

JONES APPAREL GROUP
2009 ANNUAL REPORT

JONES APPAREL GROUP

To Our Shareholders:

In my letter to you last year, I stated our full commitment to emerging from the financial crisis as a stronger participant in the apparel, footwear and accessories businesses. While 2009 continued to present us with a unique set of challenges, the initiatives we implemented to focus on our core brands, manage inventories, control costs and expenses and leverage our scale positively impacted our results, and we entered 2010 in a position of financial and operational strength. Given this, and the outlook for economic recovery, we believe we are poised for a new phase of growth.

Strong Financial Position

Throughout 2009, we continued to build upon our solid financial platform, which included completing a new credit facility and early retirement of approximately \$250 million of notes payable. We maintained a disciplined approach to our finances and focused on controlling costs and inventories throughout the year. As a result of these actions, we ended 2009 with cash on hand of \$333 million and generated operating cash flow of \$349 million. While credit markets have improved, we are pleased that our \$650 million credit facility remains undrawn and we have no debt coming due for four years. Going forward, we will remain tempered in our spending and prudent in our actions.

Brands Revitalized and in the Right Position for Today's Consumer

We have a unique advantage in the current economy as our brands are in the "sweet spot" of today's consumer mindset. Our core brands are as strong as ever, with consistency in styling, quality and fit, and have attracted a loyal customer base. We are pleased with our brand positioning and believe our core brands will begin to show sales growth as we move through 2010.

We continue to stimulate our brands with fresh product initiatives, innovative concepts and creative marketing and branding techniques – keys to success in today's economy. Some of our initiatives this past year are recapped as follows:

- Launch of *Jones New York Collection Knits*, and *j Jones New York*, which have been well-received by customers;
- Launch of *Nine West Vintage America Collection*, which is performing well;
- *Rachel Roy* continues to gain attention from the fashion press and increased consumer awareness;
- *Rachel Rachel Roy* brand in Macy's is a success, and for Spring 2010 increased to 140 doors in Macy's and 18 doors in Hudson's Bay Company in Canada;
- Partnership with the Camuto Group to launch *Jessica Simpson* jeanswear, as part of the successful *Jessica Simpson Collection*;

- Launch of *GLO Jeans* exclusively at Kmart, using our jeanswear expertise to increase our position in the mass market channel;
- Additional investment in GRI based in high growth markets in Asia, and a licensing agreement with Kurt Geiger to market footwear in the United Kingdom; and
- Acquisition of the *Robert Rodriguez Collection*, increasing our presence in the contemporary market, including three labels - *Robert Rodriguez*, *Robert Rodriguez Black Label* and *Robbi & Nikki*.

Vertical Retail Restructured and Showing Results

In the first quarter of 2009, we announced a Retail Improvement Plan, which was designed to right-size our retail portfolio with the goal of enhancing segment profitability and improving return on invested capital. By the end of 2009, we had closed 99 locations and we remain on track to close 165 additional locations by the end of this year. At the end of 2010, we expect to be operating approximately 740 stores in the United States. Our Retail Improvement Plan improved 2009 results by about \$4 million, and we expect these benefits will continue to rise to approximately \$16 million in 2010 and \$22 million in 2011. We were pleased to report that these actions, combined with an overall focus on costs and merchandising, helped us to return the Retail segment to profitability in the fourth quarter of 2009. While there will still be seasonal variations in quarterly retail results, we are very encouraged by our progress.

Additionally, we continue to focus on E-commerce and test and evaluate new retail concepts. Our E-commerce business continues to grow rapidly, with net sales increasing 67% over 2008, reaching \$54 million in sales. We are currently operating five test doors of our multi-brand footwear concept, ShoeWoo, and plan to open three more. In March, we introduced a ShoeWoo.com E-commerce site, which offers a multi-brand sales platform and features many of our shoe brands, which were not previously sold online.

Looking Ahead

Looking ahead to the remainder of 2010, we are encouraged by the indication of an economic recovery worldwide. While signals remain somewhat mixed, trends at retail market indicate that supply and demand have come into balance. Our retail partners are able to plan more accurately for the future as market visibility increases; however, they remain conservative in their inventory planning.

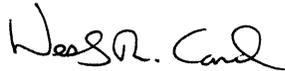
As we maneuver through the ever-changing environment, we continue to explore new and exciting opportunities that allow us to use our core strengths to offer consumers fashionable, quality products at the right price points.

On behalf of all of us at Jones Apparel Group, I would like to take this opportunity to welcome Richard Dickson to our team. In February, he joined our Company as President and Chief Executive Officer of Branded Businesses. Richard has significant leadership, general management and merchandising experience. He is responsible for management of our wholesale and retail businesses worldwide. I expect that Richard will complement our seasoned leadership team and introduce new and innovative ideas into our strategic thinking.

I want to thank our Board of Directors for their expert guidance throughout the past year and as we position the Company for continued growth and success in the future. Additionally, we thank you, our valued shareholders, and our customers, vendors and suppliers for your continued confidence in us. We greatly appreciate your support and trust.

Finally, a special word of thanks to our more than ten thousand full and part-time talented associates around the world for their unwavering dedication and hard work throughout the year. It is due to your commitment, spirit and enthusiasm that we are so well positioned for the future.

Sincerely,

A handwritten signature in black ink that reads "Wesley R. Card". The signature is written in a cursive style with a large, stylized 'W' and 'C'.

Wesley R. Card
Chief Executive Officer

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

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 1-10746

JONES APPAREL GROUP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

06-0935166
(I.R.S. Employer
Identification No.)

1411 Broadway
New York, New York
(Address of principal executive offices)

10018
(Zip Code)

Registrant's telephone number, including area code: **(212) 642-3860**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---------------------------------------|--|
| Common Stock, \$0.01 par value | New York Stock Exchange, Inc. |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
 Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" 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 Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the registrant's common stock as reported on the New York Stock Exchange composite tape on July 4, 2009, was approximately \$832,272,057.

As of February 15, 2010, 87,191,271 shares of the registrant's common stock were outstanding.

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| PART I | |
| Item 1 Business | 5 |
| Item 1A Risk Factors | 25 |
| Item 1B Unresolved Staff Comments..... | 28 |
| Item 2 Properties | 29 |
| Item 3 Legal Proceedings | 29 |
| Item 4 Submission of Matters to a Vote of Security Holders | 29 |
| Executive Officers of the Registrant | 30 |
| PART II | |
| Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 31 |
| Item 6 Selected Financial Data | 33 |
| Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations | 35 |
| Item 7A Quantitative and Qualitative Disclosures About Market Risk | 51 |
| Management’s Report on Internal Control Over Financial Reporting | 52 |
| Item 8 Financial Statements and Supplementary Data | 54 |
| Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 93 |
| Item 9A Controls and Procedures..... | 93 |
| PART III | |
| Item 10 Directors, Executive Officers and Corporate Governance | 94 |
| Item 11 Executive Compensation | 94 |
| Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 95 |
| Item 13 Certain Relationships and Related Transactions, and Director Independence | 95 |
| Item 14 Principal Accounting Fees and Services | 95 |
| PART IV | |
| Item 15 Exhibits, Financial Statement Schedules..... | 96 |
| Signatures..... | 97 |
| Index to Financial Statement Schedules | 98 |
| Exhibit Index..... | 98 |

DOCUMENTS INCORPORATED BY REFERENCE

The documents incorporated by reference into this Form 10-K and the Parts hereof into which such documents are incorporated are listed below:

| <u>Document</u> | <u>Part</u> |
|---|-------------|
| Those portions of the registrant’s proxy statement for the registrant’s 2010 Annual Meeting of Stockholders (the “Proxy Statement”) that are specifically identified herein as incorporated by reference into this Form 10-K. | III |

DEFINITIONS

As used in this Report, unless the context requires otherwise, “our,” “us” and “we” means Jones Apparel Group, Inc. and consolidated subsidiaries, “Jones USA” means Jones Apparel Group USA, Inc., “Nine West Group” means Nine West Group Inc., “Nine West” means Nine West Footwear Corporation, “Victoria” means Victoria + Co Ltd., “McNaughton” means McNaughton Apparel Group, Inc., “Kasper” means Kasper, Ltd., “Maxwell” means Maxwell Shoe Company Inc., “Barneys” means Barneys New York, Inc., “Sun” means Sun Apparel, Inc., “GRI” means GRI Group Limited, “Polo” means Polo Ralph Lauren Corporation, “FASB” means the Financial Accounting Standards Board, “SFAS” means Statement of Financial Accounting Standards, “ASC” means the “FASB Accounting Standards Codification™”, “ASU” means “Accounting Standards Update” and “SEC” means the United States Securities and Exchange Commission.

STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

This Report includes, and incorporates by reference, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements regarding our expected financial position, business and financing plans are forward-looking statements. The words “believes,” “expects,” “plans,” “intends,” “anticipates” and similar expressions identify forward-looking statements. Forward-looking statements also include representations of our expectations or beliefs concerning future events that involve risks and uncertainties, including:

- those associated with the effect of national, regional and international economic conditions;
- lowered levels of consumer spending resulting from a general economic downturn or lower levels of consumer confidence;
- the tightening of the credit markets and our ability to obtain capital on satisfactory terms;
- given the uncertain economic environment, the possible unwillingness of committed lenders to meet their obligations to lend to borrowers, in general;
- the performance of our products within the prevailing retail environment;
- customer acceptance of both new designs and newly-introduced product lines;
- our reliance on a few department store groups for large portions of our business;
- our ability to identify acquisition candidates and, in a competitive environment for such acquisitions, acquire such businesses on reasonable financial and other terms;
- the integration of the organizations and operations of any acquired business into our existing organization and operations;
- consolidation of our retail customers;
- financial difficulties encountered by our customers;
- the effects of vigorous competition in the markets in which we operate;
- our ability to attract and retain qualified executives and other key personnel;
- our reliance on independent foreign manufacturers;
- changes in the costs of raw materials, labor, advertising and transportation;

- the general inability to obtain higher wholesale prices for our products that we have experienced for many years;
- the uncertainties of sourcing associated with an environment in which general quota has expired on apparel products but litigation and political activity seeking to re-impose quotas have been initiated;
- our ability to successfully implement new operational and financial computer systems; and
- our ability to secure and protect trademarks and other intellectual property rights.

All statements other than statements of historical facts included in this Report, including, without limitation, the statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such expectations may prove to be incorrect. Important factors that could cause actual results to differ materially from our expectations (“Cautionary Statements”) are disclosed in this Report in conjunction with the forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements. We do not undertake to publicly update or revise our forward-looking statements as a result of new information, future events or otherwise.

WEBSITE ACCESS TO COMPANY REPORTS

Copies of our filings under the Securities Exchange Act of 1934 (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports) are available free of charge on our investor relations website at www.jonesapparel.com on the same day they are electronically filed with the SEC.

PART I

ITEM 1. BUSINESS

General

We are a leading designer, marketer and wholesaler of branded apparel, footwear and accessories. We also market directly to consumers through our chain of specialty retail and value-based stores and through our e-commerce web sites. Our nationally recognized brands include *Jones New York*, *Nine West*, *Anne Klein*, *Gloria Vanderbilt*, *Kasper*, *Bandolino*, *Easy Spirit*, *Evan-Picone, l.e.i.*, *Energie*, *Enzo Angiolini*, *Joan & David*, *Mootsies Tootsies*, *Sam & Libby*, *Napier*, *Judith Jack*, *Albert Nipon* and *Le Suit*. We also market costume jewelry under the *Givenchy* brand licensed from Givenchy Corporation, women's footwear under the *Dockers*® and *Dockers*® Women brands and infants', toddlers' and boys' footwear (excluding girls' footwear) under the *Dockers*® and *Dockers*® Premium brands, licensed from Levi Strauss & Co., apparel and accessories under the *Rachel Roy* brand licensed from Rachel Roy IP Company, LLC (a limited liability company in which we own a fifty percent interest) and *Jessica Simpson* jeanswear licensed from VCJS, LLC. Each brand is differentiated by its own distinctive styling, pricing strategy, distribution channel and target consumer. We contract for the manufacture of our products through a worldwide network of quality manufacturers. We have capitalized on our nationally known brand names by entering into various licenses for several of our trademarks, including *Jones New York*, *Anne Klein New York*, *Nine West*, *Gloria Vanderbilt, l.e.i.* and *Evan-Picone*, with select manufacturers of women's and men's products which we do not manufacture. For more than 30 years, we have built a reputation for excellence in product quality and value, and in operational execution.

Recent Developments

On February 4, 2010, we announced that we had acquired Moda Nicola International, LLC ("MNI"), owner of the *Robert Rodriguez Collection*, a privately held designer, marketer and wholesaler of women's contemporary eveningwear and sportswear. MNI generated net revenues of approximately \$17 million for the year ended December 31, 2009.

Operating Segments

Our operations are comprised of five revenue-generating segments: wholesale better apparel, wholesale jeanswear, wholesale footwear and accessories, retail and licensing. We identify operating segments based on, among other things, the way our management organizes the components of our business for purposes of allocating resources and assessing performance. Segment revenues are generated from the sale of apparel, footwear and accessories through wholesale channels, our own retail locations and several e-commerce web sites that we operate and, for licensing, as a percentage of revenues for items sold by our licensees under our trademarks. See "Business Segment and Geographic Area Information" in the Notes to Consolidated Financial Statements.

Wholesale Better Apparel

Our brands cover a broad array of categories for the women's markets. Within those brands, various product classifications include career and casual sportswear, jeanswear, dresses, suits, and a combination of all components termed lifestyle collection. Career and casual sportswear are marketed as individual items or groups of skirts, pants, shorts, jackets, blouses, sweaters and related accessories which, while sold as separates, are coordinated as to styles, color schemes and fabrics, and are designed to be worn together. New collections are introduced in the four principal selling seasons - Spring, Summer, Fall and Holiday. Each season is comprised of a series of individual items or groups which have systematically spaced shipment dates to ensure a fresh flow of goods to the retail floor. In addition, certain brands offer key item styles, which are less seasonal in nature, on a replenishment basis (which ship generally within three to five days from receipt of order).

The following table summarizes selected aspects of the products sold under both our brands and licensed brands:

| <u>Group</u> | <u>Category</u> | <u>Products</u> | <u>Brand</u> | <u>Product Classification</u> | <u>Retail Price Points</u> |
|-----------------------|-----------------|--|---|---|--|
| <i>Jones New York</i> | Better | Skirts, blouses, pants, jackets, sweaters, jeanswear, suits, dresses, casual tops, outerwear, shorts | <i>Jones New York</i> <i>Jones New York Signature</i> <i>Jones New York Sport</i> <i>Jones Jeans</i> <i>Jones New York Dress</i> <i>Jones New York Suit</i> <i>Jones Wear</i> <i>Jones & Co</i> <i>Jones Studio</i> | Career Lifestyle Lifestyle Lifestyle Dresses Suits Dresses Career Dresses | \$32 - \$446 \$20 - \$209 \$20 - \$159 \$36 - \$59 \$49 - \$278 \$89 - \$320 \$70 - \$120 \$39 - \$119 \$50 - \$70 |
| <i>Nine West</i> | Better | Skirts, blouses, pants, jackets, sweaters, suits, dresses, outerwear, shorts, casual tops, jeanswear | <i>Nine West</i> <i>Nine West Dress</i> <i>Nine West Suits</i> <i>Nine West Denim</i> | Career Dresses Suits Lifestyle | \$20 - \$309 \$99 - \$225 \$139 - \$264 \$30 - \$99 |
| <i>Anne Klein</i> | Bridge | Skirts, blouses, pants, jackets, sweaters, dresses | <i>Anne Klein New York</i> | Lifestyle | \$95 - \$2,400 |
| <i>Anne Klein</i> | Better | Skirts, blouses, pants, jackets, sweaters, vests, dresses, casual tops, jeanswear | <i>AK Anne Klein</i> <i>AK Sport</i> <i>Anne Klein Dress</i> <i>Anne Klein Suit</i> <i>Anne Klein Denim</i> | Lifestyle Lifestyle Dresses Suits Lifestyle | \$24 - \$375 \$29 - \$169 \$128 - \$287 \$275 - \$360 \$22 - \$99 |
| <i>Rachel Roy</i> | Designer | Skirts, blouses, pants, jackets, sweaters, dresses, outerwear, accessories | <i>Rachel Roy New York</i> | Designer | \$185 - \$4,995 |
| | Better | Skirts, blouses, pants, jackets, sweaters, dresses | <i>Rachel Rachel Roy</i> | Lifestyle | \$39 - \$250 |
| Other | Bridge | Suits | <i>Albert Nipon</i> | Suits | \$280 - \$520 |
| Other | Better | Skirts, blouses, pants, jackets, sweaters, suits, dresses | <i>Kasper</i> <i>Evan-Picone</i> <i>Le Suit</i> <i>Rena Rowan</i> | Suits, Dresses, Sportswear Suits, Dresses Suits Dresses | \$29 - \$320 \$40 - \$240 \$176 - \$240 \$68 - \$158 |

Wholesale Jeanswear

Our brands cover a broad array of categories for the women's, juniors and girls markets. Within those brands, our product classifications include jeanswear, casual sportswear and dresses, with a focus on fit, fabric and finish. Jeanswear and casual sportswear are designed and marketed as individual items of jeans, skirts, pants, shorts, jackets, casual tops, sweaters and related accessories which, while sold as separates, can be combined with each other and with certain of our wholesale better products into groups termed "lifestyle collection" that are designed to be worn together. New collections are introduced in the four principal selling seasons - Spring, Summer, Fall and Holiday. Each season is comprised of a series of individual items or groups which have scheduled shipment dates to ensure a fresh flow of goods to the retail floor. In addition, certain brands offer key item styles, which are less seasonal in nature, on a replenishment basis (which ship generally within five days from receipt of order).

