FORM 10-Q

SAKS INC - sks

Filed: December 02, 2008 (period: November 01, 2008)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

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: November 1, 2008

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from______ to______

Commission File Number: 1-13113

SAKS INCORPORATED
(Exact Name of Registrant as Specified in Its Charter)

TENNESSEE **(State or other jurisdiction of incorporation)**	**62-0331040** **(IRS Employer Identification No.)**
12 East 49th Street **New York, New York** **(Address of principal executive offices)**	**10017** **(Zip Code)**

212-940-5305
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 15, 2008, the number of shares of the Registrant's Common Stock outstanding was 142,071,898.

TABLE OF CONTENTS

SAKS INCORPORATED and SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)
(Unaudited)

	November 1, 2008	February 2, 2008	November 3, 2007
ASSETS			
Current Assets			
Cash and cash equivalents	$ 20,008	$ 101,162	$ 63,464
Merchandise inventories	1,016,192	857,173	976,880
Other current assets	119,917	124,973	102,172
Deferred income taxes, net	35,954	42,827	23,509
Total current assets	1,192,071	1,126,135	1,166,025
Property and Equipment, net	1,072,990	1,092,004	1,091,196
Intangibles, net	277	297	304
Deferred Income Taxes, net	100,758	97,108	144,224
Other Assets	50,537	55,480	35,862
TOTAL ASSETS	$ 2,416,633	$ 2,371,024	$ 2,437,611
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Trade accounts payable	$ 250,353	$ 176,844	$ 264,450
Accrued expenses and other current liabilities	258,384	282,311	278,025
Dividend payable	1,421	2,641	2,653
Current portion of long-term debt	169,429	319,242	260,433
Total current liabilities	679,587	781,038	805,561
Long-Term Debt	479,831	253,346	338,554
Other Long-Term Liabilities	159,377	161,034	166,031
Total liabilities	1,318,795	1,195,418	1,310,146
Commitments and Contingencies	—	—	—
Shareholders' Equity	1,097,838	1,175,606	1,127,465
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,416,633	$ 2,371,024	$ 2,437,611

See notes to condensed consolidated financial statements.

SAKS INCORPORATED and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
NET SALES	$ 698,037	$ 796,063	$ 2,229,622	$ 2,282,916
Cost of sales (excluding depreciation and amortization)	449,741	462,001	1,418,230	1,373,808
Gross margin	248,296	334,062	811,392	909,108
Selling, general and administrative expenses	183,040	205,981	581,891	613,084
Other operating expenses:				
Property and equipment rentals	28,551	28,086	85,779	83,635
Depreciation and amortization	32,904	33,555	98,446	100,081
Taxes other than income taxes	20,928	20,137	64,619	62,106
Store pre-opening costs	848	436	1,436	697
Impairments and dispositions	17,134	413	18,493	4,111
OPERATING INCOME (LOSS)	(35,109)	45,454	(39,272)	45,394
Interest expense	(9,961)	(10,199)	(29,970)	(32,100)
Loss on extinguishment of debt	—	—	—	(5,634)
Other income, net	1,487	2,333	3,174	6,903
INCOME (LOSS) BEFORE INCOME TAXES	(43,583)	37,588	(66,068)	14,563
Provision (benefit) for income taxes	(828)	15,998	(9,881)	6,562
NET INCOME (LOSS)	$ (42,755)	$ 21,590	$ (56,187)	$ 8,001
Net Income (Loss) per share - Basic	$ (0.31)	$ 0.15	$ (0.41)	$ 0.06
Net Income (Loss) per share - Diluted	$ (0.31)	$ 0.14	$ (0.41)	$ 0.05
Weighted average common shares:				
Basic	137,715	141,102	138,713	141,077
Diluted	137,715	153,049	138,713	153,853

See notes to condensed consolidated financial statements.

SAKS INCORPORATED and SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Nine Months Ended	
	November 1, 2008	November 3, 2007
Operating Activities:		
Net Income (Loss)	$ (56,187)	$ 8,001
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	98,446	100,081
Impairments and dispositions	18,493	4,111
Equity compensation	11,572	4,641
Deferred income taxes	7,216	7,425
Excess tax benefit from stock-based compensation	—	(8,747)
Loss on extinguishment of debt	—	5,634
Gain on sale of land	(1,217)	—
Change in operating assets and liabilities, net	(110,811)	(156,397)
Net Cash Used In Operating Activities	(32,488)	(35,251)
Investing Activities:		
Purchases of property and equipment	(93,700)	(102,177)
Proceeds from the sale of property and equipment	1,339	7,806
Net Cash Used In Investing Activities	(92,361)	(94,371)
Financing Activities:		
Proceeds from revolving credit facility	80,625	25,000
Payments on long-term debt and capital lease obligations	(4,013)	(117,560)
Cash dividends paid	(1,187)	(7,421)
Excess tax benefit from stock-based compensation	—	8,747
Purchases and retirements of common stock	(34,889)	(27,464)
Proceeds from the issuance of common stock	3,159	33,901
Net Cash Provided by (Used In) Financing Activities	43,695	(84,797)
Decrease in Cash and Cash Equivalents	(81,154)	(214,419)
Cash and cash equivalents at beginning of period	101,162	277,883
Cash and cash equivalents at end of period	$ 20,008	$ 63,464

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)
(Unaudited)

NOTE 1 – GENERAL

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and in compliance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Operating results for the three and nine months ended November 1, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009 (fiscal year 2008). The financial statements include the accounts of Saks Incorporated and its subsidiaries (collectively, the "Company"). All intercompany amounts and transactions have been eliminated.

The accompanying condensed consolidated balance sheet at February 2, 2008 has been derived from the audited financial statements at that date but does not include all disclosures required by GAAP. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 2007 Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

The Company's operations consist of Saks Fifth Avenue (SFA), Saks Fifth Avenue OFF 5TH, and Club Libby Lu.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Sales – Net Sales include sales of merchandise (net of returns and exclusive of sales taxes), commissions from leased departments, shipping and handling revenues related to merchandise sold and breakage income from unredeemed gift cards. Commissions from leased departments were $5,274 and $5,983 for the three months ended November 1, 2008 and November 3, 2007, respectively. Leased department sales were $39,444 and $43,174 for the three months ended November 1, 2008 and November 3, 2007, respectively, and were excluded from Net Sales. Commissions from leased departments were $19,089 and $19,290 for the nine months ended November 1, 2008 and November 3, 2007, respectively. Leased department sales were $140,641 and $136,272 for the nine months ended November 1, 2008 and November 3, 2007, respectively, and were excluded from Net Sales.

Cash and Cash Equivalents – Cash and cash equivalents primarily consist of cash on hand in the stores, deposits with banks, and investments with banks and financial institutions that have original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value. Cash equivalents totaled $10,510 and $50,337 at November 1, 2008 and November 3, 2007, respectively, primarily consisting of money market funds, demand and time deposits. Income earned on cash equivalents was $262 and $788 for the three-month periods ending November 1, 2008 and November 3, 2007, respectively, and is reflected in Other Income. For the nine-month periods ending November 1, 2008 and November 3, 2007 income earned on these cash equivalents was $1,893 and $5,234, respectively, and is reflected in Other Income.

Impairments and Dispositions – The Company continuously evaluates its real estate portfolio and closes underproductive stores in the normal course of business as leases expire or as other circumstances dictate. The Company also performs an asset impairment analysis at each fiscal year end. The Company incurred net charges primarily related to asset dispositions in the normal course of business of $141 and $413 for the three month period ended November 1, 2008 and November 3, 2007, respectively, and charges of $1,500 and $4,111 for the nine months ended November 1, 2008 and November 3, 2007, respectively. Asset dispositions are included in Impairments and Dispositions in the accompanying Condensed Consolidated Statements of Income.

On October 29, 2008, the Board of Directors approved the Company's plans to discontinue the operations of its CLL specialty store business. The Company expects the CLL store closure process will be completed by May 2, 2009, the end of the Company's first fiscal quarter. In connection with this action, the Company recorded an asset impairment charge of $16,993 to reduce the net book value of certain long lived assets to their estimated fair value. The impairment charge is included in Impairments and Dispositions in the accompanying Condensed Consolidated Statements of income.

Inventory – On February 3, 2008, the Company elected to change its method of costing its inventories to the retail "first-in, first-out" (FIFO) method, whereas in all prior periods inventory was costed using the retail "last-in, first-out" (LIFO) method. The new method of accounting had no impact on the three and nine month periods ending November 1, 2008 and November 3, 2007, respectively, as the LIFO value exceeded the FIFO market value and was written down to reflect FIFO market value in all periods.

Income Taxes – The effective income tax rate for the three and nine-month periods ended November 1, 2008 was 1.9% and 15.0%, respectively, as compared to 42.6% and 45.1%, for the three and nine-month periods ending November 3, 2007. The decrease in the effective rate for the three-month and nine-month periods ending November 1, 2008 was primarily due to the write-off of a deferred tax asset associated with a Federal net operating loss ("NOL") due to expire in fiscal 2008 and an increase in the state valuation allowance, reducing the expected tax benefit of the pre-tax losses.

Table of Contents
Components of the Company's income tax expense for the three and nine-month periods ending November 1, 2008 and November 3, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
Expected federal income taxes at 35%	$ (15,254)	$ 13,156	$ (23,124)	$ 5,097
State income taxes, net of federal benefit	(1,622)	1,767	(3,224)	936
State NOL valuation allowance adjustment	3,619	—	3,619	—
Effect of settling tax exams and other tax reserve adjustments	562	872	1,019	565
Change in state tax law	—	—	(414)	—
Write-off of expiring Federal NOL	10,980	—	10,980	—
Other items, net	887	203	1,263	(36)
Provision (benefit) for income taxes	$ (828)	$ 15,998	$ (9,881)	$ 6,562

It is reasonably possible that the amount of unrecognized tax benefits will increase or decrease in the next twelve months as a result of settling uncertain tax positions. However, the Company does not anticipate this to result in any material change to the amount of unrecognized tax benefits.

The Company files a consolidated U.S. Federal income tax return as well as state tax returns in multiple state jurisdictions. The Company has completed examinations by the Internal Revenue Service for taxable years through January 29, 2005. With respect to the state and local jurisdictions, the Company has completed examinations in many jurisdictions through the same period and currently has examinations in progress for several jurisdictions.

