planned, which are intended to increase productivity and efficiency in our global operations, take advantage of lower-cost service-delivery models in our distribution network and streamline our procurement practices to maximize efficiency in our global operations, without business disruption or mitigation to such disruptions;
- consequences of impacts to the businesses of our wholesale customers, including significant store closures or a significant decline in a wholesale customer's financial condition leading to restructuring actions, bankruptcies, liquidations or other unfavorable events for our wholesale customers, caused by factors such as inability to secure financing, decreased discretionary consumer spending, inconsistent traffic patterns and an increase in promotional activity as a result of decreased traffic, pricing fluctuations, general economic and financial conditions and changing consumer preferences;
- our and our wholesale customers' decisions to modify strategies and adjust product mix and pricing, and our ability to manage any resulting product transition costs, including liquidating inventory or increasing promotional activity;
- our ability to purchase products through our independent contract manufacturers that are made with quality raw materials and our ability to mitigate the variability of costs related to manufacturing, sourcing, and raw materials supply and to manage consumer response to such mitigating actions;
- our ability to gauge and adapt to changing U.S. and international retail environments and fashion trends and changing consumer preferences in product, price-points, as well as in-store and digital shopping experiences;
- our ability to respond to price, innovation and other competitive pressures in the global apparel industry, on and from our key customers and in our key markets;
- our ability to increase the number of dedicated stores for our products, including through opening and profitably operating company-operated stores;
- consequences of foreign currency exchange and interest rate fluctuations;
- our ability to successfully prevent or mitigate the impacts of data security breaches;
- our ability to attract and retain key executives and other key employees;
- our ability to protect our trademarks and other intellectual property;
- the impact of the variables that affect the net periodic benefit cost and future funding requirements of our postretirement benefits and pension plans;
- our dependence on key distribution channels, customers and suppliers;
- our ability to utilize our tax credits and net operating loss carryforwards;

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- ongoing or future litigation matters and disputes and regulatory developments;
- the impact of the recently passed Tax Act in the U.S., including related changes to our deferred tax assets and liabilities, tax obligations and effective tax rate in future periods, as well as the provisional charge recorded in the first quarter of 2018 based on a reasonable estimate, and are subject to change;
- changes in or application of trade and tax laws, potential increases in import tariffs or taxes and the potential renegotiation of NAFTA; and
- political, social and economic instability, or natural disasters, in countries where we or our customers do business.

Our actual results might differ materially from historical performance or current expectations. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

There have been no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed in our 2017 Annual Report on Form 10-K.

Item 4. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

We have evaluated, under the supervision and with the participation of management, including our chief executive officer and our chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures as of May 27, 2018 . Based on that evaluation, our chief executive officer and our chief financial officer concluded that as of May 27, 2018 , our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There were no changes to our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. **LEGAL PROCEEDINGS**

In the ordinary course of business, we have various pending cases involving contractual matters, facility and employee-related matters, distribution matters, product liability claims, trademark infringement and other matters. We do not believe any of these pending legal proceedings will have a material impact on our financial condition, results of operations or cash flows.

Item 1A. **RISK FACTORS**

There have been no material changes in our risk factors from those disclosed in our 2017 Annual Report on Form 10-K, except for the following:

Potential tariffs or a global trade war could increase the cost of our products, which could adversely impact the competitiveness of our products and our financial results.

Recently, the Trump Administration announced tariffs on certain steel and aluminum products imported into the United States, which has resulted in reciprocal tariffs from the European Union on goods, including denim products, imported from the United States. These reciprocal tariffs are not expected to have a material impact on our business because we manufacture most of our products outside of the United States. The Trump Administration has also triggered \$34 million in tariffs on goods imported from China in connection with China's intellectual property practices and has announced a potential additional \$200 billion in tariffs on goods imported from China. The Trump Administration has also indicated that the United States may withdraw from or renegotiate the North American Free Trade Agreement (NAFTA) with Mexico and Canada. Approximately 15% to 20% of the products that we sell in the United States are manufactured in China and Mexico. If the Trump Administration follows through on its proposed China tariffs, withdraws from or renegotiates NAFTA, or if additional tariffs or trade restrictions are implemented by the United States or other countries in connection with a global trade war, the cost of our products manufactured in China, Mexico, or other countries and imported into the United States or other countries could increase, which in turn could adversely affect the demand for these products and have a material adverse effect on our business and results of operations.

Item 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We repurchased a total of 47,050 shares of our common stock during the quarter ended May 27, 2018 in connection with the exercise of call and put rights under our 2016 Equity Incentive Plan, as amended and restated to date; of the total shares repurchased during the quarter, 38,085 shares were purchased in March and 8,965 shares were purchased in May.

We are a privately-held corporation; there is no public trading of our common stock. As of July 5, 2018, we had 37,667,623 shares outstanding.

Item 3. **DEFAULTS UPON SENIOR SECURITIES**

None.

Item 4. **MINE SAFETY DISCLOSURES**

Not applicable.

Item 5. **OTHER INFORMATION**

None.

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Item 6. *EXHIBITS*

- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.](#)
- 101.INS XBRL Instance Document. Filed herewith.
- 101.SCH XBRL Taxonomy Extension Schema Document. Filed herewith.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document. Filed herewith.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document. Filed herewith.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document. Filed herewith.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. Filed herewith.
- * Management contract, compensatory plan or arrangement.

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SIGNATURE

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.

Date: July 10, 2018

LEVI STRAUSS & Co.
(Registrant)

By: /s/ GAVIN BROCKETT
Gavin Brockett
Senior Vice President and Global Controller
(Principal Accounting Officer and Duly Authorized Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles V. Bergh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Levi Strauss & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHARLES V. BERGH

Charles V. Bergh

President and Chief Executive Officer

Date: July 10, 2018

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Harmit Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Levi Strauss & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HARMIT SINGH

Harmit Singh

Executive Vice President and Chief Financial Officer

Date: July 10, 2018

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER 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**

This certification is not to be deemed filed pursuant to the Securities Exchange Act of 1934, as amended, and does not constitute a part of the Quarterly Report of Levi Strauss & Co., a Delaware corporation (the "Company"), on Form 10-Q for the period ended May 27, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report").

In connection with the Report, each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

/s/ CHARLES V. BERGH

Charles V. Bergh
President and Chief Executive Officer
July 10, 2018

/s/ HARMIT SINGH

Harmit Singh
Executive Vice President and Chief Financial Officer
July 10, 2018