The following table summarizes selected aspects of the products sold under our brands:

| <u>Group</u> | <u>Products</u> | <u>Brand</u> | <u>Product Classification</u> | <u>Retail Price Points</u> |
|--------------------------|--|--|--|----------------------------|
| <i>Jones New York</i> | Skirts, blouses, pants, jackets, sweaters, casual tops, dresses | <i>Jones Wear</i> | Collection Sportswear | \$40 - \$100 |
| <i>Gloria Vanderbilt</i> | Skirts, blouses, shorts, jackets, sweaters, jeanswear, capris, casual tops | <i>Gloria Vanderbilt</i> | Casual Sportswear | \$12 - \$48 |
| <i>l.e.i.</i> | Skirts, shorts, jeanswear, capris, casual tops | <i>l.e.i.</i> | Casual Sportswear | \$8 - \$20 |
| <i>Energie</i> | Skirts, shorts, jackets, sweaters, jeanswear, casual tops | <i>Energie</i> | Casual Sportswear | \$6 - \$48 |
| Other | Skirts, blouses, pants, jackets, sweaters, jeanswear, dresses, casual tops and bottoms | <i>Evan-Picone</i> <i>Bandolino Blu</i> <i>GLO/GLO Girls</i> <i>Grane</i> | Collection Sportswear Casual Sportswear Casual Sportswear Casual Sportswear | \$10 - \$44 |

In January 2010, we entered into a sub-license agreement with VCJS LLC (“VCJS”) to design, develop, produce and distribute in the United States, Mexico and Canada *Jessica Simpson* jeanswear under the *Jessica Simpson* (signature) trademark which VCJS licenses from With You, Inc. (“WYI”). For more information, see “Licensed Brands.”

In addition to the products sold under these brands, we provide design and manufacturing resources to certain retailers to develop moderately-priced product lines to be sold under private labels.

Wholesale Footwear and Accessories

Our wholesale footwear and accessories operations include the sale of both brand name and private label footwear, handbags, small leather goods and costume, semi-precious, sterling silver, and marcasite jewelry. The following table summarizes selected aspects of the products sold under both our brands and licensed brands:

| Footwear | | | | |
|-----------------------|--|---|--|---|
| <u>Category</u> | <u>Brand</u> | <u>Product Classification</u> | <u>Retail Price Points</u> | |
| | | | <u>Shoes</u> | <u>Boots</u> |
| Bridge | <i>Joan & David</i> | Sophisticated Classics | \$129 - \$250 | \$250 - \$375 |
| Better | <i>Nine West</i> <i>Nine West Kids</i> <i>Enzo Angiolini</i> <i>AK Anne Klein</i> <i>Circa Joan & David</i> <i>Boutique 9</i> <i>Rachel Rachel Roy</i> | Contemporary Children’s Sophisticated Classics Modern Classics Sophisticated Classics Contemporary Contemporary | \$39 - \$159 \$30 - \$45 \$59 - \$130 \$49 - \$89 \$49 - \$129 \$59 - \$180 \$89 - \$129 | \$79 - \$209 \$45 - \$49 \$99 - \$225 \$89 - \$179 \$99 - \$199 \$160 - \$325 \$109 - \$199 |
| Upper Moderate | <i>Bandolino</i> <i>Easy Spirit</i> | Modern Classics Comfort/Fit, Active, Sport/Casuals | \$29 - \$79 \$28 - \$89 | \$79 - \$169 \$69 - \$129 |
| Moderate | <i>Nine & Company</i> <i>Mootsies Tootsies</i> <i>Mootsies Tootsies Kids</i> <i>Sam & Libby</i> <i>Sam & Libby Kids</i> <i>Dockers® Women</i> <i>Dockers® Boys</i> | Contemporary Lifestyle Children’s Contemporary Children’s Lifestyle Children’s | \$40 - \$70 \$30 - \$55 \$30 - \$35 \$40 - \$60 \$30 - \$35 \$40 - \$65 \$45 - \$48 | \$120 \$60 - \$70 \$40 \$50 - \$90 \$35 - \$40 \$65 - \$75 \$45 - \$60 |

| Accessories | | | |
|-----------------|---------------------------|---|----------------------------|
| <u>Category</u> | <u>Brand</u> | <u>Product Classification</u> | <u>Retail Price Points</u> |
| Bridge | <i>Judith Jack</i> | Marcasite and Sterling Silver Jewelry | \$45 - \$417 |
| Better | <i>AK Anne Klein</i> | Handbags and Costume Jewelry | \$18 - \$178 |
| | <i>Nine West</i> | Handbags, Small Leather Goods and Costume Jewelry | \$14 - \$199 |
| | <i>Givenchy</i> | Costume and Fashion Jewelry | \$10 - \$250 |
| | <i>Rachel Rachel Roy</i> | Handbags and Costume Jewelry | \$22 - \$195 |
| | <i>Bandolino</i> | Handbags | \$64 - \$98 |
| | <i>Evan-Picone</i> | Handbags | \$44 - \$58 |
| Moderate | <i>Nine & Company</i> | Handbags, Small Leather Goods and Costume Jewelry | \$12 - \$69 |
| | <i>Napier</i> | Costume Jewelry | \$8 - \$48 |
| | <i>l.e.i.</i> | Costume Jewelry | \$5 - \$7 |

Retail

We market apparel, footwear and accessories directly to consumers through our specialty retail stores operating in malls and urban retail centers, our various value-based (“outlet”) stores located in major retail locations, and on several e-commerce web sites that we operate. We constantly evaluate both the opportunities for new locations and the results of underperforming locations for possible modifications or closures.

We began 2009 with 1,017 retail locations and had a net decrease of 79 locations to end the year with 938 locations. During 2009, we decided to close approximately 265 underperforming retail locations by the end of 2010, of which 99 closed during the year. The majority of the locations identified for closing are mall-based specialty retail stores, allowing us to focus more on our outlet stores.

Specialty Retail Stores. At December 31, 2009, we operated a total of 321 specialty retail stores. These stores sell either footwear and accessories or apparel (or a combination of these products) primarily under their respective brand names. Our *Nine West*, *Easy Spirit*, *Bandolino* and *AK Anne Klein* retail stores offer selections of exclusive products not marketed to our wholesale customers. Our multibranded *ShoeWoo* specialty stores offer selections from many of our brand names. Specialty retail stores may also sell products licensed by us, including belts, legwear, outerwear, watches and sunglasses.

The following table summarizes selected aspects of our specialty retail stores at December 31, 2009. Of these stores, 317 are located within the United States and its territories and four are located in Canada.

| Store Type | Number of locations | Brands offered | Retail Price Points | | | Type of locations | Average store size (sq. ft.) |
|--------------------|---------------------|------------------------------|---------------------|-------------|---------------|---|------------------------------|
| | | | Shoes and Boots | Accessories | Apparel | | |
| <i>Nine West</i> | 185 | Primarily <i>Nine West</i> | \$39 - \$325 | \$6 - \$525 | \$115 - \$145 | Upscale and regional malls and urban retail centers | 1,593 |
| <i>Easy Spirit</i> | 83 | Primarily <i>Easy Spirit</i> | \$20 - \$189 | \$5 - \$59 | \$59 - \$109 | Upscale and regional malls and urban retail centers | 1,421 |
| <i>Bandolino</i> | 39 | Primarily <i>Bandolino</i> | \$29 - \$169 | \$25 - \$89 | - | Urban retail locations and regional malls | 1,396 |

| Store Type | Number of locations | Brands offered | Retail Price Points | | | Type of locations | Average store size (sq. ft.) |
|----------------------|---------------------|-------------------|---------------------|--------------|--------------|---|------------------------------|
| | | | Shoes and Boots | Accessories | Apparel | | |
| <i>AK Anne Klein</i> | 6 | <i>Anne Klein</i> | \$49 - \$189 | \$24 - \$248 | - | Upscale urban retail locations and regional malls | 1,308 |
| Apparel | 4 | Various | - | - | \$18 - \$737 | Urban retail locations and regional malls | 5,123 |
| <i>ShoeWoo</i> | 4 | Various | \$39 - \$375 | \$7 - \$225 | - | Urban retail locations | 2,623 |

Outlet Stores. At December 31, 2009, we operated a total of 617 outlet stores. Our shoe stores focus on breadth of product line, as well as value pricing, and offer a distribution channel for our residual inventories. The majority of the shoe stores' merchandise consists of new production of current and proven prior season's styles, with the remainder of the merchandise consisting of discontinued styles from our specialty retail footwear stores and wholesale divisions. The apparel stores focus on breadth of product line and value pricing. In addition to our brand name merchandise, these stores also sell merchandise produced by our licensees.

The following table summarizes selected aspects of our outlet stores at December 31, 2009. Of these stores, 584 are located within the United States and its territories and 33 are located in Canada.

| Store type | Number of locations | Brands offered | Type of locations | Average store size (sq. ft.) |
|-----------------------|---------------------|---|-----------------------------|------------------------------|
| <i>Nine West</i> | 198 | Primarily <i>Nine West</i> | Manufacturer outlet centers | 2,947 |
| <i>Jones New York</i> | 170 | Primarily <i>Jones New York</i> and <i>Jones New York Sport</i> | Manufacturer outlet centers | 3,795 |
| <i>Easy Spirit</i> | 115 | Primarily <i>Easy Spirit</i> | Manufacturer outlet centers | 3,369 |
| <i>Kasper</i> | 84 | Primarily <i>Kasper</i> | Manufacturer outlet centers | 2,636 |
| <i>Anne Klein</i> | 49 | Primarily <i>Anne Klein</i> | Manufacturer outlet centers | 2,686 |

Internet. At December 31, 2009, we operated e-commerce web sites at www.jny.com, www.ninewest.com, www.easyspirit.com, www.bandolino.com, www.anneklein.com and www.rachelroy.com. Through these web sites, we market either footwear and accessories, apparel or a combination of these products, primarily under their respective brand names. The selection of products is substantially consistent with the product offerings in our corresponding retail store concepts. Our e-commerce systems allow us to fulfill customer orders from inventory at our retail store locations if the items are not available at our distribution center.

Licensed Brands

We have an exclusive license to produce, market and distribute costume jewelry in the United States, Canada, Mexico and Japan under the *Givenchy* trademark pursuant to an agreement with Givenchy, which expires on December 31, 2011. The agreement requires us to pay a percentage of net sales against guaranteed minimum royalty and advertising payments as set forth in the agreement.

We have an exclusive license to produce and sell women's footwear under the *Dockers*[®] and *Dockers*[®] *Women* trademarks in the United States (including its territories and possessions) pursuant to an agreement with Levi Strauss & Co. The agreement, which expires on December 31, 2011, requires us to pay a percentage of net sales against guaranteed minimum royalty and advertising payments as set forth in the agreement. In early 2009, we signed a similar agreement with Levi Strauss & Co., which gives us an exclusive license to produce and sell infants', toddlers' and boys' footwear (excluding girls' footwear) under the *Dockers*[®] and *Dockers*[®] *Premium* trademarks in the United States (including its territories and possessions). This agreement also expires on December 31, 2011.

We have an exclusive license with New Balance Athletic Shoe, Inc. and its affiliate New Balance Licensing, LLC (together, "New Balance") to create and distribute, in the United States and certain other countries, a fashion-lifestyle footwear collection label that brings together New Balance's innovative performance and materials technology with Nine West's fashion styling. The agreement, which expires on December 31, 2010, requires us to pay a percentage of net sales as set forth in the agreement. Manufacturing and production for the collection is split between the companies: New Balance is responsible for the innovative material direction, casual and athletic footwear styling and insole technology while Nine West is responsible for fashion footwear, soft-tech styling and color. This effort is supported by an integrated marketing campaign, including public relations, events, and a combination of digital and traditional media.

We have an exclusive, worldwide license with Rachel Roy IP Company, LLC, a limited liability company in which we own a fifty percent interest, to create, market, and distribute women's apparel, footwear, handbags, small leather goods and costume jewelry under the *Rachel Roy*, *Rachel Roy New York*, and *RR & Design* trademarks and variations and derivatives thereof including *Rachel Roy Signature* and *Rachel Rachel Roy*. The agreement, which remains in force as long as we remain in business and continue to exploit the rights granted to us thereunder, requires us to pay a percentage of net sales as royalty payments as set forth in the agreement.

In January 2010, we entered into a sub-license agreement with VCJS to design, develop, produce and distribute in the United States, Mexico and Canada *Jessica Simpson* jeanswear under the *Jessica Simpson* (signature) trademark which VCJS licenses from WYI. The agreement, which expires on December 31, 2014 (October 15, 2014 if the master license between WYI and VCJS is not renewed), requires us to pay a percentage of net sales against guaranteed minimum royalty and pooled marketing fee payments as set forth in the agreement. The agreement contains renewal options under certain conditions through December 31, 2023.

Design

Our apparel product lines have design teams that are responsible for the creation, development and coordination of the product group offerings within each line. We believe our design staff is recognized for its distinctive styling of garments and its ability to update fashion classics with contemporary trends. Our apparel designers travel throughout the world for fabrics and colors, and stay continuously abreast of the latest fashion trends. In addition, we actively monitor the retail sales of our products to determine and react to changes in consumer trends.

For most sportswear lines, we will develop several groups in a season. A group typically consists of an assortment of skirts, pants, jeans, shorts, jackets, blouses, sweaters, t-shirts and various accessories. We believe that we are able to reduce design risks because we often will not have started cutting fabrics until we are within the first few weeks of a major selling season. Since different styles within a group often use the same fabric, we can redistribute styles and, in some cases, colors, to fit current market demand. We also have a key item replenishment program for certain lines which consists of core products that reflect little variation from season to season.

Our footwear and accessories product lines are developed by a combination of our own design teams and third-party designers, which independently interpret global lifestyle, clothing, footwear and accessories trends. To research and confirm such trends, the teams travel extensively in Asia, Europe and major American markets, conduct extensive market research on retailer and consumer preferences, and

subscribe to fashion and color information services. Each team presents styles that maintain each brand's distinct personality. Samples are refined and then produced. After the samples are evaluated, lines are modified further for presentation at each season's shoe shows and accessory markets.

Our jewelry brands are developed by separate design teams. Each team presents styles that maintain each brand's distinct personality. A prototype is developed for each new product where appropriate. Most prototypes are produced by our contractors based on technical drawings that we supply. These prototypes are reviewed by our product development team, who negotiate costs with the contractors. After samples are evaluated and cost estimates are received, the lines are modified as needed for presentation for each selling season.

In accordance with standard industry practices for licensed products, we have the right to approve the concepts and designs of all products produced and distributed by our licensees. Similarly, Givenchy and Levi Strauss & Co. also provide design services to us for our licensed products and have the right to approve our designs for the *Givenchy* and *Dockers*® product lines, respectively. Under the New Balance license, we have the right to approve the concepts, designs, prototypes, samples and packaging materials produced by New Balance, and New Balance has similar rights to approve the concepts, designs, prototypes, samples and packaging materials produced by us.

Manufacturing and Quality Control

Apparel

Apparel sold by us is produced in accordance with our design, specification and production schedules through an extensive network of independent factories located throughout the world, primarily in Asia, with additional denim production located in the Middle East and Africa. Nearly all our apparel products were manufactured outside North America during 2009. Our apparel products are manufactured according to plans prepared each year which reflect prior years' experience, current fashion trends, economic conditions and management estimates of a line's performance.

We believe that outsourcing our products allows us to maximize production flexibility, while avoiding significant capital expenditures, work-in-process inventory build-ups and costs of managing a larger production work force. Our fashion designers, production staff and quality control personnel closely examine garments manufactured by contractors to ensure that they meet our high standards.

Our comprehensive quality control program is designed to ensure that raw materials and finished goods meet our exacting standards. Fabrics and trims for garments manufactured are inspected by either independent inspection services or by our contractors upon receipt in their warehouses, and most production is inspected by our quality control personnel during the manufacturing process. Our quality control program includes inspection of both prototypes of each garment prior to cutting by the contractors and a sampling of production garments upon receipt at our warehouse facilities to ensure compliance with our specifications.

Our foreign manufacturers' operations are primarily monitored by our personnel located in Hong Kong and the Middle East, buying agents located in other countries and independent contractors and inspection services. Finished goods are generally shipped to our warehouses for final inspection and distribution.

In addition, our apparel products are tested to ensure compliance with applicable consumer product safety laws and regulations.

For our sportswear business, we occasionally supply the raw materials to our manufacturers. Otherwise, the raw materials are purchased directly by the manufacturer in accordance with our specifications. Raw materials, which are in most instances made and/or colored especially for us, consist principally of piece goods and yarn and are purchased by us from a number of domestic and foreign textile mills and converters.

Our primary raw material in our jeanswear business is denim, which is primarily purchased from leading mills located in the Pacific Rim and sub-continent. Denim purchase commitments and prices are negotiated on a quarterly or semi-annual basis. We perform our own extensive testing of denim, cotton twill and other fabrics to ensure consistency and durability.

We do not have long-term arrangements with any of our suppliers. We have experienced little difficulty in satisfying our raw material requirements and consider our sources of supply adequate. Our products have historically been purchased from foreign manufacturers in pre-set United States dollar prices. To date, we generally have not been materially adversely affected by fluctuations in exchange rates. However, a substantial decline of the United States dollar against major world currencies, coupled with higher labor costs being experienced by some of our foreign manufacturers, primarily in China, could cause our manufacturing costs to rise.

We believe our extensive experience in logistics and production management underlies our success in coordinating with contractors who manufacture different garments included within the same product group. We also contract for the production of a portion of our products through a network of foreign agents. We have had long-term mutually satisfactory business relationships with many of our contractors and agents but do not have long-term written agreements with any of them.

Footwear and Accessories

To provide a steady source of inventory, we rely on long-standing relationships with manufacturers in Asia. We work through independent buying agents for footwear and jewelry and our own offices for handbags and small leather goods. While we worked through our own offices for jewelry during most of 2009, we have made the decision to work through an independent buying agent for our jewelry business in the future. We do not have formal purchase agreements with any of our manufacturers. Allocation of production among our manufacturing resources is determined based upon a number of factors, including manufacturing capabilities, delivery requirements and pricing.

During 2009, nearly all our footwear products were manufactured by independent footwear manufacturers located in Asia (primarily China). Our handbags and small leather goods are sourced through our own buying office in China, which utilizes independent third party manufacturers also located primarily in China. Our products have historically been purchased in pre-set United States dollar prices. To date, we generally have not been materially adversely affected by fluctuations in exchange rates. However, a substantial decline of the United States dollar against major world currencies, coupled with higher labor costs being experienced by some of our foreign manufacturers, primarily in China, could cause our manufacturing costs to rise.