NOTE 2 – EARNINGS PER COMMON SHARE

Calculations of earnings per common share (“EPS”) for the three and nine month periods ending November 1, 2008 and November 3, 2007, respectively, are as follows:

	For the Three Months Ended November 1, 2008			For the Three Months Ended November 3, 2007		
	Net Loss	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic EPS	$ (42,755)	137,715	$ (0.31)	$ 21,590	141,102	$ 0.15
Effect of dilutive stock options and convertible debentures	—	—	—	—	11,947	(0.01)
Diluted EPS	$ (42,755)	137,715	$ (0.31)	$ 21,590	153,049	$ 0.14

	For the Nine Months Ended November 1, 2008			For the Nine Months Ended November 3, 2007		
	Net Loss	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic EPS	$ (56,187)	138,713	$ (0.41)	$ 8,001	141,077	$ 0.06
Effect of dilutive stock options and convertible debentures	—	—	—	—	12,776	(0.01)
Diluted EPS	$ (56,187)	138,713	$ (0.41)	$ 8,001	153,853	$ 0.05

The Company had 228 option awards of potentially dilutive common stock outstanding that have been excluded from the computation of diluted EPS because the Company reported a loss for the nine months ending November 1, 2008. The Company had 2,731 and 1,269 option and performance share awards of potentially dilutive common stock outstanding as of November 1, 2008 and November 3, 2007, respectively, that were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price of the common shares for the period or the performance criteria were not met. Included in the computation of diluted EPS as of November 3, 2007 are 11,327 potentially dilutive shares associated with shares the Company would issue to settle the difference between the fair value and the par value of the convertible notes upon conversion and the shares to be issued upon exercise of call options the Company sold at the time of issuance of the convertible debentures. There were also 19,219 of potentially exercisable shares under the convertible notes that were not included in the computation of diluted EPS because the conversion criteria were not met as of November 1, 2008 and due to the assumption of net share settlement as of November 3, 2007.

The Financial Accounting Standards Board (“FASB”) is contemplating an amendment to Statement of Financial Accounting Standard (“SFAS”) No. 128, “Earnings Per Share,” that would require the Company to ignore the cash presumption of net share settlement and to assume share settlement for purposes of calculating diluted earnings per share. Although the Company is now required to ignore the contingent conversion provision on its convertible notes under EITF 04-08, it can still presume that it will satisfy the net share settlement of the par value upon conversion of the notes in cash, and thus exclude the effect of the conversion of the notes in its calculation of diluted earnings per share. If and when the FASB amends SFAS No. 128, the effect of the changes would require the Company to use the if-converted method calculating diluted earnings per share except when the effect would be anti-dilutive. The effect of adopting the amendment to SFAS No. 128 would increase the number of shares in the Company's diluted calculation by 19,219 shares.

NOTE 3 – DEBT AND SHARE ACTIVITY

The Company had $230 million of convertible senior notes at November 1, 2008, that bear interest of 2.0% and mature in 2024. The provisions of the convertible notes allow the holder to convert the notes to shares of the Company's common stock at a conversion rate of 83.5609 shares per one thousand dollars in principal amount of notes. The holder cannot convert until the Company's share price is greater than 120% of the applicable conversion price for a certain trading period. The conversion criteria were not met for the calendar quarter ended September 30, 2008. Since the holders of the convertible notes do not have the ability to exercise their conversion rights, the convertible notes were classified within "long-term debt" on the condensed consolidated balance sheet as of November 1, 2008. As of November 3, 2007, the holders of the convertible notes did have the ability to exercise their conversion rights, therefore the convertible notes were classified within "Current portion of long-term debt" on the condensed consolidated balance sheet.

On April 12, 2007, the Company announced final results of its modified "Dutch Auction" tender offer to purchase a portion of its 8.25% senior notes due November 15, 2008 for an aggregate purchase price not to exceed $100,000 (the "offer cap"). The offer expired on April 11, 2007. The aggregate principal amount of notes validly tendered at or above the clearing spread exceeded the offer cap, and the Company accepted $95,872 aggregate principal amount of the notes, resulting in an aggregate purchase price of $100,000 (plus an additional $3,230 in aggregate accrued interest on such notes). The Company accepted for purchase first, all notes tendered at spreads above the clearing spread, and thereafter, the notes validly tendered at the clearing spread on a prorated basis according to the principal amount of such notes. During the three months ended May 5, 2007, the Company recorded a loss on extinguishment of debt of approximately $5,222 related to the repurchase of the notes.

During June and July 2007, the Company repurchased $10,420 in principal amount relating to its 8.25% senior notes. The repurchase of these notes resulted in a loss on extinguishment of debt of approximately $412.

During the nine months ended November 3, 2007, the Company repurchased and retired 1,722 shares of its common stock at an average price of $15.95 per share and total cost of approximately $27,464. During the nine months ended November 1, 2008, the Company repurchased and retired 2,949 shares of its common stock at an average price of $11.83 per share and total cost of approximately $34,889. There were no repurchases and retirements of common stock during the three months ended November 1, 2008. At November 1, 2008, there were 32,710 shares remaining available for repurchase under the Company's existing share repurchase program.

NOTE 4 – EMPLOYEE BENEFIT PLANS

The Company sponsors a defined benefit cash balance pension plan and supplemental executive retirement plan ("SERP") for certain employees of the Company. The Company generally funds pension costs currently, subject to regulatory funding requirements. The components of net periodic pension (benefit) expense related to the Company's pension plan and SERP for the three and nine month periods ending November 1, 2008 and November 3, 2007 were as follows:

	Three Months Ended		Nine Months Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
Service cost	$ 169	$ 331	$ 507	$ 993
Interest cost	2,123	2,050	6,369	6,149
Expected return on plan assets	(3,037)	(2,782)	(9,111)	(8,346)
Net amortization of losses and prior service costs	184	834	552	2,503
Net periodic pension (benefit) expense	$ (561)	$ 433	$ (1,683)	$ 1,299

The Company expects minimal or no funding requirements in 2008. Based on the current market conditions, the Company will likely be required to fund the pension plan in 2009.

NOTE 5 – FAIR VALUE MEASUREMENTS

Effective February 3, 2008, the Company partially adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). The partial adoption is in accordance with FASB Staff Position No. FAS 157-2, which allows for the delay of the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are not measured at fair value on a regular basis.

SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The standard utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions

We may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP.

As of November 1, 2008, we had no material financial assets or liabilities measured on a recurring basis that required adjustments or write-downs.

NOTE 6 – SHAREHOLDERS' EQUITY

The following table summarizes the changes in shareholders' equity for the nine months ended November 1, 2008:

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at February 2, 2008	141,784	$ 14,180	$ 1,119,192	$ 57,236	$ (15,002)	$ 1,175,606
Net loss				(56,187)		(56,187)
Dividend adjustment - cancelled restricted shares			40			40
Issuance of common stock	386	39	3,120			3,159
Income tax benefit related to employee stock plans			(562)			(562)
Net activity under stock compensation plans	2,894	289	(297)			(8)
Restricted shares withheld for taxes	(60)	(6)	(887)			(893)
Stock-based compensation			11,572			11,572
Repurchase of common stock	(2,949)	(295)	(34,594)			(34,889)
Balance at November 1, 2008	142,055	$ 14,207	$ 1,097,584	$ 1,049	$ (15,002)	$ 1,097,838

NOTE 7 – STOCK-BASED COMPENSATION

The Company maintains an equity incentive plan for the granting of options, stock appreciation rights, performance shares, restricted stock, and other forms of equity awards to employees and directors. Options granted generally vest over a four-year period after grant and have an exercise life of seven to ten years from the grant date. Restricted stock and performance shares generally vest one to five years after the grant date, although, the plan permits accelerated vesting in certain circumstances at the discretion of the Human Resources and Compensation Committee of the Board of Directors.

Compensation cost for restricted stock and performance shares that cliff vest are expensed straight line over the requisite service period. Restricted stock and performance shares with graded vesting features are treated as multiple awards based upon the vesting date. The Company records compensation costs for these awards straight line over the requisite service period for each separately vesting portion of the award. Compensation cost for stock option awards with graded vesting are expensed straight line over the requisite service period.

Total stock-based compensation expense, net of related tax effects, for the three and nine months ended November 1, 2008 was approximately $1,986 and $6,984, respectively, and total stock-based compensation expense for the three and nine months ended November 3, 2007 was approximately $983 and $2,784, respectively.

NOTE 8 – CONTINGENCIES

LEGAL CONTINGENCIES

Vendor Litigation

On December 8, 2005 Adamson Apparel, Inc. filed a purported class action lawsuit against the Company in the United States District Court for the Northern District of Alabama. In its complaint the plaintiff asserted breach of contract claims and alleged that the Company improperly assessed chargebacks, timely payment discounts, and deductions for merchandise returns against members of the plaintiff class. The lawsuit sought compensatory and incidental damages and restitution. On June 8, 2008, the parties entered into a settlement agreement which was approved by the United States Bankruptcy Court for the Central District of California on July 30, 2008. Pursuant to the settlement, on August 18, 2008 the Company paid the plaintiff $370 in settlement of the claims (of which the Company was reimbursed approximately $118 from an unrelated third party), at which time the lawsuit was formally dismissed.

Other

The Company is involved in legal proceedings arising from its normal business activities and has accruals for losses where appropriate. Management believes that none of these legal proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

TAX MATTERS

The Company is routinely under audit by federal, state or local authorities in the areas of income taxes and the remittance of sales and use taxes. These audits include questioning the timing and amount of deductions and the allocation of income among various tax jurisdictions. Based on the current evaluations of tax filing positions, the Company believes it has adequately accrued for its tax exposures. At November 1, 2008, certain state examinations are ongoing and if the Company were not to prevail, the outcome could have a material impact on operating results.