For footwear, quality control reviews are done on-site in the factories by our third-party buying agents primarily to ensure that material and component qualities and fit of the product are in accordance with our specifications. For handbags and small leather goods, quality control reviews are done on-site in the factories by our own locally-based inspection technicians. In conjunction with our change to a buying agent for our jewelry products, quality control reviews of our jewelry products are now done on-site in the factories by our third-party buying agent. Our quality control program includes approval of prototypes, as well as approval of final production samples to ensure they meet our high standards. In addition, our footwear and accessories products are tested for compliance with applicable consumer product safety laws and regulations, including California Proposition 65.

We believe that our relationships with our Chinese manufacturers provide us with a responsive and adequate source of supply of our products. We also believe that purchasing a significant percentage of our products through independent third-party manufacturers in China allows us to maximize production flexibility while limiting our capital expenditures, work-in-process inventory and costs of managing a larger production work force. Because of sophisticated footwear manufacturing techniques, individual production lines can be quickly changed from one style to another, and production of certain styles can be completed in as few as four hours, from uncut leather to boxed footwear.

We place our projected orders for each season's styles with our manufacturers prior to the time we have received all of our customers' orders. Because of our close working relationships with our third party manufacturers (which allow for flexible production schedules and production of large quantities of footwear within a short period of time), many of our orders are finalized only after we have received orders from a majority of our customers. As a result, we are better able to meet sudden demands for particular designs, more quickly exploit market trends as they occur, reduce inventory risk and more efficiently fill reorders booked during a particular season.

We believe that the quality and cost of products manufactured by our suppliers provide us with the ability to remain competitive. We have historically experienced little difficulty in satisfying finished goods requirements, and we consider our source of supplies adequate.

During 2009, our jewelry products were manufactured primarily by independently-owned jewelry manufacturers in Asia. Sourcing the majority of our products from third-party manufacturers enables us to better control costs and avoid significant capital expenditures, work in process inventory, and costs of managing a larger production workforce. Our products have historically been purchased from Asian manufacturers in pre-set United States dollar prices. To date, we generally have not been materially adversely affected by fluctuations in exchange rates. However, a substantial decline of the United States dollar against major world currencies, coupled with higher labor costs being experienced by some of our foreign manufacturers, primarily in China, could cause our manufacturing costs to rise.

Forecasts for basic jewelry products are produced on a rolling 12-week basis and are adjusted based on point of sale information from retailers. Manufacturing of fashion jewelry products is based on marketing forecasts and sales plans; actual orders are received several weeks after such forecasts are produced.

During 2009, we discontinued our jewelry manufacturing operations in Rhode Island. This operation was used to satisfy demand for products manufactured domestically (such as cosmetic containers) and to provide samples, prototypes and small quantities of test merchandise. We have either discontinued or outsourced these functions, and this action will not have a material adverse effect on our jewelry business.

Imports and Import Restrictions

Our transactions with our foreign manufacturers and suppliers are subject to the risks of doing business abroad. Imports into the United States are affected by, among other things, the cost of transportation and the imposition of import duties and restrictions. The United States, China and other countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duty or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring.

On January 1, 2005, the World Trade Organization's 148 member nations lifted all quotas on apparel and textiles. As a result, all textiles and textile apparel manufactured in a member nation and exported after January 1, 2005 are no longer subject to quota restrictions. A special safeguard provision that had provided the U.S. with an additional four years beyond January 1, 2005 to apply quotas on Chinese imports of textiles expired on December 31, 2008. The lifting of quotas and expiration of safeguard provisions allows retailers, apparel firms and others to import unlimited quantities of apparel and textile items from China, India and other low-cost countries, which could lead to lower production costs, allow us to improve the quality of our products for a given cost, or allow us to concentrate production in the most efficient markets. However, litigation and political activity have been initiated by interested parties seeking to re-impose quotas. In addition, if the prices of the imported goods can be shown to be less than those offered by domestic producers for the same items, the U.S. International Trade Commission may recommend that anti-dumping duties be imposed on those goods. As a result, we are unable to predict the long-term effects of the lifting of quota restrictions and related events on our results of operations.

Our imported products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges.

We monitor duty, tariff and quota-related developments and continually seek to minimize our potential exposure in these areas through, among other measures, geographical diversification of our manufacturing sources, the maintenance of overseas offices and shifts of production among countries and manufacturers.

Because our foreign manufacturers are located at significant geographic distances from us, we are generally required to allow greater lead time for foreign orders, which reduces our manufacturing flexibility. Foreign imports are also affected by the high cost of transportation into the United States and the effects of fluctuations in the value of the dollar against foreign currencies in certain countries.

In addition to the factors outlined above, our future import operations may be adversely affected by political instability resulting in the disruption of trade from exporting countries and restrictions on the transfer of funds.

Marketing

Our ten largest customer groups, principally department stores, accounted for approximately 60% of gross revenues in 2009. Macy's, Inc. ("Macy's"), our largest customer in 2009, accounted for 21% of our 2009 gross revenues.

We believe that several significant trends are occurring in the women's apparel, footwear and accessories industry. We believe a trend exists among our major customers to expand the differentiation of their offerings and to achieve strategic advantages over competitors by devoting more resources to the development of exclusive products—whether products that the retailer designs (private labels) or exclusive brands produced for the retailer by national brand manufacturers. Retailers are placing more emphasis on developing their brand images and building strong images for their private label merchandise. Exclusive brands, as the term implies, are only available from a specific retailer, and thus customers loyal to these brands can only find them in the stores of that retailer. We have responded to this trend by leveraging our design, production and marketing capabilities to develop and provide private label products for certain customers and products under certain of our brands to select customers, such as providing *l.e.i.* products exclusively to Wal-Mart Stores Inc. ("Walmart"), *Rachel Rachel Roy* products exclusively to Macy's and, beginning in 2010, *GLO* products exclusively to Kmart Corporation ("Kmart"). While the private label lines compete directly with our product lines and may receive more prominent positioning on the retail floor by department stores, creating more competition, we believe that national brands are often preferred by the consumer.

Furthermore, we believe a trend exists among our major customers to concentrate purchasing among a narrowing group of vendors. In the future, retailers may have financial problems or continue to consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could increase the concentration of our customers. We attempt to minimize our credit risk from our concentration of customers by closely monitoring accounts receivable balances and shipping levels and the ongoing financial performance and credit status of our customers.

We also believe that consumers will continue to increase their purchasing of apparel, footwear and accessories through e-commerce web sites. Through our e-commerce web sites, we market either footwear and accessories, apparel or a combination of these products, primarily under their respective brand names. The selection of products is substantially consistent with the product offerings in our corresponding retail store concepts. Our e-commerce systems allow us to fulfill customer orders from inventory at our retail store locations if the items are not available at our distribution center.

We believe retail demand for our apparel products is enhanced by our ability to provide our retail accounts and consumers with knowledgeable sales support. In this regard, we have an established program to place retail sales specialists in many major department stores for many of our brands,

including *Jones New York*, *Jones New York Sport*, *Jones New York Signature*, *Kasper* and *Anne Klein*. These individuals have been trained by us to support the sale of our products by educating other store personnel and consumers about our products and by coordinating our marketing activities with those of the stores. In addition, the retail sales specialists provide us with firsthand information concerning consumer reactions to our products. In addition, we have a program of designated sales personnel in which a store agrees to designate certain sales personnel who will devote a substantial portion of their time to selling our products in return for certain benefits.

Sportswear products are marketed to department stores and specialty retailing customers during “market weeks,” which are generally four to six months in advance of the corresponding industry selling seasons. While we typically will allocate a six-week period to market a sportswear line, most major orders are written within the first three weeks of any market period.

We introduce new collections of footwear six times per year and showcase our footwear collections at industry-wide shoe shows, held quarterly in New York City and semi-annually in Las Vegas. We introduce new handbag and small leather goods collections at market shows that occur five times each year in New York City. Jewelry products are marketed in New York City showrooms through individual customer appointments and at five industry-wide market shows each year. Retailers visit our showrooms at these times to view various product lines and merchandise.

We market our footwear, handbag and small leather goods businesses with certain department stores and specialty retail stores by bringing our retail and sales planning expertise to those retailers. Under this program, members of branded division management who have extensive retail backgrounds work with the retailer to create a “focus area” or “concept shop” within the store that displays the full collection of a single brand in one area. These individuals assist the department and specialty retail stores by: providing advice about appropriate product assortment and product flow; making recommendations about when a product should be re-ordered; providing sales guidance, including the training of store personnel; and developing advertising programs with the retailer to promote sales of our products. In addition, our sales force and field merchandising associates for footwear, handbags and small leather goods recommend how to display our products, assist with merchandising displays and educate store personnel about us and our products. The goal of this approach is to promote high retail sell-throughs of our products. With this approach, customers are encouraged to devote greater selling space to our products, and we are better able to assess consumer preferences, the future ordering needs of our customers, and inventory requirements.

We work closely with our wholesale jewelry customers to create long-term sales programs, which include choosing among our diverse product lines and implementing sales programs at the store level. A team of sales representatives and sales managers monitors product performance against plan and are responsible for inventory management, using point-of-sale information to respond to shifts in consumer preferences. Management uses this information to adjust product mix and inventory requirements. In addition, field merchandising associates recommend how to display our products, assist with merchandising displays and educate store personnel about us and our products. Retailers are also provided with customized displays and store-level merchandising designed to maximize sales and inventory turnover. By providing retailers with in-store product management, we establish close relationships with retailers, allowing us to maximize product sales and increase floor space allocated to our product lines. We have also placed retail sales specialists in major department stores to support the sale of our *Napier*, *Nine West*, *Givenchy* and *Judith Jack* jewelry products.

Advertising and Promotion

We employ a cooperative advertising program for our branded products, whereby we share the cost of certain wholesale customers’ advertising and promotional expenses in newspapers, magazines and other media up to either a preset maximum percentage of the customer’s purchases or an agreed-upon rate of contribution. An important part of the marketing program includes prominent displays of our products in wholesale customers’ fashion catalogs as well as in-store shop displays.

We have national advertising campaigns for the following brands:

- *Jones New York Collection* and *Jones New York Signature* (in fashion and lifestyle magazines),
- *Nine West* (footwear, apparel, handbags, jewelry and licensed products, primarily in fashion magazines),
- *Bandolino* (in fashion magazines),
- *l.e.i.* (in junior-focused and fashion magazines and radio),
- *Anne Klein New York* (in fashion magazines), and
- *AK Anne Klein* (in fashion magazines).

Since 2007, “Style Guy” Lloyd Boston has been the exclusive spokesperson for our *Jones New York* brand. In this role, Mr. Boston writes merchandising manuals for *Jones New York*, *Jones New York Signature* and *Jones New York Sport*, hosts 20 *Jones New York* special events through the year in different department stores, hosts Macy’s training on behalf of *Jones New York*, delivers reports on style trends for seasonal coordinator meetings and serves as the face of the brand at www.jny.com. Mr. Boston, who is a style editor on NBC’s Today Show and has appeared as a guest on many other television shows, including Oprah, The View and CNN American Morning, hosts Closet Cases on Fine Living Network, which is sponsored by *Jones New York*.

During 2009, we used several special programs to promote new product lines. We promoted the launch of our initial *Rachel Rachel Roy* collection in Macy’s for Fall 2009 using a mix of social, digital, public relations, co-op and event marketing tactics, including our first pop-up store as well as a documentary shot by Douglas Keaves for VogueTV.com. We also promoted the launch of our *Nine West Vintage America Collection* of shoe, denim, handbag and belt products for Fall 2009 with a dedicated campaign which included the Vintage America Voices Contest, a national talent search to discover new singer/songwriter talent spearheaded by brand ambassador and singer/songwriter Miranda Lee Richards

Given the strong recognition and brand loyalty already afforded our brands, we believe these campaigns will serve to further enhance and broaden our customer base. Our in-house creative services departments oversee the conception, production and execution of virtually all aspects of these activities. We also believe that our retail network promotes brand name recognition and supports the merchandising of complete lines by, and the marketing efforts of, our wholesale customers.

Backlog

We had unfilled customer orders of approximately \$1.1 billion at December 31, 2009 and \$1.0 billion at December 31, 2008. These amounts include both confirmed and unconfirmed orders which we believe, based on industry practice and past experience, will be largely confirmed. The amount of unfilled orders at a particular time is affected by a number of factors, including the mix of product, the timing of the receipt and processing of customer orders and scheduling of the manufacture and shipping of the product, which in some instances is dependent on the desires of the customer. Backlog is also affected by a continuing trend among customers to reduce the lead time on their orders. Due to these factors, a comparison of unfilled orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

Licensing of Company Brands

We have entered into various license agreements under which independent licensees either manufacture, market and sell certain products under our trademarks in accordance with designs furnished or approved by us or distribute our products in certain countries where we do not do business. These licenses, the terms of which (not including renewals) expire at various dates through 2014, typically provide for the payment to us of a percentage of the licensee’s net sales of the licensed products against guaranteed minimum royalty payments, which typically increase over the term of the agreement.

The following table sets forth information with respect to select aspects of our licensing business:

| <u>Brand</u> | <u>Category</u> |
|--|---|
| <i>Jones New York</i> | Men's Accessories, Cold Weather Accessories and Jewelry (U.S., Canada) Men's Neckwear (Canada) Men's Neckwear (U.S.) Men's Sportswear, Sweaters, Knit Shirts, Woven Shirts, Finished Bottom Slacks and Outerwear (Canada) Men's Tailored Clothing, Dress Shirts, Outerwear, Dress Slacks (Canada) Men's Sleepwear (Canada) Men's Tailored Clothing, Formal Wear (U.S.) Men's Umbrellas (U.S.) Men's and Women's Optical Eyewear (U.S., Canada, Argentina, Aruba, Australia, Bahamas, Barbados, Belize, Benelux, Bolivia, Chile, Colombia, Costa Rica, Cyprus, Denmark, Dominican Republic, Ecuador, El Salvador, Finland, France, French Guiana, Guatemala, Honduras, Indonesia, Ireland, Israel, Jamaica, Korea, Kuwait, Lebanon, Mexico, Netherlands Antilles, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippines, Qatar, Russia, Saudi Arabia, South Africa, Suriname, Sweden, Thailand, Trinidad, Turkey, United Arab Emirates, Uruguay, Venezuela) Women's Costume Jewelry (Canada) Women's Hats (U.S., Canada) Women's Leather Outerwear (U.S.) Women's Outerwear, Rainwear (U.S.) Women's Wool Coats (U.S.) Women's Outerwear, Wool Coats, Rainwear (Canada) Women's Scarves, Wraps (U.S., Canada) Women's Sleepwear, Loungewear, Daywear (U.S., Canada) Women's Sunglasses (U.S., Canada) Women's Umbrellas, Rain Accessories (U.S.) |
| <i>Jones Wear</i> | Women's Costume Jewelry (Canada) Women's Optical Eyewear (U.S.) |
| <i>Albert Nipon</i> | Men's Tailored Clothing (U.S.) |
| <i>Evan-Picone</i> | Men's Tailored Clothing (U.S.) Manufacturing and Wholesale Distribution Rights for Women's Sportswear (Japan) |
| <i>Energie</i> | Men's Denim, Sportswear and Footwear (U.S.) Boys' Denim and Sportswear (4-6x and 8-20) (U.S.) |
| <i>Gloria Vanderbilt</i> | Handbags (U.S.) Intimate Apparel, Sleepwear (U.S.) |
| <i>GLO Jeans</i> | Junior Outerwear (U.S.) Junior Handbags (U.S.) Junior Watches (U.S.) |
| <i>GRANE</i> | Junior Outerwear (U.S.) |
| <i>Anne Klein New York and AK Anne Klein</i> | Belts (U.S., Canada, Mexico, Bermuda) Home Sewing Patterns (Worldwide) Hosiery, Casual Legwear (U.S., Canada) Outerwear, Wool Coats, Leather Outerwear, Rainwear (U.S., Canada) Scarves, Cold Weather Accessories, Gloves (U.S., Canada) Sunglasses, Optical Eyewear (Worldwide) Watches (Worldwide) Manufacturing and Wholesale and Retail Distribution Rights for Apparel (Japan) Retail and Wholesale Distribution Rights for Handbags, non-exclusive retail rights for Footwear (Japan) Sublicensed Wholesale and Retail Distribution Rights for Scarves, Towels, Jewelry (Japan) Manufacturing and Wholesale and Retail Distribution Rights for Apparel, Handbags, & Accessories, non-exclusive retail rights for Footwear (Korea) Manufacturing and Wholesale Distribution rights for Scarves, Handkerchiefs, Cold Weather |

| <u>Brand</u> | <u>Category</u> |
|---------------------------|--|
| | <p>Accessories & Umbrellas (Korea)</p> <p>Retail and Wholesale Distribution Rights for Apparel (Central America, South America, Caribbean, Dominican Republic)</p> <p>Retail Rights for Belts, Eyewear, Coats, Sleepwear, Socks, Scarves, Swimwear, Fragrances and Cosmetics if any such items are made available in the Territory, non-exclusive rights for Footwear, Handbags, Jewelry & Watches (Central America, South America, Caribbean, Dominican Republic)</p> <p>Retail Rights for Apparel, Belts, Sunglasses, Coats, Socks, Scarves, Swimwear, as well as Sleepwear, Fragrances if such items are made available in the Territory, non-exclusive rights for Footwear, Handbags Jewelry & Watches (Saudi Arabia)</p> <p>Retail and Wholesale Distribution Rights for Apparel, Belts, Sunglasses, Coats, Socks, Scarves, Swimwear, as well as Sleepwear, Fragrances if such items are made available in the Territory, Footwear, Handbags, Jewelry & non-exclusive retail rights for Watches (China, Hong Kong, Indonesia, Macau, Malaysia, Singapore, Taiwan, Thailand)</p> <p>Retail Distribution Rights for Apparel, Belts, Small Leather Goods, Scarves, Sleepwear, Watches and Socks, non-exclusive rights for Footwear, Handbags & Jewelry (Philippines)</p> |
| <i>Anne Klein Coat</i> | Outerwear, Wool Coats, Leather Outerwear, Rainwear (U.S., Canada) |
| <i>A Line</i> | Sunglasses, Optical Eyewear (U.S.) |
| <i>Nine West</i> | <p>Belts (U.S., Canada)</p> <p>Casual Legwear (U.S., Canada)</p> <p>Gloves, Cold Weather Accessories (U.S., Canada)</p> <p>Hats (U.S., Canada)</p> <p>Leather, Wool, Casual Outerwear, Rainwear (U.S., Canada, Spain)</p> <p>Luggage (U.S., Canada)</p> <p>Optical Eyewear (U.S., Canada, China, Mexico)</p> <p>Sunglasses (U.S., Canada, Spain)</p> <p>Manufacturing, Retail and Wholesale Distribution Rights for Apparel. Retail rights for Belts, Cold Weather Accessories, Hats, Luggage, Sunglasses, Coats, Legwear, Scarves, as well as Sleepwear, Swimwear, Fragrances and Cosmetics if such items are made available in the Territory, Footwear, Handbags, Jewelry & non-exclusive retail rights for Watches (China, Hong Kong, Macau, Malaysia, Singapore, Taiwan, Thailand)</p> |
| <i>Nine & Company</i> | <p>Intimate Apparel, Sleepwear (U.S.)</p> <p>Sunglasses (U.S.)</p> <p>Belts (U.S.)</p> <p>Gloves, Cold Weather Accessories (U.S.)</p> |
| <i>Easy Spirit</i> | Slippers (U.S., Canada) |
| <i>Enzo Angiolini</i> | Sunglasses (U.S.) |
| <i>l.e.i.</i> | <p>Juniors' and Girls' Scarves, Hats, Hair Accessories, Gloves, Cold Weather Accessories (U.S., Canada)</p> <p>Juniors' and Girls' Intimate Apparel (U.S., Canada)</p> <p>Juniors' and Girls' Sunglasses (U.S., Canada)</p> <p>Juniors' and Girls' Casual Legwear (U.S.)</p> <p>Juniors' and Girls' Footwear (U.S., Canada)</p> <p>Juniors' and Girls' Handbags, Belts (U.S., Canada)</p> <p>Juniors' and Girls' Optical Eyewear (U.S., Canada, Mexico)</p> |
| <i>Joan & David</i> | Manufacturing and Retail Distribution Rights for Apparel, Footwear, Handbags (China, Hong Kong, Korea, Macau, Malaysia, Philippines, Singapore, Taiwan, Thailand) |

| <u>Brand</u> | <u>Category</u> |
|---|--|
| International footwear and accessories retail/ wholesale distribution | <i>Nine West</i> and <i>Enzo Angiolini</i> retail locations (Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates, Jordan, India) and <i>AK Anne Klein</i> and <i>Anne Klein New York</i> retail locations and wholesale distribution rights for <i>AK Anne Klein</i> and <i>Anne Klein New York</i> footwear and accessories (Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates) |
| | <i>Nine West</i> and <i>AK Anne Klein</i> retail locations (Saudi Arabia, Lebanon, Egypt) |
| | <i>Nine West</i> and <i>AK Anne Klein</i> retail locations and wholesale distribution rights for <i>Nine West</i> , <i>Anne Klein</i> , <i>Enzo Angiolini</i> , <i>Bandolino</i> and <i>Easy Spirit</i> footwear and accessories and <i>AK Anne Klein</i> , <i>Circa Joan & David</i> , <i>Sam & Libby</i> and <i>Mootsies Tootsies</i> footwear (Belize, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Venezuela, the Dominican Republic, French Guiana, Guyana, Suriname, the Caribbean Islands) |
| | <i>Nine West</i> and <i>AK Anne Klein</i> retail locations and wholesale distribution rights for <i>Nine West</i> and <i>AK Anne Klein</i> footwear and accessories (Greece, Cyprus, Bulgaria) |
| | <i>Nine West</i> retail locations and wholesale distribution rights for <i>Nine West</i> footwear and accessories (Chile, Peru, Uruguay) and wholesale distribution rights for <i>Enzo Angiolini</i> footwear and accessories (Chile) |
| | <i>Nine West</i> , <i>AK Anne Klein</i> , <i>Enzo Angiolini</i> , <i>NW Nine West</i> and <i>Easy Spirit</i> retail locations and wholesale distribution rights for <i>Nine West</i> , <i>AK Anne Klein</i> , <i>Enzo Angiolini</i> , <i>NW Nine West</i> and <i>Easy Spirit</i> footwear and accessories (Hong Kong, Indonesia, Japan, Korea, Macau, Malaysia, the People's Republic of China, the Philippines, Singapore, Taiwan, Thailand, Vietnam, Cambodia) |
| | <i>Nine West</i> retail locations and wholesale distribution rights for <i>Nine West</i> footwear and accessories (South Africa) |
| | <i>Nine West</i> , <i>AK Anne Klein</i> , <i>Enzo Angiolini</i> and <i>Westies</i> retail locations, wholesale distribution rights for <i>Nine West</i> footwear and accessories and <i>Enzo Angiolini</i> , <i>Westies</i> and <i>AK Anne Klein</i> footwear, and manufacturing rights for <i>Westies</i> footwear (Mexico) |
| | Retail locations for <i>Nine West</i> (Turkey, Romania, Kazakhstan Azerbaijan), <i>AK Anne Klein</i> (Turkey) and <i>Enzo Angiolini</i> (Turkey) and wholesale distribution rights for <i>Enzo Angiolini</i> , <i>Circa Joan & David</i> , <i>Boutique 9</i> and <i>AK Anne Klein</i> footwear (Turkey) |
| | <i>Nine West</i> , <i>AK Anne Klein</i> and <i>Easy Spirit</i> retail locations and wholesale distribution rights for <i>Nine West</i> , <i>AK Anne Klein</i> and <i>Easy Spirit</i> footwear and accessories (Israel) |
| | <i>Nine West</i> , <i>Bandolino</i> and <i>Easy Spirit</i> retail locations, wholesale distribution rights for <i>Nine West</i> , <i>Enzo Angiolini</i> , <i>Easy Spirit</i> , <i>Bandolino</i> , <i>Nine & Company</i> and <i>Westies</i> footwear and accessories and <i>AK Anne Klein</i> , <i>Circa Joan & David</i> , <i>Sam & Libby</i> and <i>Mootsies Tootsies</i> footwear (Canada) |
| | <i>Nine West</i> retail locations (the United Kingdom, Ireland, the Channel Islands) and wholesale distribution rights for <i>Nine West</i> and <i>Easy Spirit</i> footwear and accessories (the United Kingdom, Ireland, the Channel Islands) |
| | <i>Nine West</i> retail locations and wholesale distribution rights for <i>Nine West</i> , <i>AK Anne Klein</i> and <i>Enzo Angiolini</i> footwear and accessories (Spain, Portugal, Andorra) |
| | <i>Nine West</i> retail locations (Russia, Poland) |
| | <i>Nine West</i> retail locations (France) |
| | <i>Nine West</i> and <i>Enzo Angiolini</i> retail locations and wholesale distribution rights for <i>Nine West</i> and <i>Enzo Angiolini</i> footwear and accessories (Australia, New Zealand) |
| | Wholesale distribution rights for <i>Nine West</i> and <i>Napier</i> costume jewelry (Canada) |

Investment in GRI

On June 20, 2008, we acquired a 10% equity interest in GRI, an international accessories and apparel brand management and retail-distribution network, for \$20.2 million. On June 24, 2009, we increased our equity interest to 25% for an additional \$15.2 million. The selling shareholders of GRI are entitled to receive an additional cash payment equaling 60% of the amount of GRI's fiscal year 2011 net income that exceeds a certain threshold. GRI, which (including its franchisees) operates approximately 800 points of sale in 12 Asian countries, is the exclusive licensee of several of our brands in Asia, including *Nine West*, *Anne Klein New York*, *AK Anne Klein*, *Easy Spirit*, *Enzo Angiolini* and *Joan & David*. GRI also distributes other women's apparel, shoes and accessory brands.

Trademarks

We utilize a variety of trademarks which we own, including *Jones New York*, *Jones New York Signature*, *Jones New York Sport*, *Jones New York Jeans*, *Jones Wear*, *Evan-Picone*, *Erika*, *Energie*, *Nine West*, *Easy Spirit*, *Enzo Angiolini*, *Bandolino*, *Nine & Company*, *Westies*, *Pappagallo*, *Joan & David*, *Mootsies Tootsies*, *Sam & Libby*, *Napier*, *Judith Jack*, *Gloria Vanderbilt*, *GLO, l.e.i.*, *Anne Klein*, *Anne Klein New York*, *AK Anne Klein*, *Kasper*, *Le Suit*, *Grane*, *Boutique 9* and *Jeanstar*. We have registered or applied for registration for these and other trademarks for use on a variety of items of apparel, footwear, accessories and/or related products and, in some cases, for retail store services, in the United States and certain other countries. The expiration dates of the United States trademark registrations for our material registered trademarks are as follows, with our other registered foreign and domestic trademarks expiring at various dates through 2025. Certain brands such as *Jones New York* are sold under several related trademarks; in these instances, the range of expiration dates is provided. All marks are subject to renewal in the ordinary course of business if no third party successfully challenges such registrations and, in the case of domestic and certain foreign registrations, applicable use and related filing requirements for the goods and services covered by such registrations have been met.

| <u>Trademark</u> | <u>Expiration Dates</u> | <u>Trademark</u> | <u>Expiration Dates</u> | <u>Trademark</u> | <u>Expiration Dates</u> |
|-----------------------------|-------------------------|---------------------------|-------------------------|--------------------------|-------------------------|
| <i>Jones New York</i> | 2012-2019 | <i>Nine & Company</i> | 2012-2016 | <i>Anne Klein</i> | 2010-2019 |
| <i>Jones New York Sport</i> | 2013 | <i>Napier</i> | 2019 | <i>Kasper</i> | 2011-2018 |
| <i>Evan-Picone</i> | 2011-2018 | <i>Judith Jack</i> | 2010-2012 | <i>Le Suit</i> | 2018 |
| <i>Nine West</i> | 2011-2020 | <i>Energie</i> | 2015-2018 | <i>Joan & David</i> | 2012-2019 |
| <i>Easy Spirit</i> | 2010-2019 | <i>Gloria Vanderbilt</i> | 2012-2017 | <i>Mootsies Tootsies</i> | 2010-2013 |
| <i>Enzo Angiolini</i> | 2010-2020 | <i>l.e.i.</i> | 2010-2019 | <i>Sam & Libby</i> | 2011-2017 |
| <i>Bandolino</i> | 2011-2017 | | | | |

We carefully monitor trademark expiration dates to provide uninterrupted registration of our material trademarks. We also license the *Givenchy*, *Dockers*[®], *Dockers*[®] *Women*, *Dockers*[®] *Premium*, *Rachel Roy*, *Rachel Roy New York*, *Rachel Rachel Roy*, *Rachel Roy Signature* and *Jessica Simpson* jeanswear trademarks (see “Licensed Brands” above).

We also hold numerous patents expiring at various dates through 2025 (subject to payment of annuities and/or periodic maintenance fees) and have additional patent applications pending in the United States Patent and Trademark Office. We regard our trademarks and other proprietary rights as valuable assets which are critical in the marketing of our products. We vigorously monitor and protect our trademarks and patents against infringement and dilution where legally feasible and appropriate.

Employees

At December 31, 2009, we had approximately 6,525 full-time employees. This total includes approximately 2,460 in quality control, production, design and distribution positions, approximately 1,870 in administrative, sales, clerical and office positions and approximately 2,195 in our retail stores. We also employ approximately 5,010 part-time employees, of which approximately 4,925 work in our retail stores.

Approximately 70 of our employees located in Vaughan, Ontario are members of the Laundry and Linen Drivers and Industrial Workers Union, which has a collective bargaining agreement with us expiring on March 31, 2012. Approximately 30 of our employees located in New York, New York are members of UNITE HERE, which has a collective bargaining agreement that expires on May 31, 2010. Approximately 180 of our employees located in Socorro, Texas are members of UNITE HERE, which has a collective bargaining agreement that expires on October 31, 2012. We consider our relations with our employees to be satisfactory.

Corporate Responsibility Programs

Factory Monitoring

We implemented a comprehensive monitoring program in 1996. Through independent agreements with domestic and foreign manufacturers that produce our products, we monitor compliance with the Jones Apparel Group Standards for Contractors and Suppliers (“JAG Standards”). Our monitoring program evaluates 100% of our global contract factories at least annually for approved factories, and more frequently for factories with major non-conformances. With 24 employees spread across five countries, our compliance staff is multi-lingual, with the majority holding a post-secondary education degree. In addition to our internal staff, we retain a number of recognized, unaffiliated third party workplace compliance audit firms to conduct factory audits on our behalf. In 2009, 933 audits were conducted, including 697 by third party auditors.

Although there are no perfect monitoring systems, we are constantly improving our program in order to address compliance issues that we encounter. In August 2006, we instituted a scorecard system to assign risk levels objectively based on audit results. The scorecard concept is a data-driven process with the underlying premise that not all violations should be treated equally, and that some findings are more serious and not as easily corrected as others. By comparing audit results, the scorecard system allows us to evaluate and determine where monitoring is needed most. Over time, audit scores reflect the compliance status of a factory, making it a useful tool for internal production divisions to benchmark their factories, vendors and agents when making sourcing decisions.

To facilitate factories’ understanding of our expectations and compliance requirements, we have in place the Jones Corporate Compliance Guidebook, a comprehensive guide to our compliance standards. The purpose of the guidebook is to provide suppliers with a detailed, informative and easy-to-follow reference of our expectations in the areas that we monitor. The Guidebook includes country-specific supplements, which contain an overview of the legal requirements unique to a country. To date, we have made the guidebook and supplements available in three languages - English, Chinese and Vietnamese.

Beyond Monitoring

Reliance on audits alone creates the risk that whatever improvements we do see may be temporary and cosmetic. To address this, a large part of our compliance program emphasizes uncovering the root causes of factory noncompliance and providing factories with the tools and training needed to sustain a viable long-term compliance program.

The basic goal of our “beyond monitoring” programs is to increase factories’ abilities to establish a sustainable management system. We are moving to a model of partnering with suppliers to achieve sustainable compliance through proactive solutions. We have come to understand that factories must embed ethical business practices based on strong management systems into all of their business operations.

Our beyond monitoring programs focus on providing factories with the tools and knowledge to take responsibility for their social compliance practices. From our experience, the process is complicated and challenges factories’ standard business practices. Recognizing this, we have taken the approach of dividing the programs into three phases: knowledge transfer, knowledge absorption and knowledge implementation. Together, these phases create a continuous process of feedback, reinforcement and improvement.

Since 2007, we have facilitated numerous training programs which include human resource management, health and safety, and managing employment relations. In 2009, we conducted 27 training sessions which were attended by 179 suppliers.

In 2009, we introduced a Compliance Newsletter in China for our sourcing partners. The newsletter includes corporate social responsibility (“CSR”) topics in focus, updates of laws and regulations and our monitoring program, as well as capacity-building events information. The quarterly newsletter serves as a supplementary communication channel with our suppliers. Ultimately, we believe that if we can help

factories to build effective management systems, we can facilitate and empower factories to create sustainable solutions.

Our compliance specialists work closely with factories producing our products to develop and implement sustainable management systems for labor. By working with the factories one-on-one, we have seen marked improvements in many of our factories, in areas such as wages and benefits, health and safety, employees' understanding of their rights under the local labor laws and communication between management and workers.

Additionally, we have established strong relationships with local and U.S. government officials, the International Labour Organization ("ILO") and other multilateral institutions, non-governmental organizations ("NGOs") and trade union representatives. These relationships promote ongoing dialog and enable us to address issues proactively as they arise in the field.

Internal Alignment

The effectiveness of any supply chain monitoring effort is dependent on the cooperation and collaboration among different divisions across a company. On a daily basis, our compliance group communicates the compliance status of suppliers to internal business units and provides advice on how we can work together to help key factories to improve. We recognize that in order for factories to make progress in their labor and health and safety practices, our internal business units must understand the principles embodied in the JAG Standards and support monitoring efforts with their influence over factories. Since 2008, we have issued periodic CSR newsletters to all our employees, to communicate our compliance efforts, the major issues that affect factories' compliance, and the important CSR issues of the day.

Engagement with Other Interested Parties

Like any multinational company, our business practices impact a diverse group, including business associates, governments, trade unions, NGOs and both employees working for us and for the factories making our products. A key element in our compliance program is engagement with these parties, which encompasses issues of factory compliance and human rights, and occurs at various levels - factory, community and multi-lateral initiatives.

At the factory level, we hold ongoing and regular one-on-one meetings with our key suppliers in-country as well as in our corporate offices. Periodically we convene vendor summits in major sourcing countries to bring together a wide variety of partners and provide them with both updates to our programs and opportunities for exchanging ideas and concerns. These meetings give participants a forum for working together to identify challenges and opportunities in the countries in which they operate, as well as to complete case studies based on real-life situations we have encountered through our monitoring program. Invitees to these summits may also include agents, trade unions, NGOs and local and U.S. government officials. Individual meetings in country with interested stakeholders also occur outside of the vendor summits. Ongoing communications with local constituents makes it possible for us to stay informed and anticipate potential problems before they occur

We have been actively involved in the ILO's Better Work program, along with other recognized international brands. The program provides a platform for brand cooperation and benefits our suppliers by reducing their number of audits, which allows them to focus more of their time toward sustainable improvements. The Better Work program combines independent factory assessments with advisory and training services to support practical improvements in factories. We are currently involved with the Better Work program in Cambodia and Jordan. By supporting Better Work, we are committed to accepting ILO monitoring reports and have stopped auditing factories in Cambodia and Jordan that have chosen to participate in Better Work.