NOTE 9 – NEW ACCOUNTING PRONOUNCEMENTS

On February 3, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or a liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, the FASB amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. The FASB also issued a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Company is in the process of evaluating the impact of applying SFAS 157 to nonfinancial assets and liabilities measured on a non-recurring basis. The impact of applying SFAS 157 to financial assets and liabilities did not have a material impact on the consolidated financial statements for the period ending November 1, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that currently are not required to be measured at fair value. This Statement is effective no later than fiscal years beginning on or after November 15, 2007. The Company elected to continue to record long-term debt at its amortized cost. Accordingly, this standard has no impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and non-controlling interests in business combinations. SFAS 141(R) also establishes expanded disclosure requirements for business combinations. SFAS 141(R) will become effective as of the beginning of the 2009 fiscal year. Generally, the effect of SFAS 141(R) will depend on the circumstances of any potential future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." This standard outlines the accounting and reporting for ownership interest in a subsidiary held by parties other than the parent. SFAS No. 160 is effective as of the beginning of the 2009 fiscal year. The adoption of this standard will not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). This Statement amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), to require an entity to provide an enhanced understanding of its use of derivative instruments, how they are accounted for under SFAS 133 and their effect on the entity's financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective as of the beginning of the 2009 fiscal year. The adoption of this standard will not have a material impact on the consolidated financial statements.

In May 2008, the FASB issued Accounting Principles Board ("APB") No.14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FASB Staff Position ("FSP") clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

NOTE 10 – CLUB LIBBY LU CLOSURE

On November 5, 2008, the Company announced its plans to discontinue the operations of its CLL specialty store business. The Company expects the CLL store closure process will be substantially completed by the end of the Company's fourth fiscal quarter ending January 31, 2009. The Company will present CLL as a discontinued operation in its fiscal fourth quarter and year-end financial statements. The Company expects to incur charges related to the discontinuation of the CLL operations, which primarily will be recorded in the three months ended November 1, 2008 and fourth quarter ending January 31, 2009. The Company recorded an after-tax non-cash charge of approximately $10,566 in the third quarter ended November 1, 2008 related to fixed asset impairments. The Company expects to record after-tax charges of approximately $18,000 to $27,000 in the fourth quarter ending January 31, 2009 primarily related to approximately $3,000 of one-time severance costs, and approximately $15,000 to $24,000 of costs associated with inventory liquidation, store closure and lease termination costs. The Company anticipates that approximately $16,000 to $25,000 of the total charges will result in cash payments during the fourth quarter of fiscal 2008 and in fiscal year 2009.

NOTE 11 – CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The following tables present condensed consolidating financial information for: (1) Saks Incorporated and (2) on a combined basis, the guarantors of Saks Incorporated's senior notes (which are all of the wholly owned subsidiaries of Saks Incorporated).

The condensed consolidating financial statements presented as of and for the three and nine-month periods ended November 1, 2008 and November 3, 2007 and as of February 2, 2008 reflect the legal entity compositions at the respective dates. Certain 2007 amounts in the following tables have been revised to reflect the allocation of deferred income taxes between Saks Incorporated and the guarantors of Saks Incorporated's senior notes.

Separate financial statements of the guarantor subsidiaries are not presented because the guarantors are jointly, severally, fully and unconditionally liable under the guarantees. Borrowings and the related interest expense under the Company's revolving credit agreement are allocated to Saks Incorporated and the guarantor subsidiaries under an intercompany revolving credit arrangement. There are also management and royalty fee arrangements among Saks Incorporated and the subsidiaries. At November 1, 2008, Saks Incorporated was the sole obligor for a majority of the Company's long-term debt.

SAKS INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEETS AT NOVEMBER 1, 2008
(Dollar Amounts In Thousands)

	Saks Incorporated	Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS				
Current Assets				
Cash and cash equivalents	$ 10,510	$ 9,498		$ 20,008
Merchandise inventories		1,016,192		1,016,192
Other current assets		119,917		119,917
Deferred income taxes, net		35,954		35,954
Total Current Assets	10,510	1,181,561	—	1,192,071
Property and Equipment, net		1,072,990		1,072,990
Intangibles, net		277		277
Deferred Income Taxes, net	83,046	17,712		100,758
Other Assets	5,754	44,783		50,537
Investment in and Advances to Subsidiaries	1,428,654	—	$ (1,428,654)	
Total Assets	$ 1,527,964	$ 2,317,323	$ (1,428,654)	$ 2,416,633
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade accounts payable		$ 250,353		$ 250,353
Accrued expenses and other current liabilities	$ 6,382	252,002		258,384
Dividend payable	1,421			1,421
Current portion of long-term debt		169,429		169,429
Total Current Liabilities	7,803	671,784	—	679,587
Long-Term Debt	422,323	57,508		479,831
Other Long-Term Liabilities		159,377		159,377
Investment by and Advances from Parent		1,428,654	$ (1,428,654)	
Shareholders' Equity	1,097,838			1,097,838
Total Liabilities and Shareholders' Equity	$ 1,527,964	$ 2,317,323	$ (1,428,654)	$ 2,416,633

Table of Contents

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED NOVEMBER 1, 2008
(Dollar Amounts In Thousands)

	Saks Incorporated	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales		$ 698,037		$ 698,037
Cost of sales		449,741		449,741
Gross Margin	—	248,296	—	248,296
Selling, general and administrative expenses	$ 167	182,873		183,040
Other operating expenses	2,008	80,375		82,383
Store pre-opening costs		848		848
Impairments and dispositions		17,134		17,134
Operating loss	(2,175)	(32,934)	—	(35,109)
Other income (expense)				
Equity in earnings of subsidiaries	(28,091)		28,091	
Interest expense	(23,352)	13,391		(9,961)
Other income, net	1,487			1,487
Loss before benefit for income taxes	(52,131)	(19,543)	28,091	(43,583)
Provision (benefit) for income taxes	(9,376)	8,548		(828)
Net Loss	$ (42,755)	$ (28,091)	$ 28,091	$ (42,755)

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED NOVEMBER 1, 2008
(Dollar Amounts In Thousands)

	Saks Incorporated	Guarantor Subsidiaries	Eliminations	Consolidated
Net sales		$ 2,229,622		$ 2,229,622
Cost of sales		1,418,230		1,418,230
Gross Margin	—	811,392	—	811,392
Selling, general and administrative expenses	$ 774	581,117		581,891
Other operating expenses	2,020	246,824		248,844
Store pre-opening costs		1,436		1,436
Impairments and dispositions		18,493		18,493
Operating loss	(2,794)	(36,478)	—	(39,272)
Other income (expense)				
Equity in earnings of subsidiaries	(32,761)		$ 32,761	
Interest expense	(38,783)	8,813		(29,970)
Other income, net	3,174			3,174
Loss before benefit for income taxes	(71,164)	(27,665)	32,761	(66,068)
Provision (benefit) for income taxes	(14,977)	5,096		(9,881)
Net Loss	$ (56,187)	$ (32,761)	$ 32,761	$ (56,187)

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED NOVEMBER 1, 2008
(Dollar Amounts In Thousands)

	Saks Incorporated	Guarantor Subsidiaries	Eliminations	Consolidated
OPERATING ACTIVITIES				
Net Loss	$ (56,187)	$ (32,761)	$ 32,761	$ (56,187)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Equity in earnings of subsidiaries	32,761		(32,761)	—
Excess tax benefit from stock-based compensation	—			—
Depreciation and amortization		98,446		98,446
Equity Compensation	11,572			11,572
Deferred income taxes	3,300	3,916		7,216
Gain on sale of land	(1,217)			(1,217)
Impairments and dispositions		18,493		18,493
Changes in operating assets and liabilities, net	(58,903)	(51,908)		(110,811)
Net Cash Provided By (Used In) Operating Activities	(68,674)	36,186	—	(32,488)
INVESTING ACTIVITIES				
Purchases of property and equipment		(93,700)		(93,700)
Proceeds from the sale of assets		1,339		1,339
Net Cash Used In Investing Activities	—	(92,361)	—	(92,361)
FINANCING ACTIVITIES				
Intercompany borrowings, contributions and distributions	(54,016)	54,016		—
Payments on long-term debt		(4,013)		(4,013)
Payments on revolving credit facility	80,625			80,625
Payment of dividend	(1,187)			(1,187)
Repurchase and retirement of common stock	(34,889)			(34,889)
Excess tax benefit from stock-based compensation	—			—
Proceeds from the issuance of common stock	3,159			3,159
Net Cash Provided by (Used In) Financing Activities	(6,308)	50,003	—	43,695
Decrease In Cash and Cash Equivalents	(74,982)	(6,172)	—	(81,154)
Cash and Cash Equivalents at beginning of period	85,492	15,670		101,162
Cash and Cash Equivalents at end of period	$ 10,510	$ 9,498	$ —	$ 20,008

SAKS INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEETS AT NOVEMBER 3, 2007
(Dollar Amounts In Thousands)

	Saks Incorporated (Revised)	Guarantor Subsidiaries (Revised)	Eliminations	Consolidated
ASSETS				
Current Assets				
Cash and cash equivalents	$ 50,337	$ 13,127		$ 63,464
Merchandise inventories		976,880		976,880
Other current assets		102,172		102,172
Deferred income taxes, net		23,509		23,509
Total Current Assets	50,337	1,115,688	—	1,166,025
Property and Equipment, net		1,091,196		1,091,196
Intangibles, net		304		304
Deferred Income Taxes, net	71,337	72,887		144,224
Other Assets	8,658	27,204		35,862
Investment in and Advances to Subsidiaries	1,534,932		$ (1,534,932)	
Total Assets	$ 1,665,264	$ 2,307,279	$ (1,534,932)	$ 2,437,611
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade accounts payable		$ 264,450		$ 264,450
Accrued expenses and other current liabilities	$ 3,772	274,253		278,025
Dividend payable	2,653			2,653
Current portion of long-term debt	255,000	5,433		260,433
Total Current Liabilities	261,425	544,136	—	805,561
Long-Term Debt	276,374	62,180		338,554
Other Long-Term Liabilities		166,031		166,031
Investment by and Advances from Parent		1,534,932	$ (1,534,932)	
Shareholders' Equity	1,127,465			1,127,465
Total Liabilities and Shareholders' Equity	$ 1,665,264	$ 2,307,279	$ (1,534,932)	$ 2,437,611

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED NOVEMBER 3, 2007
(Dollar Amounts In Thousands)

	Saks Incorporated (Revised)	Guarantor Subsidiaries (Revised)	Eliminations	Consolidated
Net sales		$ 796,063		$ 796,063
Cost of Sales		462,001		462,001
Gross Margin	—	334,062	—	334,062
Selling, general and administrative expenses	$ 698	205,283		205,981
Other operating expenses	12	81,766		81,778
Store pre-opening costs		436		436
Impairments and dispositions		413		413
Operating Income (loss)	(710)	46,164	—	45,454
Other income (expense)				
Equity in earnings of subsidiaries	25,459		$ (25,459)	
Interest expense	(7,966)	(2,233)		(10,199)
Other income, net	2,333			2,333
Income before provision (benefit) for income taxes	19,116	43,931	(25,459)	37,588
Provision (benefit) for income taxes	(2,474)	18,472		15,998
Net Income	$ 21,590	$ 25,459	$ (25,459)	$ 21,590

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED NOVEMBER 3, 2007
(Dollar Amounts In Thousands)

	Saks Incorporated (Revised)	Guarantor Subsidiaries (Revised)	Eliminations	Consolidated
Net sales		$ 2,282,916		$ 2,282,916
Costs of Sales		1,373,808		1,373,808
Gross Margin	—	909,108	—	909,108
Selling, general and administrative expenses	$ 3,296	609,788		613,084
Other operating expenses	63	245,759		245,822
Store pre-opening costs		697		697
Impairments and dispositions		4,111		4,111
Operating Income (Loss)	(3,359)	48,753	—	45,394
Other income (expense)				
Equity in earnings of subsidiaries	24,735		$ (24,735)	
Interest expense	(25,343)	(6,757)		(32,100)
Loss on extinguishment of debt	(5,634)			(5,634)
Other income, net	6,903			6,903
Income (loss) before benefit for income taxes	(2,698)	41,996	(24,735)	14,563
Provision (benefit) for income taxes	(10,699)	17,261		6,562
Net Income	$ 8,001	$ 24,735	$ (24,735)	$ 8,001

Table of Contents

SAKS INCORPORATED
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED NOVEMBER 3, 2007
(Dollar Amounts In Thousands)

	Saks Incorporated (Revised)	Guarantor Subsidiaries (Revised)	Eliminations	Consolidated
OPERATING ACTIVITIES				
Net Income	$ 8,001	$ 25,661	$ (24,735)	$ 8,001
Adjustments to reconcile net income to net cash used in operating activities:				
Equity in earnings of subsidiaries	(25,661)		24,735	—
Excess tax benefit from stock based compensation	(8,747)			(8,747)
Depreciation and amortization		100,081		100,081
Provision for employee stock compensation	4,641			4,641
Deferred income taxes	(139)	7,564		7,425
Impairments and dispositions		4,111		4,111
Loss on extinguishment of debt	5,634			5,634
Changes in operating assets and liabilities, net	7,133	(163,530)		(156,397)
Net Cash Used In Operating Activities	(9,138)	(26,113)	—	(35,251)
INVESTING ACTIVITIES				
Purchases of property and equipment		(102,177)		(102,177)
Proceeds from the sale of assets		7,806		7,806
Net Cash Used In Investing Activities	—	(94,371)	—	(94,371)
FINANCING ACTIVITIES				
Intercompany borrowings, contributions and distributions	(127,964)	127,964		
Payments on long-term debt and capital lease obligations	(110,832)	(6,728)		(117,560)
Borrowings under credit/receivables facility	25,000			25,000
Payment of Dividend	(7,421)			(7,421)
Repurchase and retirements of common stock	(27,464)			(27,464)
Proceeds from issuance of common stock	33,901			33,901
Excess tax benefit from stock-based compensation	8,747			8,747
Net Cash Provided by (Used) In Financing Activities	(206,033)	121,236	—	(84,797)
Decrease In Cash and Cash Equivalents	(215,171)	752		(214,419)
Cash and Cash Equivalents at beginning of period	265,508	12,375		277,883
Cash and Cash Equivalents at end of period	$ 50,337	$ 13,127	—	$ 63,464

Table of Contents

SAKS INCORPORATED
CONDENSED CONSOLIDATING BALANCE SHEETS AT FEBRUARY 2, 2008
(Dollar Amounts In Thousands)

	Saks Incorporated (Revised)	Guarantor Subsidiaries (Revised)	Eliminations	Consolidated
ASSETS				
Current Assets				
Cash and cash equivalents	$ 85,492	$ 15,670		$ 101,162
Merchandise inventories		857,173		857,173
Other current assets		124,973		124,973
Deferred income taxes, net		42,827		42,827
Total Current Assets	85,492	1,040,643	—	1,126,135
Property and Equipment, net		1,092,004		1,092,004
Intangibles, net		297		297
Deferred Income Taxes, net	68,069	29,039		97,108
Other Assets	7,962	47,518		55,480
Investment in and Advances to Subsidiaries	1,531,222		$ (1,531,222)	
Total Assets	$ 1,692,745	$ 2,209,501	$ (1,531,222)	$ 2,371,024
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Trade accounts payable		$ 176,844		$ 176,844
Accrued expenses and other current liabilities	$ 10,744	274,208		284,952
Current portion of long-term debt	314,132	5,110		319,242
Total Current Liabilities	324,876	456,162	—	781,038
Long-Term Debt	192,263	61,083		253,346
Other Long-Term Liabilities		161,034		161,034
Investment by and Advances from Parent		1,531,222	$ (1,531,222)	
Shareholders' Equity	1,175,606			1,175,606
Total Liabilities and Shareholders' Equity	$ 1,692,745	$ 2,209,501	$ (1,531,222)	$ 2,371,024

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

Management's Discussion and Analysis ("MD&A") is intended to provide an analytical view of the business from management's perspective and has four major components:

- Management's Overview
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies

MD&A should be read in conjunction with the condensed consolidated financial statements and related notes thereto contained elsewhere in this report.

MANAGEMENT'S OVERVIEW

GENERAL

The operations of Saks Incorporated and its subsidiaries (together the "Company") operations consist of Saks Fifth Avenue ("SFA"), Saks Fifth Avenue OFF 5TH ("OFF 5TH"), and Club Libby Lu ("CLL"). The Company is a fashion retail organization offering a wide assortment of distinctive luxury fashion apparel, shoes, accessories, jewelry, cosmetics and gifts. SFA stores are principally free-standing stores in exclusive shopping destinations or anchor stores in upscale regional malls. Customers may also purchase SFA products by catalog or online at www.saks.com. OFF 5TH is intended to be the premier luxury off-price retailer in the United States. OFF 5TH stores are primarily located in upscale mixed-use and off-price centers and offer luxury apparel, shoes, and accessories, targeting the value-conscious customer. CLL consists of mall-based specialty stores, targeting girls aged 4-12 years old. As of November 1, 2008, Saks operated 53 SFA stores with 5.9 million square feet, 49 OFF 5TH stores with 1.4 million square feet, and 98 CLL specialty stores, which includes 78 standalone stores and 20 store-in-stores in the former Saks Department Store Group (SDSG) businesses, with 142 thousand square feet.

FINANCIAL PERFORMANCE SUMMARY

The Company recorded a net loss of $42.8 million, or $.31 per share, for the three months ended November 1, 2008. For the three months ended November 3, 2007, the Company recorded net income of $21.6 million or $.14 per share.

The three-month period ended November 1, 2008 included charges of $24.5 million (net of taxes), or $.18 per share, which included $10.6 million of asset impairments primarily related to the discontinuation of the CLL operations. The current year third quarter also included an after tax gain of $0.7 million related to the sale of a vacant real estate parcel, and a write-off and adjustment of $14.6 million of certain deferred tax assets primarily associated with Federal Net Operating Loss tax credits that are subject to expiration at the end of fiscal 2008.

Table of Contents
The three-month period ended November 3, 2007 included legal and investigation costs of approximately $2.7 million (net of taxes), or $.02 per share, associated with an investigation by the Securities and Exchange Commission ("SEC") (which has been concluded) and the investigation by the Office of the United States Attorney for the Southern District of New York as well as the settlement of two related vendor lawsuits. The prior year third quarter also included after tax charges of approximately $0.5 million related to retention, severance and transition costs due to the Company's downsizing and consolidation following the disposition of the SDSG businesses, $0.3 million due to asset impairment and dispositions and $0.8 million, or $.01 per share, resulting from an increase in income tax reserves related to certain tax examinations.

The Company believes that an understanding of its reported financial condition and results of operations is not complete without considering the effect of all other components of MD&A included herein.

RESULTS OF OPERATIONS

The following table shows, for the periods indicated, items from the Company's Condensed Consolidated Statements of Income expressed as percentages of Net Sales. *(numbers may not total due to rounding)*

	Three Months Ended		Nine Months Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
Net sales	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales (excluding depreciation and amortization)	64.4%	58.0%	63.6%	60.2%
Selling, general & administrative expenses	26.2%	25.9%	26.1%	26.9%
Other operating expenses	11.8%	10.3%	11.2%	10.8%
Store pre-opening costs	0.1%	0.1%	0.1%	0.0%
Impairments and dispositions	2.5%	0.1%	0.8%	0.2%
Operating Income (Loss)	-5.0%	5.7%	-1.8%	2.0%
Other income (expense):				
Interest expense	-1.4%	-1.3%	-1.3%	-1.4%
Loss on extinguishment of debt	0.0%	0.0%	0.0%	-0.2%
Other income, net	0.2%	0.3%	0.1%	0.3%
Income (loss) before income taxes	-6.2%	4.7%	-3.0%	0.6%
Provision (benefit) for income taxes	-0.1%	2.0%	-0.4%	0.3%
Net Income (loss)	-6.1%	2.7%	-2.5%	0.4%

THREE MONTHS ENDED NOVEMBER 1, 2008 COMPARED TO THREE MONTHS ENDED NOVEMBER 3, 2007

DISCUSSION OF OPERATING LOSS

The following table shows the changes in operating income (loss) from the three-month period ended November 3, 2007 to the three-month period ended November 1, 2008:

(In Millions)	Total Company
For the three months ended November 3, 2007	$ 45.5
Store sales and margin	(85.8)
Operating expenses	21.9
Impairments and dispositions	(16.7)
Decrease	(80.6)
For the three months ended November 1, 2008	$ (35.1)

For the three-month period ended November 1, 2008 the operating loss was $35.1 million, as compared to operating income of $45.5 million for the same period last year. The operating loss of $35.1 million for the quarter was driven by a comparable store sales decrease of 11.5% and a 640 basis point decrease in the gross margin rate. In addition, SG&A expenses as a percentage of sales increased 30 basis points and Other Operating Expenses (rents, depreciation, taxes other than income taxes and store pre-opening costs) increased by 160 basis points. Impairments and dispositions increased by $16.7 million primarily in connection with the Company's decision to discontinue CLL's operations.