We continue to engage with Africa Now, an international development organization tackling poverty in Africa by helping small-scale producers and promoting ethical trade, to build its social auditing programs in Africa. The proceeds that Africa Now receives from conducting social audits for brands, including ours, provides support for its programs, such as capacity building and developing new social

audit teams in countries not currently serviced. The goal of all of these efforts is to facilitate improvements in the labor conditions throughout our supply chain.

Philanthropy and Community Involvement

We strive to be a trusted and responsible member of the communities in which we work and live. To accomplish this goal, we promote and support employees to make a positive impact, through a combination of monetary and product donations and volunteer support. In 2009, we and our associates contributed time and money to a number of causes at the local community, national and global levels.

In May 2005, we launched a charitable cause initiative, including the establishment of Jones New York In The Classroom, Inc., a not-for-profit corporation, with an initial grant from us of \$1 million and a commitment of our continued support. Jones New York In The Classroom is dedicated to improving the quality of education in America and inspiring others, both individuals and corporations, to do the same through support of teachers and vital teacher-based programs in America's schools. It is focused on four areas of support for teachers: recruitment, retention, professional development and recognition and support.

Our commitment since the launch in 2005 has also included support for events to raise public awareness of Jones New York In The Classroom and its goals for teachers and education, as well as initiatives to encourage our employees to participate in volunteer opportunities and fundraising for Jones New York In The Classroom, and the other non-profit organizations it supports. Our corporate employees have the opportunity to volunteer up to three hours of paid time off each month in educational facilities in their local communities. Each of our business locations is encouraged to raise or budget funds to adopt a classroom to help with daily classroom needs through Adopt-A-Classroom. Additional activities of Jones New York In The Classroom can be found at www.jnyintheclassroom.org.

Our Hong Kong office initiated the first community service initiative by our overseas affiliates by organizing and hosting a carnival in the lowest-income neighborhood in Hong Kong to benefit the community.

In addition to the localized community efforts, we took part in a number of national and industry-sponsored fundraising events. These efforts included either monetary or product donations to the American Heart Association, Breast Cancer Research Foundation, Dress for Success, Fashion Footwear Charitable Foundation, Fashion Footwear Association of New York (FFANY) Shoes on Sale, Ovarian Cancer Research Fund, St. Jude's Children's Research Hospital and Two Ten Footwear Foundation.

On a global level, we donated product to various charitable organizations world-wide. These organizations include: Gifts In Kind International, Samaritan's Feet, Soles for Souls, and the Susie Reizod Foundation, all of which donate shoes to community charities, children, or the indigent in the United States and abroad.

The Greening of Jones Apparel Group

With a goal of reducing our carbon footprint, we have established an Executive Green Committee to explore environmental opportunities throughout the company. The Executive Green Committee consists of ten strategic business executives having direct impact on our decisions to incorporate green initiatives. Additionally, we have identified more than 230 of our associates to be "eco-ambassadors" working in parallel with the Executive Green Committee to raise environmental awareness among employees, exemplify green practices in the workplace, and brainstorm new ways to increase efficiencies and adopt environmentally-friendly practices.

Working with Esty Environmental Partners, we recently performed our first Greenhouse Gas Inventory to understand our climate change impact. We examined the emissions associated with facilities we control. We analyzed CO₂ and fugitive refrigerant hydrofluorocarbon (HFCs) emissions. The inventory accounted for all the fuel and electricity directly consumed by our business (Scope 1 and 2 emissions), sometimes relying on estimates and model extrapolations for calculation. Whenever possible, we followed the internationally-recognized Greenhouse Gas Protocol (GHG Protocol).

In addition to segmenting the footprint into electricity and direct fuel use, we broke down our Scope 1 and 2 footprints into relevant categories of emissions sources (retail stores, distribution centers and offices/other facilities) to better understand our emissions profile and identify reduction opportunities.

We inventoried GHG emissions from a number of Scope 3 emissions sources, including third-party logistics. We calculated all logistics footprints by including emissions from multiple greenhouse gases: CO₂, CH₄, and N₂O. The inventory accounted for all inbound and outbound logistics, sometimes relying on estimates and model extrapolations for calculation. For logistics emissions calculations, we used the U.S. EPA Climate Leaders' Greenhouse Gas Module for Commuting, Business Travel, and Product Transport.

With the goal of better understanding our products and their impacts, we are beginning to assess the carbon, water and toxics impact of our products across various stages of their life cycle. At both the Company and divisional levels, we are looking at raw materials production, product manufacturing, product logistics, retail sales, and consumer use and care.

Energy Reduction in the Distribution Centers and Retail Locations

We continue to explore innovative ways to reduce costs while obtaining environmental benefits. We implemented a lighting retrofit solution in an effort to reduce energy use at our West Deptford, N.J., distribution centers, which was completed in May 2008. For 2009, the first full year with the lighting retrofit, energy usage was reduced by approximately 40%. Additionally, we are improving lighting at our retail store locations. Lighting retrofits and replacements of heating, ventilation and air conditioning ("HVAC") systems are reducing not only energy use, but financial costs as well. In retail stores, the new lighting fixtures generate less heat, decreasing HVAC energy use. Based on the results of these projects, we are committed to exploring similar opportunities in other distribution centers.

Reduce the Use

Our REDUCE THE USE campaign has been put in place to create awareness, to decrease our use of paper and other supplies and to lower the overall costs of paper products. Our U.S.-based non-retail associates are paid electronically and can access their pay stubs through a secure web-site. This system eliminated the printing of paychecks for approximately 3,800 employees, saving paper, printing, and shipping costs. We are currently exploring paperless payment options for our retail-based employees.

During 2008 and 2009 we installed filtered-water water coolers in all distribution centers and office locations in our U.S. locations. Further, in 2009 we installed hand dryers in all our U.S. apparel distribution facilities.

Packaging Initiatives

The continued goal and mission of the JAGreen Printed Materials & Packaging Group is to evaluate the current use of paper in our hangtags, shoeboxes, shopping bags and printed collateral to begin to move toward more significant use of recycled, renewable and Forest Stewardship Council-rated materials.

In April 2009, our Better brands apparel division began converting the paper stock supply for their hangtags to stock from forests certified by the Forest Stewardship Council. At year end, the conversion is complete across all our Better brands. The hangtags are printed with soy-based or water-based inks.

Effective December 2008, *Easy Spirit* and *Bandolino* shoe boxes are being made with 100% recycled materials, joining the *Sam & Libby* brand, which has always used 100% recycled content. Together these brands account for approximately eight million shoe boxes per year. All other footwear brands use shoe boxes that are approximately 50% recycled content.

Beginning in mid-November 2009, *Nine West* specialty retail stores began offering customers the option to forego bags in favor of an innovation in shoebox design, a built-in carrying strap. The test program began with *Nine West Vintage America Collection* shoeboxes and will expand to the *Nine West* boot and bootie boxes in 2010. The updated shoeboxes are a one-piece construction covered by a fold-

over lid. The sides run the full length of the box, and the top folds outside the bottom. The folded assembly precludes the need for glue.

Recycling

We have a longstanding practice to recycle where we can in our business processes. For several years, our distribution centers have recycled cardboard and plastic packaging, and our office locations have been recycling paper and purchasing recycled and recycling toner cartridges for printers and copiers. In 2008, we began to recycle plastic and glass bottles and metal cans at our office locations and distribution centers and electronic equipment through our information technology departments. During 2009, we recycled 2,441 tons of cardboard, 90 tons of plastic packaging and 50 tons of miscellaneous waste (including white paper, glass, metal and plastic).

ITEM 1A. RISK FACTORS

There are certain risks and uncertainties that could cause actual results and events to differ materially from those anticipated. Risks and uncertainties that could adversely affect us include, without limitation, the following factors.

The apparel, footwear and accessories industries are heavily influenced by general economic cycles that affect consumer spending. A prolonged period of depressed consumer spending would have a material adverse effect on us.

The apparel, footwear and accessories industries have historically been subject to cyclical variations, recessions in the general economy and uncertainties regarding future economic prospects that affect consumer spending habits, which could negatively impact our business. The success of our operations depends on a number of factors impacting discretionary consumer spending, including general economic conditions, consumer confidence, wages and unemployment, housing prices, consumer debt, interest rates, fuel and energy costs, taxation and political conditions. A continuation or worsening of the current downturn in the economy may affect consumer purchases of our products and adversely impact our growth and profitability.

The current state of the economy and the tightening of commercial credit markets may impair our ability to obtain capital on favorable terms.

We rely on our revolving credit facilities for backing the issuance of trade letters of credit and other supply chain purposes, and also from time to time for cash borrowings for working capital and general corporate purposes. Our current \$650 million revolving credit facility matures on May 13, 2012. The loss of the use of this facility or the inability to replace this facility when it expires could materially impair our ability to purchase product from our network of independent foreign manufacturers. In addition, considering the uncertainties of the present economic environment, it is possible, in general, that one or more committed lenders would not meet its obligations to lend to borrowers and there is no assurance we would be able to replace any such lender.

We may not be able to respond to changing fashion and retail trends in a timely manner, which could have a material adverse effect on us.

The apparel, footwear and accessories industries have historically been subject to rapidly changing fashion trends and consumer preferences. We believe that our success is largely dependent on our ability to anticipate and respond promptly to changing consumer demands and fashion trends in the design, styling and production of our products and in the merchandising and pricing of products in our retail stores. If we do not gauge consumer needs and fashion trends and respond appropriately, then consumers may not purchase our products. This would result in reduced sales and profitability and in excess inventories, which would have a material adverse effect on us.

We believe that consumers in the United States are shopping less in department stores (our traditional distribution channel) and more in other channels, such as specialty shops and mid-tier

locations where value is perceived to be higher. In response, our strategy involves adding new distribution channels, increasing investment in our core brands by focusing on design, quality and value, remodeling our retail locations and implementing new and enhanced retail systems. Despite our efforts to respond to these trends, there can be no assurance that these trends will not have a material adverse effect on us.

The loss of or a significant reduction of business with any of our largest customers would have a material adverse effect on us.

Our ten largest customer groups, principally department stores, accounted for approximately 60% of revenues in 2009. Macy's, Inc. accounted for approximately 21% of our 2009 gross revenues.

We believe that purchasing decisions are generally made independently by department store units within a customer group. There has been a trend, however, toward more centralized purchasing decisions. As such decisions become more centralized, the risk to us of such concentration increases. A decision by the controlling owner of a customer group of department stores to modify those customers' relationships with us (for example, decreasing the amount of product purchased from us, modifying floor space allocated to apparel in general or our products specifically, or focusing on promotion of private label products rather than our products) could have a material adverse effect on us. Furthermore, we believe a trend exists among our major customers to concentrate purchasing among a narrowing group of vendors. To the extent any of our key customers reduces the number of vendors and consequently does not purchase from us, this would have a material adverse effect on us.

In the future, retailers may have financial problems or consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could further increase the concentration of our customers. The loss of any of our largest customers, or the bankruptcy or material financial difficulty of any large customer, would have a material adverse effect on us. We do not have long-term contracts with any of our customers, and sales to customers generally occur on an order-by-order basis. As a result, customers can terminate their relationships with us at any time or under certain circumstances cancel or delay orders.

The apparel, footwear and accessories industries are highly competitive. Any increased competition could result in reduced sales or prices, or both, which could have a material adverse effect on us.

Apparel, footwear and accessories companies face competition on many fronts, including the following:

- establishing and maintaining favorable brand recognition;
- developing products that appeal to consumers;
- pricing products appropriately; and
- obtaining access to retail outlets and sufficient floor space.

There is intense competition in the sectors of the apparel, footwear and accessories industries in which we participate. We compete with many other manufacturers and retailers, some of which are larger and have greater resources than we do. Any increased competition could result in reduced sales or prices, or both, which could have a material adverse effect on us.

We compete primarily on the basis of fashion, price and quality. We believe our competitive advantages include our ability to anticipate and respond quickly to changing consumer demands, our brand names and range of products and our ability to operate within the industries' production and delivery constraints. Furthermore, our established brand names and relationships with retailers have resulted in a loyal following of customers.

We believe that, during the past few years, major department stores and specialty retailers have been increasingly sourcing products from suppliers who are well capitalized or have established reputations for delivering quality merchandise in a timely manner. However, there can be no assurance that significant new competitors will not develop in the future.

We also provide design and manufacturing resources to several of our wholesale customers to develop product lines to be sold under their own private labels. These and other private label lines compete directly with our product lines and may receive more prominent positioning on the retail floor by department stores. While this creates more competition, we believe that national brands are often preferred by the consumer.

The loss of key personnel could disrupt our operations and our ability to successfully execute our strategies.

Our executive officers and other members of senior management have substantial experience and expertise in our business. Our success depends to a significant extent both upon the continued services of these individuals as well as our ability to attract, hire, motivate and retain additional talented and highly qualified management in the future. Competition for key executives in the apparel, footwear and accessories industries is intense, and our operations and the execution of our business strategies could be adversely affected if we cannot attract and retain qualified executives and other key personnel.

Our reliance on independent manufacturers could cause delay and damage our reputation and customer relationships.

We rely upon independent third parties for the manufacture of our products. A manufacturer's failure to ship products to us in a timely manner or to meet the required quality standards could cause us to miss the delivery date requirements of our customers for those items. The failure to make timely deliveries may drive customers to cancel orders, refuse to accept deliveries or demand reduced prices, any of which could have a material adverse effect on us. This could damage our reputation. We do not have long-term written agreements with any of our third party manufacturers. As a result, any of these manufacturers may unilaterally terminate their relationships with us at any time.

Although we have an active program to train our independent manufacturers in, and monitor their compliance with, our labor and other factory standards, any failure by those manufacturers to comply with our standards or any other divergence in their labor or other practices from those generally considered ethical in the United States and the potential negative publicity relating to any of these events could materially harm us and our reputation.

The extent of our foreign operations and contract manufacturing may adversely affect our domestic business.

Nearly all of our products are manufactured outside of North America. The following may adversely affect foreign operations:

- political instability in countries where contractors and suppliers are located;
- imposition of regulations and quotas relating to imports;
- imposition of duties, taxes and other charges on imports;
- significant fluctuation of the value of the dollar against foreign currencies;
- labor shortages in countries where contractors and suppliers are located; and
- restrictions on the transfer of funds to or from foreign countries.

As a result of our foreign operations, our domestic business is subject to the following risks:

- a reduction in available manufacturing capacity, resulting from the closing of foreign factories that have experienced substantial declines in orders;
- uncertainties of sourcing associated with an environment in which general quota has been eliminated on apparel products pursuant to the World Trade Organization Agreement;
- reduced manufacturing flexibility because of geographic distance between us and our foreign manufacturers, increasing the risk that we may have to mark down unsold inventory as a result of misjudging the market for a foreign-made product;
- increases in manufacturing costs in the event of a decline in the value of the United States dollar against major world currencies, particularly the Chinese Yuan, and higher labor costs being experienced by our foreign manufacturers in China; and

- violations by foreign contractors of labor and wage standards and resulting adverse publicity.

Fluctuations in the price, availability and quality of raw materials could cause delay and increase costs.

Fluctuations in the price, availability and quality of the fabrics or other raw materials used by us in our manufactured apparel and in the price of materials used to manufacture our footwear and accessories could have a material adverse effect on our cost of sales or our ability to meet our customers' demands. The prices for such fabrics depend largely on the market prices for the raw materials used to produce them, particularly cotton, leather and synthetics. The price and availability of such raw materials may fluctuate significantly, depending on many factors, including crop yields and weather patterns. In the future, we may not be able to pass all or a portion of such higher raw materials prices on to our customers.

Difficulties in implementing new computer systems and software could impact our ability to design, produce and ship our products on a timely basis.

We continually improve and upgrade our computer systems and software and are in the process of implementing the SAP Apparel and Footwear Solution as our core operational and financial system. The implementation of the SAP Apparel and Footwear Solution software, which began at select locations in November 2006, is a key part of our ongoing efforts to eliminate redundancies and enhance our overall cost structure and margin performance. Difficulties migrating existing systems to new software could impact our ability to design, produce and ship our products on a timely basis.

The loss or infringement of our trademarks and other proprietary rights could have a material adverse effect on us.

We believe that our trademarks and other proprietary rights are important to our success and competitive position. Accordingly, we devote substantial resources to the establishment and protection of our trademarks on a worldwide basis. There can be no assurances that such actions taken to establish and protect our trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violative of their trademarks and proprietary rights. Moreover, there can be no assurances that others will not assert rights in, or ownership of, our trademarks and other proprietary rights or that we will be able to successfully resolve such conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States. The loss of such trademarks and other proprietary rights, or the loss of the exclusive use of such trademarks and other proprietary rights, could have a material adverse effect on us. Any litigation regarding our trademarks could be time-consuming and costly.

Any inability to identify acquisition candidates (or to integrate acquired businesses successfully) could have a material effect on our future growth.

A significant part of our historical growth has depended on our ability to identify acquisition candidates and, in a competitive environment for such acquisitions, acquire such businesses on reasonable financial and other terms. Difficulties in integrating the organizations and operations of any acquired businesses into our existing organization and operations could have a material adverse effect on us and could damage our reputation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The general location, use and approximate size of our principal properties are set forth below:

| <u>Location</u> | <u>Owned/ Leased</u> | <u>Use</u> | <u>Approximate Area in Square Feet (1)(2)</u> |
|-----------------------------------|--------------------------|---|---|
| Bristol, Pennsylvania | leased | Administrative and computer services | 172,600 |
| New York, New York | leased | Administrative, executive and sales offices | 564,000 |
| Vaughan, Canada | leased | Administrative offices and distribution warehouse | 125,000 |
| Lawrenceburg, Tennessee | owned | Distribution warehouses | 1,223,800 |
| South Hill, Virginia | leased | Distribution warehouses | 823,040 |
| White Plains, New York | leased | Administrative offices | 132,200 |
| West Deptford, New Jersey | leased | Distribution warehouses | 988,400 |
| Socorro, Texas (3) | leased | Distribution warehouses | 952,000 |
| East Providence, Rhode Island (3) | leased | Distribution warehouses, product development, administrative and computer services | 164,700 |

(1) Including mezzanine where applicable.

(2) Excludes subleased square footage.

(3) These facilities are scheduled to close in 2010.