NET SALES

For the three months ended November 1, 2008, total Net Sales decreased 12.3% to $698.0 million from $796.1 million for the three months ended November 3, 2007. Similarly, consolidated comparable store sales decreased $89.2 million, or 11.5%, from $778.4 million for the three months ended November 3, 2007 to $689.2 million for the three months ended November 1, 2008.

Comparable store sales are determined on a rolling 13-month basis. Thus, to be included in the comparison, a store must be open for 13 months. The additional month is used to transition the first month impact of a new store opening. Correspondingly, closed stores are removed from the comparable store sales comparison when they begin liquidating merchandise. Expanded, remodeled and converted stores are included in the comparable store sales comparison, except for the periods in which they are closed for remodeling and renovation.

GROSS MARGIN

For the three months ended November 1, 2008, gross margin was $248.3 million, or 35.6% of Net Sales, compared to $334.1 million, or 42.0% of Net Sales, for the three months ended November 3, 2007. The Company's gross margin rate decreased 640 basis points in the quarter. The $85.8 million reduction in gross margin was driven by the $98.0 million decrease in sales and a decrease in the gross margin rate. The gross margin rate deterioration was primarily due to increased markdowns, an increase in the percentage of reduced-price versus full-priced selling as consumers take greater advantage of promotional events and an inability to leverage buying and distribution costs against the 11.5% comparable store sales decrease.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A")

For the three months ended November 1, 2008, SG&A was $183.0 million, or 26.2% of Net Sales, compared to $206.0 million, or 25.9% of Net Sales, for the three months ended November 3, 2007. The $22.9 million decrease was principally related to lower variable costs associated with the $98.0 million sales decrease and lower corporate administrative costs. Additionally, there were non-recurring legal and investigation costs and legal settlements of approximately $4.5 million in the prior period. As a percentage of sales, SG&A increased by 30 basis points over the prior year primarily due to the deleverage caused by the comparable store sales decline during the quarter.

OTHER OPERATING EXPENSES

For the three months ended November 1, 2008, other operating expenses, including store pre-opening costs, were $83.2 million, or 11.9% of Net Sales, compared to $82.2 million, or 10.3% of Net Sales, for the three months ended November 3, 2007. As a percent of sales, other operating expenses increased 160 basis points in 2008, reflecting the rate deleverage caused by the 11.5% comparable store sales decline in the current year third quarter.

IMPAIRMENTS AND DISPOSITIONS

For the three months ended November 1, 2008, the Company recorded losses from impairments and dispositions of $17.1 million, or 2.5% of Net Sales, compared to a loss of $0.4 million, or 0.1% of Net Sales, for the three months ended November 3, 2007. The current quarter net charges are primarily related to the Company's decision to discontinue the CLL operations whereas prior year net charges for the three months ended November 3, 2007 were primarily related to asset dispositions in the normal course of business.

INTEREST EXPENSE

For the three months ended November 1, 2008, interest expense was $10.0 million, or 1.4% of Net Sales, compared to $10.2 million, or 1.3% of Net Sales, for the three months ended November 3, 2007.

INCOME TAXES

The effective income tax rate for the three-month periods ended November 1, 2008 and November 3, 2007 was 1.9% and 42.6%, respectively. The decrease in the effective rate for the three-month period ended November 1, 2008 was primarily due to the write-off of a deferred tax asset associated with a Federal net operating loss due to expire in fiscal year 2008 and an increase in the state valuation allowance, reducing the expected tax benefit of the pre-tax losses. The inability to utilize the deferred tax asset associated with the net operating loss was determined in the three-month period ended November 1, 2008 as management reduced fiscal 2008 earnings estimates in response to deteriorating macro economic conditions.

NINE MONTHS ENDED NOVEMBER 1, 2008 COMPARED TO NINE MONTHS ENDED NOVEMBER 3, 2007

DISCUSSION OF OPERATING LOSS

The following table shows the changes in operating income (loss) from the nine-month period ended November 3, 2007 to the nine-month period ended November 1, 2008:

(In Millions)	**Total Company**
For the nine months ended November 3, 2007	$ 45.4
Store sales and margin	(97.7)
Operating expenses	27.4
Impairments and dispositions	(14.4)
Decrease	(84.7)
For the nine months ended November 1, 2008	$ (39.3)

For the nine-month period ended November 1, 2008, the operating loss was $39.3 million, as compared to operating income of $45.4 million for the same period last year. The operating loss for the nine months was driven by a decrease in comparable store sales of 2.2% and a decrease in the gross margin rate of 340 basis points year-over-year primarily as a result of an increase in markdowns and an increase in the percentage of business generated during promotional days as consumers continue to shift purchases to promotional events. Other Operating Expenses (rents, depreciation, taxes other than income taxes and store pre-opening costs) increased by 40 basis points. The Company achieved approximately 80 basis points of improvement in the SG&A expense rate as a percentage of sales primarily relating to a decrease in severance, retention, and transition costs due to the Company's downsizing and consolidation following the disposition of its SDSG businesses. Impairments and dispositions increased by $14.4 million primarily due to the Company's decision to discontinue CLL's operations.

NET SALES

For the nine months ended November 1, 2008, total Net Sales decreased 2.3% to $2,229.6 million from $2,282.9 million for the nine months ended November 3, 2007. Similarly, consolidated comparable store sales decreased $49.4 million, or 2.2%, from $2,247.5 million for the nine months ended November 3, 2007 to $2,198.1 million for the nine months ended November 1, 2008.

GROSS MARGIN

For the nine months ended November 1, 2008, gross margin was $811.4 million, or 36.4% of Net Sales, compared to $909.1 million, or 39.8% of Net Sales, for the nine months ended November 3, 2007. The decrease in year-over-year gross margin rate was principally a result of an increase in markdowns and an increase in the percentage of business generated during promotional days as consumers continue to shift purchases to promotional events.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For the nine months ended November 1, 2008, SG&A was $581.9 million, or 26.1% of Net Sales, compared to $613.1 million, or 26.9% of Net Sales, for the nine months ended November 3, 2007. The $31.2 million decrease was principally related to a decrease in severance, retention, and transition costs of approximately $26.8 million from the same period last year. This is partially offset by non-recurring Transition Service Agreement revenues related to the divestiture of SDSG of approximately $4.5 million in the prior period. As a percentage of sales, SG&A decreased by 80 basis points over the same period in the prior year.

OTHER OPERATING EXPENSES

For the nine months ended November 1, 2008, other operating expenses, including store pre-opening costs, were $250.3 million, or 11.2% of Net Sales, compared to $246.5 million, or 10.8% of Net Sales, for the nine months ended November 3, 2007. As a percent of sales, other operating expenses were essentially flat year-over-year for the nine-month period.

IMPAIRMENTS AND DISPOSITIONS

For the nine months ended November 1, 2008, the Company recorded losses from impairments and dispositions of $18.5 million, or 0.8% of Net Sales compared to a loss of

$4.1 million, or 0.2% of Net Sales, for the nine months ended November 3, 2007. The current period net charges are primarily related to the Company's decision to discontinue CLL's operations, whereas prior period net charges were primarily due to asset dispositions in the normal course of business.

INTEREST EXPENSE

For the nine months ended November 1, 2008, interest expense was $30.0 million, or 1.3% of Net Sales, compared to $32.1 million, or 1.4% of Net Sales, for the nine months ended November 3, 2007. The improvement of $2.1 million was primarily due to the reduction in debt resulting from the repurchase of $106.3 million of senior notes during the year ended February 2, 2008.

INCOME TAXES

The effective income tax rate for the nine-month periods ended November 1, 2008 and November 3, 2007 was 15.0% and 45.1%, respectively. The decrease in the effective rate for the nine-month period ended November 1, 2008 was primarily due to the write-off of a deferred tax asset associated with a Federal net operating loss due to expire in fiscal year 2008 and an increase in the state valuation allowance, reducing the expected tax benefit of the pre-tax losses. The inability to utilize the deferred tax asset associated with the net operating loss was determined in the three-month period ended November 1, 2008 as management reduced fiscal 2008 earnings estimates in response to deteriorating macro economic conditions.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

The primary needs for cash are to acquire or construct new stores, renovate, maintain and expand existing stores, information technology infrastructure and systems, provide working capital for new and existing stores and service debt. The Company anticipates that cash on hand, cash generated from operating activities and borrowings under its revolving credit agreement will be sufficient to meet its financial commitments.

Cash used in operating activities was $32.5 million for the nine months ended November 1, 2008 and $35.3 million for the nine months ended November 3, 2007. Cash used in operating activities principally represents income before depreciation and non-cash charges and after changes in working capital. Working capital is significantly impacted by changes in inventory and accounts payable. Inventory levels typically increase to support higher expected sales levels and accounts payable fluctuations are generally determined by the timing of merchandise purchases and payments. The $2.8 million decline in cash used in operating activities for the nine months ended November 1, 2008 from the nine months ended November 3, 2007 was largely due to a decrease in working capital needs primarily driven by lower inventory growth levels over the respective nine month periods and greater increases in accounts payable balances due to the timing of merchandise receipts.

Cash used in investing activities was $92.4 million for the nine months ended November 1, 2008 and $94.4 million for the nine months ended November 3, 2007. Cash used in investing activities principally consists of construction of new stores, renovation and expansion of existing stores and investments in support areas (e.g., technology and distribution centers). The $2.0 million decrease in cash used in investing activities is principally due to a decrease in capital expenditures of approximately $8.5 million offset by a $6.5 million decrease in proceeds received from the sale of property and equipment.

Cash provided by (used in) financing activities was $44.3 million for the nine months ended November 1, 2008 and ($84.8) million for the nine months ended November 3, 2007. The current year cash provided by financing activities was driven by $80.6 million of proceeds from the revolving credit facility partially offset by the repurchase of 2.9 million shares of common stock at a cost of approximately $34.9 million. The prior year use primarily relates to the repurchase of approximately $106.3 million in principal amount of senior notes, partially offset by $25.0 million of proceeds from the revolving credit facility.