We sublease a 234,000 square foot office building in White Plains, New York to an independent company. This sublease ends on February 28, 2012, and the sublessee may vacate the property at the end of the sublease. Our lease of the building runs until February 1, 2022.

We also sublease certain office space totaling 43,200 square feet in New York, New York to several independent companies.

We lease approximately 715,250 square feet of warehouse facilities in Goose Creek, South Carolina which are currently not in service. We sublease 301,350 square feet of these facilities to an independent company.

Our retail stores are leased pursuant to long-term leases, typically five to seven years for apparel and footwear outlet stores and ten years for footwear and accessories and apparel specialty stores. Certain leases allow us to terminate our obligations after a predetermined period (generally one to three years) in the event that a particular location does not achieve specified sales volume, and some leases have options to renew. Many leases include clauses that provide for contingent payments based on sales volumes, and many leases contain escalation clauses for increases in operating costs and real estate taxes.

We believe that our existing facilities are well maintained, in good operating condition and that our existing and planned facilities will be adequate for our operations for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

We have been named as a defendant in various actions and proceedings arising from our ordinary business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in our opinion, any such liability will not have a material adverse financial effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are as follows:

| <u>Name</u> | <u>Age</u> | <u>Office</u> |
|---------------------|------------|---|
| Wesley R. Card | 62 | Chief Executive Officer |
| Richard Dickson | 41 | President and Chief Executive Officer - Branded Businesses |
| Sidney Kimmel | 82 | Chairman |
| Ira M. Dansky | 64 | Executive Vice President, General Counsel and Secretary |
| John T. McClain | 48 | Chief Financial Officer |
| Andrew Cohen | 60 | Chief Executive Officer, Footwear, Accessories and Retail |
| Christopher R. Cade | 42 | Executive Vice President, Chief Accounting Officer and Controller |

Mr. Card was named Chief Executive Officer on July 12, 2007. Mr. Card was also our President from July 12, 2007 to February 7, 2010. Prior to July 12, 2007, Mr. Card had been our Chief Operating Officer since March 2002. He had also been appointed Chief Financial Officer in March 2007, a position he previously held from 1990 to March 2006.

Mr. Dickson was named President and Chief Executive Officer - Branded Businesses on February 8, 2010. Prior to joining us, Mr. Dickson served as General Manager and Senior Vice President, Barbie at Mattel, Inc. from September 2008 to February 2010, as Senior Vice President, Marketing, Media & Entertainment Worldwide, Mattel Brands from August 2005 to September 2008 and as Senior Vice President, Mattel Brands Consumer Products from May 2003 to August 2005.

Mr. Kimmel founded the Jones Apparel Division of W.R. Grace & Co. in 1970. Mr. Kimmel has served as our Chairman since 1975 and as Chief Executive Officer from 1975 to May 2002.

Mr. Dansky has been our General Counsel since 1996 and our Secretary since January 2001. He was elected an Executive Vice President in March 2002.

Mr. McClain became our Chief Financial Officer on July 16, 2007. Prior to joining us, Mr. McClain served as Chief Accounting Officer of Avis Budget Group, Inc. (formerly Cendant Corporation), a position he assumed in July 2006. From 1999 to July 2006, Mr. McClain served as Senior Vice President, Finance and Corporate Controller for Cendant Corporation.

Mr. Cohen was named Chief Executive Officer - Wholesale Footwear and Accessories in April 2006 and also assumed responsibility for Company-owned retail footwear and apparel in April 2007. He served as President - Wholesale Footwear and Accessories from January 2006 until April 2006. He was the Group President of the *Energie* and *l.e.i.* Divisions from May 2004 to January 2006 and President of the *Energie* Division from July 2001 until May 2004.

Mr. Cade was named Executive Vice President, Chief Accounting Officer and Controller on December 17, 2007. Prior to joining us, Mr. Cade served as Senior Vice President, Chief Accounting Officer and Controller of Realogy Corporation (formerly Cendant Corporation), a position he assumed in August 2006. From June 2004 through July 2006, Mr. Cade served as Vice President, Corporate Finance, of Cendant Corporation.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|------------------|-------------------|------------------|-------------------|
| Price range of common stock: | | | | |
| 2009 | | | | |
| High | \$6.40 | \$11.69 | \$19.09 | \$19.74 |
| Low | \$2.39 | \$4.71 | \$9.17 | \$15.90 |
| 2008 | | | | |
| High | \$18.06 | \$17.86 | \$22.12 | \$16.43 |
| Low | \$12.10 | \$12.91 | \$12.25 | \$2.34 |
| Dividends paid per share of common stock: | | | | |
| 2009 | \$0.05 | \$0.05 | \$0.05 | \$0.05 |
| 2008 | \$0.14 | \$0.14 | \$0.14 | \$0.14 |

Our common stock is traded on the New York Stock Exchange under the symbol "JNY." The above figures set forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the New York Stock Exchange Composite Tape. The last reported sale price per share of our common stock on February 12, 2010 was \$16.00, and on that date there were 576 holders of record of our common stock. However, many shares are held in "street name;" therefore, the number of holders of record may not represent the actual number of shareholders.

Annual CEO Certification

The Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual was submitted to the New York Stock Exchange on May 27, 2009.

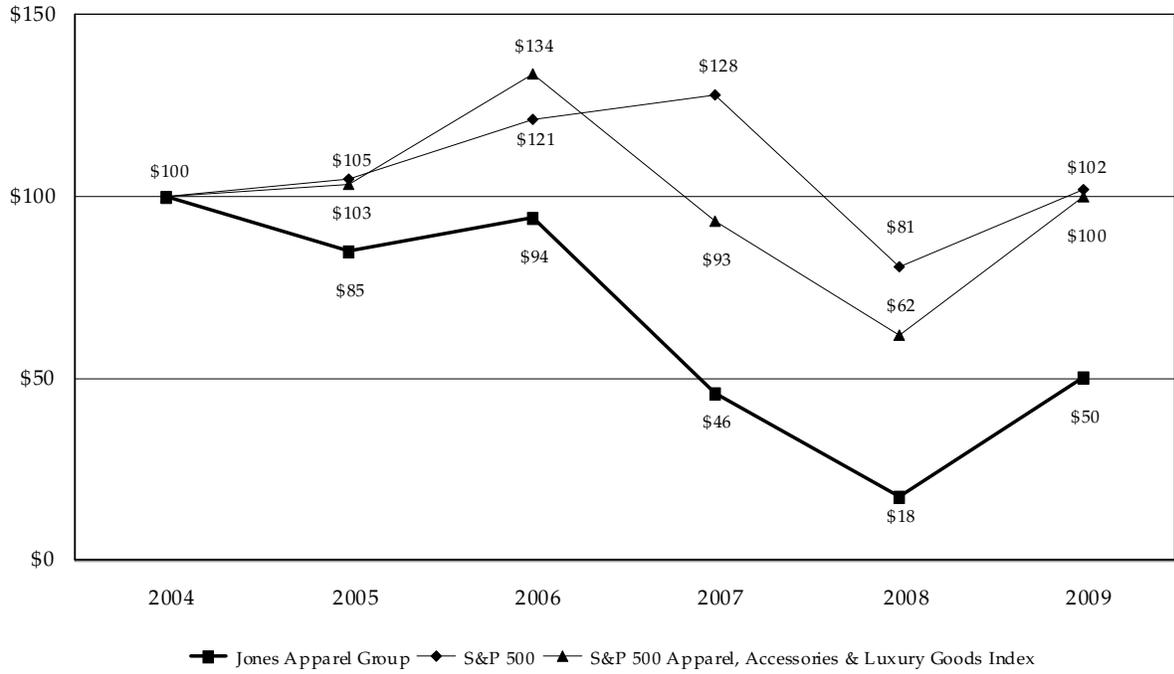
Issuer Purchases of Equity Securities

We did not repurchase any of our common shares during the fiscal quarter ended December 31, 2009.

Comparative Performance

The SEC requires us to present a chart comparing the cumulative total stockholder return on our common stock with the cumulative total stockholder return of (i) a broad equity market index and (ii) a published industry index or peer group. The following chart compares the performance of our common stock with that of the S&P 500 Composite Index and the S&P 500 Apparel, Accessories & Luxury Goods Index, assuming an investment of \$100 on December 31, 2004 in each of our common stock, the stocks comprising the S&P 500 Composite Index and the stocks comprising the S&P 500 Apparel, Accessories & Luxury Goods Index and the reinvestment of dividends.

COMPARISON OF CUMULATIVE TOTAL RETURN



ITEM 6. SELECTED FINANCIAL DATA

The following financial information is qualified by reference to, and should be read in conjunction with, our Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this Report. The selected consolidated financial information presented below is derived from our audited Consolidated Financial Statements for each of the five years in the period ended December 31, 2009. On September 6, 2007, we sold Barneys. The results of operations of Barneys have been reported as discontinued operations for all periods presented.

(All amounts in millions except per share data)

| Year Ended December 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|--|------------|------------|------------|------------|------------|
| Income Statement Data | | | | | |
| Net sales | \$ 3,279.7 | \$ 3,562.6 | \$ 3,793.3 | \$ 4,014.8 | \$ 4,473.3 |
| Licensing income | 46.8 | 52.1 | 52.0 | 51.1 | 58.9 |
| Other revenues | 0.9 | 1.7 | 3.2 | 21.1 | - |
| Total revenues | 3,327.4 | 3,616.4 | 3,848.5 | 4,087.0 | 4,532.2 |
| Cost of goods sold | 2,181.5 | 2,440.2 | 2,609.1 | 2,674.2 | 2,950.4 |
| Gross profit | 1,145.9 | 1,176.2 | 1,239.4 | 1,412.8 | 1,581.8 |
| Selling, general and administrative expenses | 1,008.7 | 1,069.2 | 1,100.4 | 1,096.3 | 1,128.3 |
| Loss on sale of Polo Jeans Company business | - | - | - | 45.1 | - |
| Trademark impairments | 28.7 | 25.2 | 88.0 | 50.2 | - |
| Goodwill impairment | 120.6 | 813.2 | 78.0 | 441.2 | - |
| Operating (loss) income | (12.1) | (731.4) | (27.0) | (220.0) | 453.5 |
| Interest income | 2.8 | 7.5 | 3.7 | 3.5 | 1.1 |
| Interest expense and financing costs | 55.6 | 49.1 | 51.5 | 50.5 | 71.0 |
| Loss and costs associated with repurchase of 4.250% Senior Notes | 1.5 | - | - | - | - |
| Gain on sale of stock in Rubicon Retail Limited | - | - | - | 17.4 | - |
| Gain on sale of interest in Australian joint venture | - | 0.8 | 8.2 | - | - |
| Equity in (loss) earnings of unconsolidated affiliates | (3.7) | (0.7) | 8.1 | 4.5 | 3.2 |
| (Loss) income from continuing operations before (benefit) provision for income taxes | (70.1) | (772.9) | (58.5) | (245.1) | 386.8 |
| Provision (benefit) for income taxes (1) | 16.2 | (6.6) | (104.4) | (70.1) | 134.0 |
| (Loss) income from continuing operations | (86.3) | (766.3) | 45.9 | (175.0) | 252.8 |
| Income from discontinued operations, net of tax (2) | - | 0.9 | 265.2 | 29.0 | 21.5 |
| Cumulative effect of change in accounting for share-based payments, net of tax | - | - | - | 1.9 | - |
| Net (loss) income | (86.3) | (765.4) | 311.1 | (144.1) | 274.3 |
| Less: income attributable to noncontrolling interest | 0.3 | - | - | - | - |
| (Loss) income attributable to Jones | \$ (86.6) | \$ (756.4) | \$ 311.1 | \$ (144.1) | \$ 274.3 |
| Per Share Data | | | | | |
| Basic (loss) earnings per share (3) | | | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 | \$ (1.57) | \$ 2.12 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.62 | 0.26 | 0.18 |
| Cumulative effect of change in accounting principle | - | - | - | 0.02 | - |
| Basic (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.07 | \$ (1.29) | \$ 2.30 |
| Diluted (loss) earnings per share (3) | | | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 | \$ (1.57) | \$ 2.11 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.58 | 0.26 | 0.18 |
| Cumulative effect of change in accounting principle | - | - | - | 0.02 | - |
| Diluted (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.03 | \$ (1.29) | \$ 2.29 |
| Dividends declared per share | \$ 0.20 | \$ 0.56 | \$ 0.56 | \$ 0.50 | \$ 0.44 |
| Weighted average common shares outstanding | | | | | |
| Basic | 81.7 | 82.9 | 99.9 | 110.6 | 118.0 |
| Diluted | 81.7 | 82.9 | 101.3 | 110.6 | 118.8 |

| December 31, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|----------|----------|----------|----------|----------|
| Balance Sheet Data | | | | | |
| Working capital | \$ 741.1 | \$ 693.6 | \$ 898.5 | \$ 984.2 | \$ 447.9 |
| Total assets | 2,025.0 | 2,427.5 | 3,236.6 | 3,801.1 | 4,577.8 |
| Short-term debt and current portion of long-term debt and capital lease obligations | 2.6 | 253.1 | 4.8 | 104.1 | 357.3 |
| Long-term debt, including capital lease obligations | 526.4 | 528.9 | 777.7 | 785.1 | 786.4 |
| Total equity (4) | 1,092.5 | 1,182.2 | 1,996.8 | 2,211.6 | 2,666.4 |

- (1) As a result of the capital gain generated by the sale of Barneys, in 2007 we reversed a \$107.7 million deferred tax valuation allowance previously created from capital loss carryforwards that we had not expected to be able to utilize. The reversal of the tax valuation allowance has been recorded in income from continuing operations, as the creation of the deferred tax valuation allowance was recorded in continuing operations in 2006 upon the sale of our *Polo Jeans Company* business.
- (2) On September 6, 2007, we sold Barneys. The results of operations of Barneys have been reported as discontinued operations for all periods presented. The 2007 amount includes an after-tax gain of \$254.2 million from the sale. In 2008, we reached final settlement on certain liabilities remaining from the sale, resulting in an additional after-tax gain of \$0.9 million.
- (3) In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (now ASC Subtopic 260-10-45-61A), which classifies unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of earnings per share pursuant to the two-class method described in ASC Subtopic 260-10-45-60B. This Staff Position is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this Staff Position required us to allocate a portion of net income to the unvested restricted shares held by our employees and directors, which are now classified as participating securities. Prior period earnings per share figures have been restated to conform to this presentation.
- (4) The decreases between 2005 and 2009 are primarily the result of the impairments of goodwill and indefinite-lived trademarks.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information and analysis of our results of operations from 2007 through 2009, and our liquidity and capital resources. The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements included elsewhere herein.

Executive Overview

We design, contract for the manufacture of and market a broad range of women's collection sportswear, suits and dresses, casual sportswear and jeanswear for women and children, and women's footwear and accessories. We sell our products through a broad array of distribution channels, including better specialty and department stores and mass merchandisers, primarily in the United States and Canada. We also operate our own network of specialty retail and factory outlet stores and several e-commerce web sites. In addition, we license the use of several of our brand names to select manufacturers and distributors of women's, men's and children's apparel and accessories worldwide.

Since the beginning of 2009, the following significant events took place:

- on January 8, 2009, as a result of the January 2009 amendments to our revolving credit facility, Standard & Poor's downgraded our senior unsecured debt ratings from BB- to B+ on January 6, 2009, and Moody's downgraded our senior unsecured debt ratings from Ba2 to Ba3;
- on April 1, 2009, we commenced a cash tender offer to purchase any and all of our outstanding 4.250% Senior Notes due 2009 (the "2009 Notes"), as well as a consent solicitation to amend the indenture governing our 2009 Notes, our 5.125% Senior Notes due 2014 and our 6.125% Senior Notes due 2034, both of which were completed in May 2009;
- we decided to close approximately 265 underperforming retail stores by December 31, 2010;
- on April 2, 2009, we announced the launch of our www.anneklein.com e-commerce web site;
- on April 16, 2009, we announced the launch of the *Rachel Rachel Roy* collection of affordable contemporary sportswear, footwear and accessories, which was introduced in August 2009 exclusively at select Macy's stores nationwide and on www.macys.com;
- on May 13, 2009, we entered into a new \$650.0 million senior secured three-year revolving credit facility;
- on June 8, 2009, we signed an agreement with Kurt Geiger Ltd., Europe's largest luxury footwear retailer, to license and distribute the *Nine West* and *Easy Spirit* brands in the United Kingdom and Ireland beginning with the spring 2010 product lines;
- on June 24, 2009, we increased our equity interest in GRI to 25% for an additional investment of \$15.2 million;
- on September 1, 2009, we announced the launch of our www.rachelroy.com e-commerce web site;
- on October 1, 2009, we opened a flagship *ShoeWoo* multi-brand retail footwear and accessory store on Lexington Avenue in New York City;
- in January 2010, we announced that *GLO* jeans will be carried exclusively at Kmart stores nationwide;
- in January 2010, we announced that we entered into an exclusive licensing agreement with VCJS LLC to design, develop, produce and distribute *Jessica Simpson* jeanswear under the *Jessica Simpson Collection*; and
- on February 4, 2010, we announced that we had acquired Moda Nicola International, LLC, owner of the *Robert Rodriguez Collection*, a privately held designer, marketer and wholesaler of women's contemporary eveningwear and sportswear.

Trends

The current economic environment has resulted in lower consumer confidence and lower retail sales. This trend may lead to further reduced consumer spending, which could affect our net sales and our future profitability. Therefore, we have taken aggressive cost reduction actions to address the uncertainty posed by the current economic conditions and to protect our future profitability. We have recently completed a major initiative to simplify our distribution systems. Today, we have three primary

distribution systems (compared to seven at the end of 2006), eight distribution centers plus five third-party logistics locations (compared to 14 distribution centers and two third-party logistics locations at the end of 2006) and two customer service locations (compared to seven at the end of 2006). These reductions and the continuing implementation of SAP as our enterprise resource planning system have resulted in reducing annual costs by approximately \$85 million between 2005 and 2009. At the same time, we have been able to improve product assortment in each channel and reduce the lead time necessary to respond to shifts in consumer behavior. We intend to seek additional opportunities to reduce distribution and operational costs while further improving the speed to market of our products. For further information, see "Accrued Restructuring Costs" in Notes to Consolidated Financial Statements.

We believe that several significant trends are occurring in the women's apparel, footwear and accessories industry. We believe a trend exists among our major customers to expand the differentiation of their offerings and to achieve strategic advantages over competitors by devoting more resources to the development of exclusive products—whether products that the retailer designs under brands that it owns (private labels) or products produced exclusively for the retailer by national brand manufacturers. Retailers are placing more emphasis on developing their brand images and building strong images for their private label merchandise. Exclusive brands, as the term implies, are only available from a specific retailer, and thus customers loyal to these brands can only find them in the stores of that retailer. We have responded to this trend by leveraging our design, production and marketing capabilities to develop and provide private label products for certain customers and products under certain of our brands to select customers, such as providing *l.e.i.* products exclusively to Walmart, *Rachel Rachel Roy* products exclusively to Macy's and, beginning in 2010, *GLO* products exclusively to Kmart. While the private label lines compete directly with our product lines and may receive more prominent positioning on the retail floor by department stores, creating more competition, we believe that national brands are often preferred by the consumer.

Furthermore, we believe a trend exists among our major customers to concentrate purchasing among a narrowing group of vendors. In the future, retailers may have financial problems or continue to consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could increase the concentration of our customers. We attempt to minimize our credit risk from our concentration of customers by closely monitoring accounts receivable balances and shipping levels and the ongoing financial performance and credit status of our customers.

We also believe that consumers will continue to increase their purchasing of apparel, footwear and accessories through e-commerce web sites. During 2008, we launched www.jny.com and upgraded our existing sites, www.ninewest.com, www.easyspirit.com and www.bandolino.com, and in 2009 we launched www.anneklein.com and www.rachelroy.com. Through these web sites, we market either footwear and accessories, apparel or a combination of these products, primarily under their respective brand names. The selection of products is substantially consistent with the product offerings in our corresponding retail store concepts. Our e-commerce systems allow us to fulfill customer orders from inventory at our retail store locations if the items are not available at our distribution center.

On January 1, 2005, the World Trade Organization's 148 member nations lifted all quotas on apparel and textiles. As a result, all textiles and textile apparel manufactured in a member nation and exported after January 1, 2005 are no longer subject to quota restrictions. A special safeguard provision that had provided the U.S. with an additional four years beyond January 1, 2005 to apply quotas on Chinese imports of textiles expired on December 31, 2008. The lifting of quotas and expiration of safeguard provisions allows retailers, apparel firms and others to import unlimited quantities of apparel and textile items from China, India and other low-cost countries, which could lead to lower production costs, allow us to improve the quality of our products for a given cost, or allow us to concentrate production in the most efficient markets. However, litigation and political activity have been initiated by interested parties seeking to re-impose quotas. In addition, if the prices of the imported goods can be shown to be less than those offered by domestic producers for the same items, the U.S. International Trade Commission may recommend that anti-dumping duties be imposed on those goods. As a result, we are unable to predict the long-term effects of the lifting of quota restrictions and related events on our results of operations.

Retail store closings

We began 2009 with 1,017 retail locations. During 2009, we decided to close approximately 265 underperforming retail locations by the end of 2010, of which 99 closed during the year. We accrued \$4.6 million of termination benefits and associated employee costs for approximately 1,220 employees, including both store employees and administrative support personnel. In connection with our decision to close these stores, we reviewed the associated long-term assets for impairments. As a result of this review, we recorded \$23.2 million of impairment losses on leasehold improvements and furniture and fixtures located in the stores to be closed. These costs are reported as selling, general and administrative ("SG&A") expenses in the retail segment.

Investment in GRI

On June 20, 2008, we acquired a 10% equity interest in GRI, an international accessories and apparel brand management and retail-distribution network, for \$20.2 million. On June 24, 2009, we increased our equity interest to 25% for an additional \$15.2 million. The selling shareholders of GRI are entitled to receive an additional cash payment equaling 60% of the amount of GRI's fiscal year 2011 net income that exceeds a certain threshold. GRI, which (including its franchisees) operates approximately 800 points of sale in 12 Asian countries, is the exclusive licensee of several of our brands in Asia, including *Nine West*, *Anne Klein New York*, *AK Anne Klein*, *Easy Spirit*, *Enzo Angiolini* and *Joan & David*. GRI also distributes other women's apparel, shoes and accessory brands.

On April 23, 2009, we converted \$10.0 million of outstanding GRI accounts receivable to a three-year interest-bearing convertible note. GRI has the option, during the 90-day period that begins when the audited financial statements for the GRI fiscal year ending January 31, 2011 become available (or such shorter period that ends on the maturity date of the note), to convert the note into common shares of GRI at a conversion rate based on the greater of eight times the net income of GRI for such fiscal year, or an appraised value determined as of that date.

Sale of Barneys

On September 6, 2007, we completed the sale of Barneys to an affiliate of Istithmar PJSC. We received \$937.4 million of cash (net of working capital adjustments) and paid an aggregate of \$54.6 million in cash for bonuses for key Barneys employees, compensation for restricted stock held by certain employees of Barneys that was forfeited upon the completion of the sale and other fees and costs related to the sale. The results of operations of Barneys for all prior periods have been reported as discontinued operations.

As a result of the capital gain generated by the sale of Barneys, we reversed a \$107.7 million deferred tax valuation allowance previously created from capital loss carryforwards that we had not expected to be able to utilize. The reversal of the tax valuation allowance has been recorded in income from continuing operations in 2007.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. Accounting rules require that we test at least annually for possible goodwill impairment. We perform our test in the fourth fiscal quarter of each year using a discounted cash flow analysis that requires that certain assumptions and estimates be made regarding industry economic factors and future profitability and cash flows. As a result of the 2007 impairment analysis, we determined that the remaining goodwill balance existing in our wholesale jeanswear segment was impaired as a result of decreases in projected revenues, profitability and cash flows for certain brands. Accordingly, we recorded an impairment charge of \$78.0 million. As a result of the 2008 impairment analysis, we determined that the goodwill balance existing in our wholesale footwear and accessories segment was impaired as a result of decreases in projected revenues, profitability and cash flows for this segment. Accordingly, we recorded an impairment charge of \$813.2 million. As a result of the 2009 impairment analysis, we determined that the goodwill balance existing in our retail segment was impaired as a result

of decreases in projected revenues, profitability and cash flows for the segment. Accordingly, we recorded an impairment charge of \$120.6 million.

Our continued strategic operational reviews and efforts to improve profitability and the continued trend of our moderate and jeanswear customers towards differentiated product offerings led us to make the strategic decision to exit some of our moderate apparel product lines during 2007. The moderate product lines we exited have not been classified as discontinued operations as they do not meet the criteria for discontinued operations. As a result of the loss of these projected revenues and cash flows, we recorded impairments for our *Norton McNaughton* and *Erika* trademarks of \$80.5 million.

We perform our annual impairment test for trademarks during the fourth fiscal quarter of the year. As a result of the 2009, 2008 and 2007 impairment analyses, we recorded trademark impairment charges of \$28.7 million, \$25.2 million and \$7.5 million, respectively, as a result of decreases in projected revenues and cash flows for certain brands. All trademark impairment charges are reported as SG&A expenses in the licensing, other and eliminations segment.

Critical Accounting Policies

Several of our accounting policies involve significant or complex judgements and uncertainties and require us to make certain critical accounting estimates. We consider an accounting estimate to be critical if it requires us to make assumptions about matters that were highly uncertain at the time the estimate was made. The estimates with the greatest potential effect on our results of operations and financial position include the collectibility of accounts receivable, the recovery value of obsolete or overstocked inventory and the fair values of both our goodwill and intangible assets with indefinite lives. These estimates affect all our reportable segments.

For accounts receivable, we estimate the net collectibility, considering both historical and anticipated trends of trade discounts and co-op advertising deductions taken by our customers, allowances we provide to our retail customers to flow goods through the retail channels, and the possibility of non-collection due to the financial position of our customers. For inventory, we estimate the amount of goods that we will not be able to sell in the normal course of business and write down the value of these goods to the recovery value expected to be realized through off-price channels. Historically, actual results in these areas have not been materially different than our estimates, and we do not anticipate that our estimates and assumptions are likely to materially change in the future. However, if we incorrectly anticipate trends or unexpected events occur, our results of operations could be materially affected.

We test our goodwill and our intangible assets with indefinite lives for impairment on an annual basis (during our fourth fiscal quarter) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an asset below its carrying value. We recorded goodwill impairments of \$120.6 million, \$813.2 million and \$78.0 million in 2009, 2008 and 2007, respectively. We recorded trademark impairments of \$28.7 million, \$25.2 million and \$88.0 million in 2009, 2008 and 2007, respectively. For more information, see "Goodwill and Other Intangible Assets" in Notes to Consolidated Financial Statements.

We test both our goodwill and our trademarks for impairment by utilizing discounted cash flow models to estimate their fair values. These cash flow models involve several assumptions. Changes in our assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates are: (i) discount rates used to derive the present value factors used in determining the fair value of the reporting units and trademarks; (ii) royalty rates used in our trade mark valuations; (iii) projected average revenue growth rates used in the reporting unit and trademark models; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances. Based on our latest annual testing, the following table shows the range of assumptions we used to derive our fair value estimates and the hypothetical additional impairment charge for goodwill and trademarks resulting from a one percentage point unfavorable change in each of our fair value assumptions (dollar amounts in millions).

| | <u>Assumptions</u> | | <u>Effect of one percentage point unfavorable change in:</u> | |
|---------------------------------------|--------------------|-------------------|--|-------------------|
| | <u>Goodwill</u> | <u>Trademarks</u> | <u>Goodwill</u> | <u>Trademarks</u> |
| Discount rates | 12.9% | 12.9% | none | \$ 10.3 |
| Royalty rates | -- | 4.0% - 7.0% | -- | \$ 29.0 |
| Weighted-average revenue growth rates | 2.3% | 6.1% | none | \$ 4.0 |
| Long-term growth rates | 3.0% | 0% - 3.0% | none | \$ 8.0 |

The impairment charges resulting from the goodwill impairment testing in 2009 were primarily the result of lower projected revenues, profitability and cash flows of our retail business and an increase in the discount rate. The impairment charges resulting from the trademark impairment testing in 2009 were primarily from decreases in projected revenues, profitability and cash flows for certain apparel, footwear and costume jewelry product lines and an increase in the discount rate. We increased our discount rate from the 11.5% used in 2008 to 12.9% in 2009, which reflects the changes in our cost of capital and other factors.

At December 31, 2009, we had \$40.1 million of goodwill remaining, which has been assigned to the wholesale better apparel segment. We also had \$547.2 million of indefinite-lived trademarks remaining. Should the economic conditions and trends (such as reduced consumer spending) prevailing at December 31, 2009 continue to deteriorate throughout 2010 and beyond, the fair values of certain trademarks could become impaired. We do not believe the remaining goodwill will be impaired in the foreseeable future as the fair value of the wholesale better apparel segment at December 31, 2009 significantly exceeded the segment's carrying value.

Other than the assumptions used in the impairment testing of our goodwill and trademarks, we have not made any material changes to any of our critical accounting estimates in the last three years. Our senior management has discussed the development and selection of our critical accounting estimates with the Audit Committee of our Board of Directors. In addition, there are other items within our financial statements that require estimation, but are not deemed critical as defined above. Changes in estimates used in these and other items could have a material impact on our financial statements.

Results of Operations

Statements of Operations Stated in Dollars and as a Percentage of Total Revenues

| (In millions) | 2009 | | 2008 | | 2007 | |
|--|------------------|---------------|-------------------|----------------|-----------------|--------------|
| Net sales | \$ 3,279.7 | 98.6% | \$ 3,562.6 | 98.5% | \$ 3,793.3 | 98.6% |
| Licensing income | 46.8 | 1.4 | 52.1 | 1.4 | 52.0 | 1.4 |
| Other revenues | 0.9 | 0.0 | 1.7 | 0.0 | 3.2 | 0.1 |
| Total revenues | 3,327.4 | 100.0 | 3,616.4 | 100.0 | 3,848.5 | 100.0 |
| Cost of goods sold | 2,181.5 | 65.6 | 2,440.2 | 67.5 | 2,609.1 | 67.8 |
| Gross profit | 1,145.9 | 34.4 | 1,176.2 | 32.5 | 1,239.4 | 32.2 |
| Selling, general and administrative expenses | 1,008.7 | 30.3 | 1,069.2 | 29.6 | 1,100.4 | 28.6 |
| Trademark impairments | 28.7 | 0.9 | 25.2 | 0.7 | 88.0 | 2.3 |
| Goodwill impairments | 120.6 | 3.6 | 813.2 | 22.5 | 78.0 | 2.0 |
| Operating loss | (12.1) | (0.4) | (731.4) | (20.2) | (27.0) | (0.7) |
| Interest income | 2.8 | 0.1 | 7.5 | 0.2 | 3.7 | 0.1 |
| Interest expense and financing costs | 55.6 | 1.7 | 49.1 | 1.4 | 51.5 | 1.3 |
| Loss and costs associated with repurchase of 4.250% Senior Notes | 1.5 | 0.0 | - | - | - | - |
| Gain on sale of interest in Australian joint venture | - | - | 0.8 | 0.0 | 8.2 | 0.2 |
| Equity in (loss) earnings of unconsolidated affiliates | (3.7) | (0.1) | (0.7) | (0.0) | 8.1 | 0.2 |
| Loss from continuing operations before provision (benefit) for income taxes | (70.1) | (2.1) | (772.9) | (21.4) | (58.5) | (1.5) |
| Provision (benefit) for income taxes | 16.2 | 0.5 | (6.6) | (0.2) | (104.4) | (2.7) |
| (Loss) income from continuing operations | (86.3) | (2.6) | (766.3) | (21.2) | 45.9 | 1.2 |
| Income from discontinued operations, including gain on sale of Barneys in 2007, net of tax | - | - | 0.9 | 0.0 | 265.2 | 6.9 |
| Net (loss) income | (86.3) | (2.6) | (765.4) | (21.2) | 311.1 | 8.1 |
| Less: income attributable to noncontrolling interest | 0.3 | 0.0 | - | - | - | - |
| (Loss) income attributable to Jones | \$ (86.6) | (2.6%) | \$ (765.4) | (21.2%) | \$ 311.1 | 8.1% |

Percentage totals may not add due to rounding.

2009 Compared with 2008

Revenues. Total revenues for 2009 were \$3.3 billion, compared with \$3.6 billion for 2008, a decrease of 8.0%. Revenues by segment were as follows:

| (In millions) | 2009 | 2008 | Increase (Decrease) | Percent Change |
|------------------------------------|-------------------|-------------------|------------------------|-------------------|
| Wholesale better apparel | \$ 922.8 | \$ 1,098.7 | \$ (175.9) | (16.0%) |
| Wholesale jeanswear | 828.9 | 796.5 | 32.4 | 4.1 |
| Wholesale footwear and accessories | 839.6 | 938.3 | (98.7) | (10.5) |
| Retail | 689.3 | 730.2 | (40.9) | (5.6) |
| Licensing and other | 46.8 | 52.7 | (5.9) | (11.2) |
| Total revenues | <u>\$ 3,327.4</u> | <u>\$ 3,616.4</u> | <u>\$ (289.0)</u> | <u>(8.0%)</u> |

Wholesale better apparel revenues decreased \$175.9 million. Revenues decreased primarily due to reduced shipments of our *Anne Klein*, *Jones New York Sport*, *Jones New York*, *Kasper* and *Jones New York Suit* products, primarily resulting from decreased consumer spending as a result of the general economic downturn, and due to reduced shipments of *Nine West* products, primarily resulting from decreased consumer spending and from the discontinuance of the *Nine West* sportswear line due to the performance of these products at retail. These decreases were offset by increased shipments of our *Evan-Picone* suit and dress products as a result of the performance of these products at retail, increases in our private label suit businesses and initial shipments of our *Rachel Rachel Roy* product line.

Wholesale jeanswear revenues increased \$32.4 million. Revenues increased primarily due to increased shipments of our *l.e.i.* products to Walmart, increased shipments of private-label products due to expansion of private-label programs with several major customers, and increased shipments of our *Evan-Picone* product line, primarily due to the performance of this product line at retail. These increases were partially offset by reduced shipments of our *Energie* product line, primarily as a result of the general economic downturn and the performance of these products at retail, and a \$57.9 million reduction of shipments of product lines that we are discontinuing or restructuring due to low long-term growth potential (including *Jeanstar*, *Erika*, *Behold* and *Grane Girl*).

Wholesale footwear and accessories revenues decreased \$98.7 million. We experienced a \$41.1 million reduction in sales in our international business, primarily due to the global economic conditions in Asia, Canada, Mexico, Turkey, Central America and the bankruptcy of our former United Kingdom licensee. We also experienced decreased orders for our *Anne Klein* footwear product line and our handbag and accessories products primarily due to decreased consumer spending as a result of the general economic downturn. Orders for footwear and handbag products were negatively impacted by \$8.2 million as the result of the bankruptcy of several major customers in 2008, including Goody's Family Clothing, Inc. ("Goody's"), Mervyn's LLC ("Mervyn's"), Gottschalks Inc. ("Gottschalks") and Boscov's, Inc. ("Boscov's").

Retail revenues decreased \$40.9 million, primarily due to a 4.3% decline in comparable store sales (\$28.9 million) resulting from decreased consumer spending relating to current economic conditions, with the balance related to operating fewer stores in the current period. Comparable stores are those that have been open for a full year, are not scheduled to close in the current period and are not scheduled for an expansion or downsize by more than 25% or relocation to a different street or mall. An 8.0% decrease in comparable store sales for our footwear stores (\$34.3 million) and a 6.3% decrease in comparable store sales for our apparel stores (\$13.3 million) were partially offset by a 60.6% increase in our comparable e-commerce business (\$18.7 million). We began 2009 with 1,017 retail locations and had a net decrease of 79 locations to end the year with 938 locations.

Licensing and other revenues decreased \$5.9 million, primarily due to reduced sales volume of our licensees.