CASH BALANCES AND LIQUIDITY

The Company’s primary sources of short-term liquidity are cash on hand and availability under its $500 million revolving credit facility. At November 1, 2008 and November 3, 2007, the Company maintained cash and cash equivalent balances of $20.0 million and $63.5 million, respectively. Exclusive of approximately $9.5 million and $13.1 million of store operating cash at November 1, 2008 and November 3, 2007, respectively, cash was invested principally in various money market funds. There was no restricted cash as of November 1, 2008 and November 3, 2007.

At November 1, 2008, the Company had $80.6 million of direct outstanding borrowings under its $500 million revolving credit facility, and had $25.4 million in unfunded letters of credit, leaving unutilized availability under that facility of $394 million. The amount of cash on hand and borrowings under the facility are influenced by a number of factors, including sales, inventory levels, vendor terms, the level of capital expenditures, requirements related to financing instruments, and the Company’s tax payment obligations, among others.

During the nine months ended November 1, 2008, the Company repurchased and retired 2.9 million shares of its common stock at an average price of $11.83 per share and total cost of approximately $34.9 million. At November 1, 2008, there were 32.7 million shares remaining available for repurchase under the Company’s existing share repurchase program.

On November 5, 2008, The Company announced its plans to discontinue the operations of its CLL specialty store business. The Company expects the CLL store closure process will be completed by the end of the Company's fourth fiscal quarter ending January 29, 2009. The Company expects to incur charges related to the discontinuation of the CLL operations, which primarily will be recorded in the three months ended November 1, 2008 and fourth quarter ended January 31, 2009. The Company has recorded an after-tax non-cash charge of approximately $10.6 million in the third quarter ended November 1, 2008 related to fixed asset impairments. The Company expects to record after-tax charges of approximately $18.0 million to $27.0 million in the fourth quarter ending January 31, 2009 primarily related to approximately $3.0 million of severance costs, and approximately $15.0 million to $24.0 million of costs associated with inventory liquidation, store closure and lease termination costs. The Company anticipates that approximately $16.0 million to $25.0 million of the total charges will result in cash payments during the fourth quarter of fiscal 2008 and in fiscal year 2009.

On November 15, 2008 the Company utilized borrowings from its revolving credit facility to retire $84.1 million of senior debt which matured on the same day.

CAPITAL STRUCTURE

The Company continuously evaluates its debt-to-capitalization ratio in light of the economic trends, business trends, levels of interest rates, and terms, conditions and availability of capital in the capital markets. At November 1, 2008, the Company's capital and financing structure was comprised of a revolving credit agreement, senior unsecured notes, convertible senior unsecured notes, and capital and operating leases. On November 1, 2008, total debt was $649.3 million, representing an increase of $50.3 million from a balance of $599.0 million at November 3, 2007. This increase was primarily related to an increase of $55.6 million in outstanding borrowings from the revolving credit facility as of November 1, 2008 offset by a decrease in capital lease obligations. Additionally, the debt-to-capitalization ratio increased to 37.2% from 34.7% in the prior year, as a result of the increase in debt in the current year.

At November 1, 2008, the Company maintained a $500 million senior revolving credit facility maturing in 2011, which is secured by inventory and certain third party credit card accounts receivable. Borrowings are limited to a prescribed percentage of eligible inventories and receivables. There are no debt ratings-based provisions in the facility. The facility includes a fixed-charge coverage ratio requirement of 1 to 1 that the Company is subject to only if availability under the facility becomes less than $60 million. The facility contains default provisions that are typical for this type of financing, including a provision that would trigger a default of the facility if a default were to occur in another debt instrument resulting in the acceleration of principal of more than $20 million in that other instrument. At November 1, 2008, the Company had $80.6 million of direct outstanding borrowings under the revolving credit facility.

At November 1, 2008, the Company had $276.4 million of senior notes outstanding, excluding the convertible notes, comprised of five separate series having maturities ranging from 2008 to 2019 and interest rates ranging from 7.00% to 9.88%. The terms of each senior note call for all principal to be repaid at maturity. The senior notes have substantially identical terms except for the maturity dates and interest rates payable to investors. Each senior note contains limitations on the amount of secured indebtedness the Company may incur. On November 15, 2008, the Company increased the outstanding revolver borrowings by $84 million as it used the proceeds to retire $84.1 million of maturing senior notes. There are no additional senior note maturities until 2010.

The Company had $230 million of convertible senior notes, at November 1, 2008, that bear interest of 2.0% and mature in 2024. The provisions of the convertible notes allow the holder to convert the notes to shares of the Company's common stock at a conversion rate of 83.5609 shares per one thousand dollars in principal amount of notes. The most significant terms and conditions of the senior notes include: the Company can settle a conversion with shares and/or cash; the holder may put the debt back to the Company in 2014 or 2019; the holder cannot convert until the Company's share price is greater than 120% of the applicable conversion price for a certain trading period; the Company can call the debt on or after March 11, 2011; the conversion rate is subject to a dilution adjustment; and the holder can convert upon a significant credit rating decline and upon a call. The conversion criteria were not met for the calendar quarter ended September 30, 2008. Since the holders of the convertible notes do not have the ability to exercise their conversion rights, the convertible notes were classified within "long-term debt" on the condensed consolidated balance sheet as of November 1, 2008. At November 3, 2007, the holders of the convertible notes had the ability to exercise their conversion rights, therefore the convertible notes were classified within "Current portion of long-term debt" on the condensed consolidated balance sheet as of that date.

The Company used approximately $25 million of the proceeds from the issuances to enter into a convertible note hedge and written call options on its common stock to reduce the exposure to dilution from the conversion of the notes. The Company believes it has sufficient cash on hand, availability under its revolving credit facility and access to various capital markets to repay both the senior notes and convertible notes at maturity.

At November 1, 2008, the Company had $62.2 million in capital leases covering various properties and pieces of equipment. The terms of the capital leases provide the lessor with a security interest in the asset being leased and require the Company to make periodic lease payments, aggregating between $5 million and $7 million per year.

On April 12, 2007, the Company announced the results of its modified "Dutch Auction" tender offer to purchase a portion of its 8.25% senior notes due November 15, 2008 for an aggregate purchase price not to exceed $100 million (the "offer cap"). The offer expired on April 11, 2007. The aggregate principal amount of notes validly tendered at or above the clearing spread exceeded the offer cap and the Company accepted $95.9 million aggregate principal amount of the notes, resulting in an aggregate purchase price of $100 million (plus an additional $3.2 million in aggregate accrued interest on such notes). The Company accepted for purchase first, all notes tendered at spreads above the clearing spread, and thereafter, the notes validly tendered at the clearing spread on a prorated basis according to the principal amount of such notes. During the three months ended May 5, 2007, the Company recorded a loss on extinguishment of debt of approximately $5.2 million related to the repurchase of the notes.

During June and July 2007, the Company repurchased $10.4 million in principal amount primarily relating to its 8.25% senior notes. The repurchase of these notes resulted in a loss on extinguishment of debt of approximately $412 thousand.

The Company is obligated to fund a cash balance pension plan. The Company's current policy is to maintain at least the minimum funding requirements specified by the Employee Retirement Income Security Act of 1974. The Company expects minimal or no funding requirements in 2008. Based on the current market conditions, the Company will likely be required to fund the pension plan in 2009. Barring an unforeseen upturn in the market value of the plan assets in the fourth quarter, the funding requirements in 2009 could potentially be in the $5 to $15 million range. The Company curtailed its SFA pension plan during 2006 which froze benefit accruals for all participants except those who have attained age 55 and completed 10 years of service as of January 1, 2007 and who continue to be non-highly compensated employees.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements which would be reasonably likely to have a current or future material effect, such as obligations under certain guarantees or contracts, retained or contingent interests in assets transferred to an unconsolidated entity or similar arrangements, obligations under certain derivative arrangements, or obligations under material variable interests.

There were no material changes in the Company's contractual obligations specified in Item 303(a)(5) of Regulation S-K during the three and nine months ended November 1, 2008. For additional information regarding the Company's contractual obligations as of February 2, 2008, see the Management's Discussion and Analysis section of the Form 10-K for the year ended February 2, 2008.

CRITICAL ACCOUNTING POLICIES

A summary of the Company's critical accounting policies is included in the Management Discussion and Analysis section of the Company's Form 10-K for the year ended February 2, 2008 filed with the Securities and Exchange Commission.

NEW ACCOUNTING PRONOUNCEMENTS

On February 3, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," which clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or a liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, FASB amended SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. The FASB also issued a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The Company is in the process of evaluating the impact of applying SFAS 157 to nonfinancial assets and liabilities measured on a non-recurring basis. The impact of applying SFAS 157 to financial assets and liabilities did not have a material impact on the consolidated financial statements for the period ending November 1, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that currently are not required to be measured at fair value. This Statement is effective no later than fiscal years beginning on or after November 15, 2007. The Company elected to continue to report long-term debt at its amortized cost. Accordingly, this standard has no impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), which addresses the recognition and accounting for identifiable assets acquired, liabilities assumed, and non-controlling interests in business combinations. SFAS 141(R) also establishes expanded disclosure requirements for business combinations. SFAS 141(R) will become effective as of the beginning of the 2009 fiscal year. Generally, the effect of SFAS 141 (R) will depend on the circumstances of any potential future acquisitions.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." This standard outlines the accounting and reporting for ownership interest in a subsidiary held by parties other than the parent. SFAS No. 160 is effective as of the beginning of the 2009 fiscal year. The adoption of this standard will not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"). This Statement amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), to provide an enhanced understanding of an entity's use of derivative instruments, how they are accounted for under SFAS 133 and their effect on the entity's financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective as of the beginning of the 2009 fiscal year. The adoption of this standard will not have a material impact on the consolidated financial statements.

In May 2008, the FASB issued Accounting Principles Board ("APB") No.14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." This FASB Staff Position ("FSP") clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants." Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

The FASB is contemplating an amendment to SFAS No. 128, "Earnings Per Share," that would require the Company to ignore the cash presumption of net share settlement and to assume share settlement for purposes of calculating diluted earnings per share. Although the Company is now required to ignore the contingent conversion provision on its convertible notes under EITF 04-08, it can still presume that it will satisfy the net share settlement of the par value upon conversion of the notes in cash, and thus exclude the effect of the conversion of the notes in its calculation of diluted earnings per share. If and when the FASB amends SFAS No. 128, the effect of the changes would require the Company to use the if-converted method in calculating diluted earnings per share except when the effect would be anti-dilutive. The effect of adopting the amendment to SFAS No. 128 would increase the number of shares in the Company's diluted calculation by 19.2 million shares.

FORWARD-LOOKING INFORMATION

The information contained in this Form 10-Q that addresses future results or expectations is considered "forward-looking" information within the definition of the Federal securities laws. Forward-looking information in this document can be identified through the use of words such as "may," "will," "intend," "plan," "project," "expect," "anticipate," "should," "would," "believe," "estimate," "contemplate," "possible," and "point." The forward-looking information is premised on many factors, some of which are outlined below. Actual consolidated results might differ materially from projected forward-looking information if there are any material changes in management's assumptions.

The forward-looking information and statements are or may be based on a series of projections and estimates and involve risks and uncertainties. These risks and uncertainties include such factors as: the level of consumer spending for apparel and other merchandise carried by the Company and its ability to respond quickly to consumer trends; adequate and stable sources of merchandise; the competitive pricing environment within the retail sector; the effectiveness of planned advertising, marketing, and promotional campaigns; favorable customer response to relationship marketing efforts of proprietary credit card loyalty programs; appropriate inventory management; effective expense control; successful operation of the Company's proprietary credit card strategic alliance with HSBC Bank Nevada, N.A.; geo-political risks; fluctuations in foreign currency and exchange rates; and changes in interest rates. For additional information regarding these and other risk factors, please refer to the Company's Form 10-K for the fiscal year ended February 2, 2008 filed with the SEC, which may be accessed via EDGAR through the Internet atwww.sec.gov.

Management undertakes no obligation to correct or update any forward-looking statements, whether as a result of new information, future events, or otherwise. Persons are advised, however, to consult any further disclosures management makes on related subjects in its reports filed with the SEC and in its press releases.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk primarily arises from changes in interest rates and the U.S. equity and bond markets. The effects of changes in interest rates on earnings generally have been small relative to other factors that also affect earnings, such as sales and operating margins. The Company seeks to manage exposure to adverse interest rate changes through its normal operating and financing activities, and if appropriate, through the use of derivative financial instruments. Such derivative instruments can be used as part of an overall risk management program in order to manage the costs and risks associated with various financial exposures. The Company does not enter into derivative instruments for trading purposes, as clearly defined in its risk management policies. The Company is exposed to interest rate risk primarily through its borrowings, and derivative financial instrument activities.

Based on the Company's market risk sensitive instruments (including variable rate debt) outstanding at November 1, 2008, the Company has determined that there was no material market risk exposure to the Company's consolidated financial position, results of operations, or cash flows as of such date.

Item 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of such date. The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act 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 the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely discussions regarding required disclosures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal controls over financial reporting that occurred during the quarter ended November 1, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

The information in "Part I – Financial Information, Note 8 – Contingencies- Legal Contingencies," is incorporated into this Item by reference.

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

During the quarter ended November 1, 2008, the Company did not sell any equity securities which were not registered under the Securities Act.

The Company has a share repurchase program that authorizes it to purchase shares of the Company's common stock in order to both distribute cash to stockholders and manage dilution resulting from shares issued under the Company's equity compensation plans. The Company did not repurchase and retire any shares of common stock during the quarter ending November 1, 2008. At November 1, 2008, 32.7 million shares remained available for repurchase under the Company's 70.0 million share repurchase authorization.

Item 6. EXHIBITS

4.1	Rights Agreement, dated as of November 25, 2008, by and between Saks Incorporated and The Bank of New York Mellon, as Rights Agent (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on November 26, 2008).
10.1	Amended and Restated Saks Incorporated Employee Stock Purchase Plan, effective September 16, 2008
31.1	Certification of Chief Executive Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
32.2	Certification of Chief Financial Officer, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

Table of Contents

SIGNATURES

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

SAKS INCORPORATED
Registrant

Date December 2, 2008

/s/ Kevin G. Wills

Kevin G. Wills
On behalf of registrant and as Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

AMENDED AND RESTATED
SAKS INCORPORATED
EMPLOYEE STOCK PURCHASE PLAN
(as amended effective 9/16/2008)

1. Purpose. The purpose of the Saks Incorporated Employee Stock Purchase Plan is to provide a method whereby employees of Saks Incorporated and its subsidiaries have an opportunity to purchase shares of Common Stock of the Corporation. The Plan is intended to qualify as an Employee Stock Purchase Plan under Section 423 of the Internal Revenue Code of 1986, as amended, and all provisions of the Plan shall be construed in a manner to effect that intent.

2. Definitions. As used in this Plan, the following words shall have the following meanings:

(a) “Code” shall mean the Internal Revenue Code of 1986, as amended. Reference to a section of the Code shall include that section and any comparable section of any future legislation that amends, supplements, or supersedes that section.

(b) “Common Stock” shall mean the common stock of the Corporation.

(c) “Compensation Committee” shall mean the Human Resources and Compensation Committee of the Board of Directors or any successor committee of the Board of Directors that has the same duties and responsibilities, to which the administrative duties and responsibilities under the Plan are delegated.

(d) “Corporation” shall mean Saks Incorporated, a Tennessee corporation.

(e) “Employee” shall mean any individual who is employed by the Corporation or a Subsidiary on a full-time or part-time basis and who is regularly scheduled to work more than 20 hours per week.

(f) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(g) “Offering” shall mean any opportunity to purchase Common Stock granted to Participants, the terms and conditions of which have been established by the Compensation Committee pursuant to the Plan.

(h) “Offering Commencement Date” shall mean the date on which any Offering commences.

(i) “Offering Termination Date” shall mean the date on which any Offering ends.

(j) “Option” shall mean any opportunity to purchase Common Stock granted to a Participant pursuant to an Offering.

(k) “Participant” shall mean each Employee who becomes a participant in the Plan as provided in Section 5.

(l) "Participation Agreement" shall mean a written participation form pursuant to which an eligible Employee elects to become a Participant and authorizes the Corporation to make payroll deductions with respect to such Employee.

(m) "Plan" shall mean the Amended and Restated Saks Incorporated Employee Stock Purchase Plan (as amended effective 9/16/2008).

(n) "Purchase Price" shall mean the purchase price per share of Common Stock subject to any Option as determined under Section 6(b).

(o) "Subsidiary" shall mean any present or future corporation which:

(i) would be a "subsidiary corporation" of the Company as the term is defined in Section 424 of the Code, and

(ii) is designated as a participant in the Plan by the Board of Directors.

3. Administrative.

(a) Appointment. The Plan shall be administered by the Compensation Committee. The Compensation Committee may, from time to time, delegate nondiscretionary administrative responsibilities under the Plan to Employees who shall continue to be eligible to participate in accordance with Section 4(a).

(b) Powers. The Compensation Committee shall determine:

(i) the time or times when Options shall be granted;

(ii) the number of shares of Common Stock subject to an Offering; and

(iii) the limitations, restrictions, and conditions applicable to any Options.

(c) Interpretations. Subject to the express provisions of the Plan, the Compensation Committee may interpret the Plan, prescribe, amend, and rescind rules and regulations relating to it, determine the terms and conditions of the Options, and make all other determinations it deems necessary or advisable for the administration of the Plan.

(d) Determinations. The determinations of the Compensation Committee on all matters regarding the Plan shall be conclusive. No member of the Compensation Committee shall be liable for any action taken or determination made in good faith.

4. Eligibility.

(a) Initial Eligibility. Each Employee who shall have completed twelve (12) months of employment and is an Employee on the date his or her participation in the Plan is to become effective shall be eligible to participate in Offerings under the Plan that commence on or after such twelve (12) month period has concluded.

(b) Restrictions on Participation. Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an Option under the Plan:

(i) if, immediately after the grant, such Employee would own stock, and/or hold outstanding options (or other awards) to purchase stock, possessing 5% or more of the total combined voting power or value of all classes of stock of the Corporation (for purposes of his paragraph, the rules of Section 423 of the Code shall apply in determining stock ownership of an Employee); or

(ii) which permits the Employee's right to purchase stock under all employee stock purchase plans, within the meaning of Section 423 of the Code, to accrue at a rate that exceeds $25,000 in fair market value of the stock (determined at the time such Options are granted) for each year in which such Options are outstanding.

5. Commencement of Participation.

(a) Participation. An eligible Employee may become a Participant by completing a Participation Agreement and delivering it to an authorized representative of the Corporation. Payroll deductions for a Participant shall commence on the applicable Offering Commencement Date and shall continue in effect until terminated as described in Section 5(b). All such Participant contributions shall be credited to the Participant's account.

(b) Participant Elections. The terms of the Participation Agreement shall provide that the Participant elects to have payroll deductions credited to the Participant's account, subject to the limitations hereinafter described, that will in no event exceed Two Thousand Four Hundred and 00/100 Dollars ($2,400.00) during any Offering. Notwithstanding the foregoing, the Compensation Committee retains the right to adjust this amount for any Offering; provided, however, that if the Compensation Committee increases this amount for a subsequent Offering, the payroll deduction amount elected by a Participant for such Offering shall not increase absent an affirmative election by such Participant. Elections to participate hereunder shall continue in effect for each subsequent Offering unless at least ten (10) days prior to an Offering Commencement Date, the Participant withdraws from the Plan, ceases to be an Employee, or elects a different rate of payroll deductions pursuant to a new Participation Agreement. Notwithstanding the foregoing, the Compensation Committee in its sole discretion may, upon prior notice to Participants, require all Participants to enter into a new Participation Agreement with respect to any subsequent Offering at least ten (10) days prior to the subsequent Offering Commencement Date in order to participate in such Offering.

6. Options.

(a) Number of Option Shares. On each Offering Commencement Date, each Participant shall be granted an Option to Purchase up to the number of shares of Common Stock equal to the number determined by dividing Two Thousand Four Hundred and 00/100 Dollars ($2,400.00) (or such other amount designated as the payroll deduction limit for such Offering) by the Purchase Price.

(b) Purchase Price. The Purchase Price shall be an amount not less than the lower of:

(i) 85% of the closing bid price per share of the Common Stock as listed on the New York Stock Exchange on the last business day preceding the grant of such Option; or

(ii) 85% of the closing bid price per share of the Common Stock as listed on the New York Stock Exchange on the last business day preceding the exercise of such Option.

(c) Maximum Shares Issuable Under the Plan. The maximum number of shares of Common Stock issuable under the Plan pursuant to Options to buy shares of Common Stock is 700,000 subject to adjustments pursuant to Section 9. Shares of Common Stock issued pursuant to the Plan may be either authorized but unissued shares or shares held in the treasury of the Corporation. In the event that any Option under the Plan expires unexercised or is terminated without being exercised, in whole or in part, for any reason, the number of shares theretofore subject to such Option or the unexercised or terminated portion thereof, shall be added to the remaining number of shares of Common Stock available for grant as an Option under the Plan upon such terms and conditions as the Compensation Committee shall determine, which terms may be more or less favorable than those applicable to such former Option.

7. Exercise of Option.

(a) Automatic Exercise. Unless a Participant gives written notice of withdrawal to the Corporation, the Participant's Option for the purchase of shares of Common Stock with payroll deductions made during any Offering will be deemed to have been exercised automatically on the Offering Termination Date applicable to such Offering, for the purchase of the number of shares of Common Stock that the accumulated payroll deductions, not to exceed Two Thousand Four Hundred and 00/100 Dollars ($2,400.00) (or such other amount designated as the payroll deduction limit for such Offering), credited to his or her account at that time will purchase at the applicable Purchase Price (but not in excess of the number of shares for which Options have been granted to the Employee), and subject to Section 7(c), any excess in his account at that time will be returned to him. An Option may be exercised only by a Participant during his or her lifetime or by a beneficiary within ninety (90) days of the date of death of the Participant.

(b) Withdrawal From Account. A Participant who is not subject to Section 16 of the Exchange Act may withdraw from the Plan, in whole but not in part, at any time by delivering written notice to the Corporation's authorized representative indicating such participant's intent to withdraw. A Participant subject to Section 16 of the Exchange Act may not voluntarily withdraw during an Offering. Upon withdrawal by a Participant, the Corporation will promptly refund the entire balance of a Participant's deductions accumulated during the year. A Participant who withdraws from the Plan may reenter for a subsequent Offering by completing a Participation Agreement and delivering it to an authorized representative of the Corporation in accordance with Section 5 at least ten (10) days prior to an Offering Commencement Date.

(c) Fractional Shares. Fractional shares of Common Stock will be issued under the Plan to the extent it is practicable.

(d) Delivery of Shares of Common Stock. As soon as practicable after the Offering Termination Date of each Offering, the Corporation will purchase the shares of Common Stock issued upon exercise of the Option and place such shares of Common Stock in an account in the name of the Participant.

8. Transferability. No Option may be transferred, assigned, pledged or hypothecated (other than to the laws of descent and distribution), and no Option shall be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option or levy of attachment or similar process upon the Option not specifically permitted herein shall be null and void and without effect.

9. Adjustment Provisions. The aggregate number of shares of Common Stock with respect to which Options may be granted, the aggregate number of shares of Common Stock subject to each outstanding Option, and the Purchase Price with respect to an Option, may all be appropriately adjusted as the Compensation Committee may determine for any increase or decrease in the number of shares of issued Common Stock resulting from a subdivision or consolidation of shares, whether through organization, recapitalization, stock split, stock distribution, combination of shares, or the payment of a share dividend or other increase in the number of such shares outstanding effected without receipt of consideration by the Corporation. Adjustments under this Section 9 shall be made in the sole discretion of the Compensation Committee, and its decision shall be binding and conclusive.

10. Dissolution, Merger and Consolidation. Upon the dissolution or liquidation of the Corporation, or upon a merger or consolidation of the Corporation in which the Corporation is not the surviving corporation, each Option granted hereunder shall expire as of the effective date of such transaction; provided, however, that the Compensation Committee shall give at least thirty (30) days prior written notice of such event to each Participant during which time he or she shall have the right to exercise his or her wholly or partially unexercised Option and, subject to prior expiration pursuant to Section 12(a) or (b), each Option shall be exercisable after receipt of such written notice and prior to the effective date of such transaction.

11. Effective Date. The Plan shall become effective on September 16, 2008.

12. Termination of Employment. Notwithstanding anything contained herein to the contrary, each Option shall expire on the earlier of:

(a) the expiration of ninety (90) days commencing with the death of the Participant;

(b) the expiration of ninety (90) days commencing with the date that the employment of the Participant with the Corporation terminates for any reason; or

(c) the applicable Offering Termination Date.

Upon expiration of any Option prior to the applicable Offering Termination Date, any payroll deductions credited to the Participant under the Plan shall be promptly returned to the Participant or his beneficiary in the event of his death, without interest.

13. Miscellaneous.

(a) Legal and Other Requirements. The obligations of the Corporation to sell and deliver shares of Common Stock under the Plan shall be subject to all applicable laws, regulations, rules and approvals, if deemed necessary or appropriate by the Corporation. Certificates for shares of Common Stock issued hereunder may contain a legend as the Compensation Committee deems appropriate.

(b) No Obligation to Exercise Options. The granting of an Option shall impose no obligation upon a Participant to exercise such Option.

(c) Termination and Amendment of Plan. The Compensation Committee, without further action on the part of the shareholders of the Corporation, may from time to time alter, amend or suspend the Plan or any Option granted hereunder or may, at any time, terminate the Plan, except that, unless approved by the shareholders in accordance with Section 11, it may not;

(i) change the total number of shares of Common Stock authorized to be issued under the Plan; or

(ii) change the class of employees eligible to be granted Options under the Plan. No action taken by the Compensation Committee under this Section may materially and adversely affect any outstanding Option without the consent of the holder thereof.

(d) Application of Funds. The proceeds received by the Corporation from the sale of shares of Common Stock pursuant to Options will be used for general corporate purposes.

(e) Right to Terminate Employment. Nothing in the Plan or any agreement entered into pursuant to the Plan shall confer upon any Employee or Participant the right to continue in the employment of the Corporation or affect any right which the Corporation may have to terminate the employment of such Employee or Participant.

(f) Right as a Shareholder. No Participant shall have any rights or privileges as a shareholder in shares of Common Stock covered by an Option until such Option has been exercised.

(g) Leaves of Absence and Disability. A Participant shall continue to be treated as an Employee for all purposes of the Plan during the first ninety (90) days of any leave of absence, whether such leave is with or without pay. Upon expiration of such ninety (90) day period, unless a Participant has resumed employment as an Employee, his employment for purposes of the Plan shall be deemed to terminate on such date. During the first ninety (90) days of leave of absence the Participant shall continue to have all rights otherwise provided pursuant to the Plan and the additional right to supplement the payroll deductions (if any) made during such period with out-of-pocket payments to the extent necessary to continue his Plan election in effect for the applicable Offering.

(h) Notices. Every direction, revocation, or notice authorized or required by the Plan shall be deemed delivered to the Corporation: (A) on the date it is personally delivered to the Secretary of the Corporation at its principal executive offices; or (B) three business days after it is sent by registered or certified mail, postage prepaid, addressed to the Secretary at such offices; and shall be deemed delivered to a Participant: (1) on the date it is personally delivered to him or her, or (2) three (3) business days after it is sent by registered or certified mail, postage prepaid, addressed to him or her at the last address shown for him or her on the records of the Corporation.

(i) Applicable Law. All questions pertaining to the validity, construction and administration of the Plan granted hereunder shall be determined in conformity with the laws of the State of Tennessee.

(j) Limitations on Sale of Shares of Common Stock Purchased Under the Plan. The Plan is intended to provide shares of Common Stock for long-term investment. The Corporation does not, however, intend to restrict or influence any Employee in the conduct of his or her own affairs. An Employee may, therefore, sell shares of Common Stock purchased under the Plan at any time he or she chooses; provided, however, that because of certain federal income tax requirements each Employee will agree by entering the Plan to give the Corporation prompt notice of any such shares of Common Stock disposed of within two (2) years after the date of grant of the applicable Option showing the number of such shares disposed of. An appropriate legend requiring such notice shall be placed on the certificate of Common Stock issued hereunder. The Employee assumes the risk of any market fluctuations in price of such shares of Common Stock.

Officers and directors should note that, pursuant to federal securities laws, certain restrictions apply to the number of shares of Common Stock he or she may sell, the manner of sale, and the timing of sales with respect to the resale of shares acquired under the Plan; therefore, officers and directors must consult with the office of the Senior Vice President of Investor Relations prior to any such sales.

[Remainder of Page Intentionally Blank; Signature Page Follows.]

IN WITNESS WHEREOF, the Corporation has adopted the foregoing instrument as of September 16, 2008.

SAKS INCORPORATED

/s/ Christine Morena
Signature

Christine Morena, EVP -HR
Printed Name, Title

ATTEST:

/s/ Ron Llewellyn
Signature

Ron Llewellyn, Secretary
Printed Name, Title

Pursuant to the certification requirements of Section 302 of the Sarbanes-Oxley Act of 2002, the principal executive officer of the registrant has complied as follows.

I, Stephen I. Sadove, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Saks Incorporated;

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 or 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 the 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.

Date: December 2, 2008

/s/ Stephen I. Sadove

Stephen I. Sadove
Chief Executive Officer

Exhibit 31.2

Pursuant to the certification requirements of Section 302 of the Sarbanes-Oxley Act of 2002, the chief financial officer of the registrant has complied as follows.

I, Kevin G. Wills, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Saks Incorporated;

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 or 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 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 the 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.

Date: December 2, 2008

/s/ Kevin G. Wills

Kevin G. Wills
Executive Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned, Stephen I. Sadove, Chief Executive Officer of Saks Incorporated (the “Company”), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company’s Quarterly Report on Form 10-Q for the quarter ended November 1, 2008 (the “Report”).

The undersigned hereby certifies 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

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 2nd day of December, 2008.

/s/ Stephen I. Sadove

Stephen I. Sadove
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Saks Incorporated and will be retained by Saks Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF ACCOUNTING OFFICER
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

The undersigned, Kevin G. Wills, Executive Vice President and Chief Financial Officer of Saks Incorporated (the "Company"), has executed this certification in connection with the filing with the Securities and Exchange Commission of the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2008 (the "Report").

The undersigned hereby certifies 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

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 2nd day of December, 2008.

/s/ Kevin G. Wills
Kevin G. Wills
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Saks Incorporated and will be retained by Saks Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.