Gross Profit Margin. The gross profit margin increased to 34.4% in 2009 compared with 32.5% in 2008.

Wholesale better apparel gross profit margins were 34.2% and 31.3% for 2009 and 2008, respectively. The increase was primarily due to better inventory management, the product mix and lower sales to off-price retailers in the current period.

Wholesale jeanswear gross profit margins were 24.7% and 21.9% for 2009 and 2008, respectively. The increase is primarily due to better inventory management, lower levels of off-price sales and the mix of products shipped in the current period, costs in the prior period related to the repositioning of *l.e.i.* as an exclusive brand for Walmart and the discontinuance of certain other product lines.

Wholesale footwear and accessories gross profit margins were 26.2% and 25.2% for 2009 and 2008, respectively. The increase was primarily due to lower levels of discounting and better inventory management in our footwear business, reduced sales in our lower-margin international business and lower buying agency commissions, partially offset by higher overhead unit costs due to lower volume in our costume jewelry business.

Retail gross profit margins were 50.4% and 49.6% for 2009 and 2008, respectively. The increase was primarily the result of a reduction in promotional activity in our stores due to better inventory management.

Selling, General and Administrative Expenses. SG&A expenses were approximately \$1.0 billion in 2009 and \$1.1 billion in 2008.

Wholesale better apparel SG&A expenses decreased \$17.9 million, primarily due to a \$7.8 million decrease in distribution costs due to a lower volume of shipments, a \$4.5 million reduction in marketing and advertising costs, a \$3.1 million reduction in salaries and benefits from headcount reductions, a \$2.6 million decrease in postage costs, a \$1.3 million reduction in our provision for doubtful accounts related to bankruptcies of several major customers in the prior period, a \$1.2 million reduction in occupancy costs and \$0.4 million of other net cost savings, offset by \$3.0 million of administrative support cost increases.

Wholesale jeanswear SG&A expenses decreased \$16.7 million, primarily due to an \$8.6 million decrease in salary and benefit costs due to headcount reductions, a \$7.1 million decrease in our provision for doubtful accounts due to the bankruptcies of several customers in the prior period, a \$4.6 million decrease in occupancy costs due to the closing of certain facilities, a \$2.5 million decrease in depreciation and amortization expenses (due to accelerated depreciation in the prior period relating to discontinued brands) and a \$1.2 million reduction in travel and entertainment costs, offset by \$3.1 million of higher distribution costs due to higher unit shipments, \$3.1 million of net restructuring costs and \$1.1 million of other cost increases in the current period.

Wholesale footwear and accessories SG&A expenses decreased \$27.5 million, primarily due to a \$9.1 million decrease in salary and benefit costs due to headcount reductions, a \$5.5 million decrease in advertising costs, a \$3.5 million decrease in outside sales force costs, a \$3.0 million decrease in distribution costs, a \$2.7 million reduction in professional fees, a \$2.1 million decrease in product development costs, a \$1.6 million decrease in travel costs, a \$1.2 million decrease in postage costs and \$5.5 million of other cost reductions. These decreases were offset by \$3.9 million of costs related to the bankruptcy of our United Kingdom footwear licensee, a net \$1.4 million increase in restructuring and severance costs, primarily related to our wholesale jewelry business, and \$1.4 million in loss accruals related to certain leased property in the current period.

Retail SG&A expenses increased \$2.6 million, primarily due to \$28.1 million additional severance costs and asset impairments in the current period, primarily related to the closing of approximately 265 stores through the end of 2010, and a \$3.2 million increase in consulting costs, offset by an \$8.0 million reduction in depreciation expense, a \$7.8 million decrease in salaries and benefits and a \$3.4 million decrease in occupancy costs due to operating fewer stores in the current period, a \$8.1 million reduction in administrative support costs, and \$1.4 million of other cost reductions.

SG&A expenses for licensing, other and eliminations decreased \$1.2 million, primarily due to a \$3.5 million effect of changes in the exchange rate between the U.S. Dollar and the Canadian Dollar related to foreign tax planning strategies and a \$2.4 million decrease in professional fees and outside services, partially offset by a \$3.6 million increase in salaries and benefits and \$1.1 million of other net cost increases.

Impairment Losses. As a result of our annual trademark impairment analyses, we recorded trademark impairment charges of \$28.7 million and \$25.2 million in 2009 and 2008, respectively, as a result of decreases in projected revenues for certain brands. As a result of our annual goodwill impairment analyses, we recorded \$120.6 million in 2009 as a result of lower projected revenues and profitability of our retail businesses and an increase in the discount rate, and we recorded \$813.2 million in 2008 as a result of decreases in projected revenues and profitability for certain footwear and accessory brands. For more information, see "Goodwill and Other Intangible Assets" in Notes to Consolidated Financial Statements.

Operating Loss. The resulting operating loss for 2009 was \$12.1 million, compared with a loss of \$731.4 million for 2008, due to the factors described above.

Net Interest Expense. Net interest expense was \$52.8 million in 2009, compared with \$41.6 million in 2008. The increase was the result of: a \$4.4 million write-off of deferred financing fees upon the termination of our prior revolving credit facility, compared with \$1.1 million of similar charges from modifications to our credit facilities in 2008; lower interest income on our invested cash balances due to overall lower invested balances and lower interest rates in the current period; and higher amortization of deferred financing fees related to the amendment to our prior revolving credit facility on January 5, 2009 and our new secured revolving credit facility, partially offset by lower interest expense related to the 4.250% Senior Notes due 2009 (the "2009 Notes") we repurchased in May 2009.

Income Taxes. The effective income tax rate benefit on continuing operations was (23.1%) and 0.8% for 2009 and 2008, respectively. Excluding the effects of the goodwill and trademark impairments, the effective income tax rates on continuing operations were 35.0% and 33.2% for 2009 and 2008, respectively. The increase is due primarily to a lesser impact of the foreign income tax differential relative to pre-tax income in the current period than in the prior period, offset by a change in the deferred tax balance related to fixed assets.

Net Loss and Loss Per Share. Net loss was \$86.3 million in 2009, compared with \$765.4 million in 2008. Diluted loss per share for 2009 was \$1.02, compared with \$9.04 for 2008, on 1.4% fewer shares outstanding.

2008 Compared with 2007

Revenues. Total revenues for 2008 were \$3.6 billion, compared with \$3.8 billion for 2007, a decrease of 6.0%. Revenues by segment were as follows:

| (In millions) | 2008 | 2007 | Decrease | Percent Change |
|------------------------------------|-------------------|-------------------|-------------------|----------------|
| Wholesale better apparel | \$ 1,098.7 | \$ 1,101.0 | \$ (2.3) | (0.2%) |
| Wholesale jeanswear | 796.5 | 985.0 | (188.5) | (19.1) |
| Wholesale footwear and accessories | 938.3 | 955.8 | (17.5) | (1.8) |
| Retail | 730.2 | 753.7 | (23.5) | (3.1) |
| Licensing and other | 52.7 | 53.0 | (0.3) | (0.6) |
| Total revenues | <u>\$ 3,616.4</u> | <u>\$ 3,848.5</u> | <u>\$ (232.1)</u> | <u>(6.0%)</u> |

Wholesale better apparel revenues did not materially change from 2007 to 2008. Shipments of our *Jones New York Signature* product line increased, due to both increased customer orders based on the performance of this brand at retail and initial shipments of our new casual line of products, and shipments of our *Joneswear* and *Anne Klein* product lines also increased, due to increased customer orders based on the performance of these brands at retail. These increases were offset by decreased shipments of

our *Jones New York, Nine West* and specialty market product lines, due to decreased orders from our customers based on the performance of these brands at retail.

Wholesale jeanswear revenues decreased \$188.5 million. Lower shipments of our *Rena Rowan, Nine & Co., Evan-Picone, Bandolino, Pappagallo* and *Erika* moderate product lines, which were discontinued or repositioned in the market in 2007, reduced sales by approximately \$238.8 million. Initial shipments of our *l.e.i.* brand for juniors, junior plus and girls to Walmart under an exclusive retailing agreement and initial sales of the relaunched *Erika, Pappagallo* and *Evan-Picone* product lines during 2008 were partially offset by planned reductions of our *GLO* product line to focus on the *l.e.i.* brand and lower shipments of our *Energie* product line, due to decreased orders from our customers based on the performance of the brand at retail.

Wholesale footwear and accessories revenues decreased \$17.5 million. Lower sales of our *Nine West* and *Anne Klein* footwear products, primarily related to planned lower sales to value chain retailers and a shift in the market away from dress shoes towards casual shoes, were partially offset by (i) increased shipments in our international businesses due to continued expansion by our licensees who purchase product from us; (ii) increased shipments of our *Nine West* and *Nine & Co.* handbag product lines, due to increased orders from our customers based on the performance of these brands at retail; and (iii) initial shipments of our *AK Anne Klein* handbag line.

Retail revenues decreased \$23.5 million, primarily due to a 4.3% decline in comparable store sales (\$30.1 million) resulting from decreased consumer spending relating to current economic conditions. Comparable stores are those that have been open for a full year, are not scheduled to close in the current period and are not scheduled for an expansion or downsize by more than 25% or relocation to a different street or mall. A 2.9% decrease in comparable store sales for our footwear stores (\$12.9 million) and a 12.4% decrease in comparable store sales for our apparel stores (\$28.5 million) were partially offset by a 57.5% increase in our e-commerce business (\$11.3 million) and \$18.1 million in sales from new store openings. We began 2008 with 1,034 retail locations and had a net decrease of 17 locations during the year to end the period with 1,017 locations.

Revenues for 2008 and 2007 include \$0.6 million and \$1.0 million, respectively, in the licensing and other segment of service fees charged to Barneys under a short-term transition services agreement entered into with Barneys at the time of the sale of Barneys. These revenues were based on contractual monthly fees as set forth in the agreement. The agreement ended in May 2008.

Revenues for 2007 include \$1.2 million of service fees charged to Polo under a short-term transition service agreement entered into with Polo at the time of the sale of the *Polo Jeans Company* business. These revenues were based on contractual monthly and per-unit fees as set forth in the agreement. Of this amount, \$1.0 million was recorded in the wholesale better apparel segment and \$0.2 million was recorded in the wholesale jeanswear segment. The agreement ended in March 2007.

Gross Profit Margin. The gross profit margin increased to 32.5% in 2008, compared with 32.2% in 2007.

Wholesale better apparel gross profit margins were 31.3% and 32.4% for 2008 and 2007, respectively. The decrease was due to higher levels of sales to off-price retailers in our suit and dress product lines in 2008.

Wholesale jeanswear gross profit margins were 21.9% and 18.6% for 2008 and 2007, respectively. The increase is primarily due to the negative impact in the prior period of high levels of vendor allowances to clear inventory for the lower-margin moderate brands we had planned to exit or sell, the negative impact in the prior period of excess production capacity in the Mexican operations that we sold in May 2008, and lower levels of air shipments in 2008.

Wholesale footwear and accessories gross profit margins were 25.2% and 28.2% for 2008 and 2007, respectively. The decrease was due to higher levels of sales to off-price retailers to liquidate excess inventory, higher levels of vendor allowances to clear inventory at the retail level, growth in our lower-

margin international business and increased production costs in China and other Pacific Rim countries in 2008.

Retail gross profit margins were 49.6% and 48.4% for 2008 and 2007, respectively. The increase was primarily the result of lower levels of excess footwear inventory liquidation in the current period, as the prior period included the liquidation of inventory related to the closing of all of our Stein Mart retail locations.

Selling, General and Administrative Expenses. SG&A expenses were approximately \$1.1 billion in both 2008 and 2007.

Wholesale better apparel SG&A expenses decreased \$14.1 million, primarily from \$8.8 million of cost savings realized in 2008 by discontinuing the *Anne Klein* designer line, a \$2.1 million reduction in marketing expenses in 2008 and \$5.9 million of expenses relating to the closing of our Bristol, Pennsylvania warehouse which were recorded in 2007. These decreases were partially offset by \$1.5 million of incremental bad debt expense related to the bankruptcy filing of Boscov's and \$1.2 million of other net cost increases.

Wholesale jeanswear SG&A expenses decreased \$33.4 million from net cost savings of \$36.4 resulting primarily from the exit from some of our moderate apparel product lines during 2007 and a \$12.8 million reduction in restructuring costs. These cost savings were partially offset by a \$7.1 million increase in administrative support costs, \$1.9 million of advertising costs related to the launch of *l.e.i.* at Walmart and \$6.8 million of incremental bad debt expense related to the bankruptcy filings of Goody's, Mervyn's, Gottschalks and Boscov's.

Wholesale footwear and accessories SG&A expenses increased \$20.1 million, primarily due to a \$5.5 million increase in advertising costs, a \$5.2 million increase in administrative support costs, a \$4.0 million increase in salary, bonus and employee benefit costs (including pension costs), a \$2.8 million increase in severance costs, a \$2.3 million increase in sales and use taxes due to a tax audit settlement, a \$1.1 million increase in distribution costs and \$1.0 million of incremental bad debt expense related to the Goody's and Boscov's bankruptcy filings in 2008, offset by a \$1.1 million reduction in consulting fees as compared with 2007 and \$0.7 million of other net cost reductions.

Retail SG&A expenses increased \$8.2 million, primarily due to a \$3.9 million increase in administrative support costs, a \$3.8 million increase in depreciation expense and other occupancy costs, a \$2.9 million increase in Canadian retail store operating costs and a \$1.5 million write-off of computer software in 2008, partially offset by a \$3.9 million reduction in professional fees, severance costs and employee benefits as compared with 2007.

SG&A expenses for the licensing, other and eliminations segment decreased \$12.4 million, primarily due to amounts recorded in 2007 relating to the termination of two former executive officers.

Impairment Losses. As a result of our annual goodwill impairment analyses, we recorded goodwill impairments of \$813.2 million in 2008 as a result of decreases in projected revenues and profitability for certain footwear and accessory brands and \$78.0 million in 2007 as a result of decreases in projected revenues and profitability for certain moderate apparel brands. As a result of our annual trademark impairment analyses, we recorded trademark impairment charges of \$25.2 million and \$7.5 million in 2008 and 2007, respectively, as a result of decreases in projected revenues for certain brands. We also recorded trademark impairment charges of \$80.5 million in 2007 as a result of our decision to discontinue or significantly reduce the scale of certain brands. For more information, see "Goodwill and Other Intangible Assets" in Notes to Consolidated Financial Statements.

Operating Loss. The resulting operating loss from continuing operations for 2008 was \$731.4 million, compared with \$27.0 million for 2007, due to the factors described above.

Net Interest Expense. Net interest expense from continuing operations was \$41.6 million in 2008, compared with \$47.8 million in 2007. The decrease was primarily the result of no outstanding

borrowings under our credit facilities and higher interest income from higher cash balances during 2008, partially offset by \$1.1 million of deferred financing costs in 2008 related to modifications of our credit facilities.

Income Taxes. The effective income tax rate benefit on continuing operations was 0.8% and 178.4% for 2008 and 2007, respectively. Excluding the effects of the goodwill and trademark impairments, the effective income tax rate on continuing operations was 33.2% for 2008. Excluding the effects of the reversal of deferred tax valuation allowances related to the sale of Barneys (\$107.7 million) and the goodwill impairment, the effective tax rate on continuing operations was 17.0% for 2007. The increase was due primarily to a lesser impact of the foreign income tax differential relative to pre-tax income in the current period than in the prior period.

Discontinued Operations. Income from discontinued operations for 2008 includes a \$0.9 million adjustment to the after-tax gain on the sale of Barneys. Income from discontinued operations for 2007 includes a \$254.2 million after-tax gain on the sale of Barneys and \$11.0 million of net income from the operation of Barneys prior to the sale (see "Discontinued Operations" in Notes to Consolidated Financial Statements).

Net (Loss) Income and (Loss) Income Per Share. Net loss was \$(765.4) million in 2008, compared with net income of \$311.1 million in 2007, which included the \$254.2 million gain on the sale of Barneys. Diluted loss per share for 2008 was \$(9.04), compared with earnings per share of \$3.03 for 2007, on 18.2% fewer shares outstanding.

Liquidity and Capital Resources

Our principal capital requirements have been for working capital needs, capital expenditures, dividend payments, acquisition funding and repurchases of our common stock on the open market. We have historically relied on internally generated funds, trade credit, bank borrowings and the issuance of notes to finance our operations and expansion. As of December 31, 2009, total cash and cash equivalents were \$333.4 million, a decrease of \$4.9 million from the \$338.3 million reported as of December 31, 2008.

We currently fund our operations primarily through cash generated by operating activities, and rely on our revolving credit facility for the issuance of trade letters of credit for the purchases of inventory and for cash borrowings for general corporate purposes as needed.

Cash flows from operating activities of continuing operations provided \$349.0 million, \$175.5 million and \$119.5 million in 2009, 2008 and 2007, respectively.

Net cash provided by operating activities increased \$173.5 million from 2008 to 2009, primarily from changes in working capital. The primary changes in components of working capital were to accounts receivable, inventory and accounts payable. The change in accounts receivable was due to the lower volume of sales in the current period and the timing of cash collections. The change in inventory was due to better inventory management, the timing of inventory receipts and the liquidation of discontinued product lines. The change in accounts payable was due to the timing of inventory payments and lower expense levels in the current period.

Net cash provided by operating activities increased \$56.0 million from 2007 to 2008, primarily from the tax effects of the Barneys sale in 2007 and federal and state tax refunds received during 2008, offset by lower income from continuing operations in 2008 before non-cash impairment charges. The primary changes in components of working capital were to accounts receivable and accounts payable. The change in accounts receivable was primarily the result of an increase in receivables from our international and jeanswear businesses due to increased sales and the timing of shipments during 2008. The change in accounts payable was primarily the result of the timing of inventory payments and the effects of the sale of the *Polo Jeans Company* business in 2007.

Cash flows from investing activities of continuing operations used \$45.2 million and \$84.4 million and provided \$758.0 million in 2009, 2008 and 2007, respectively.

Net cash used in investing activities in 2009 funded capital expenditures, primarily for computer systems, and the acquisition of an additional 15% interest in GRI. Net cash used in investing activities in 2008 funded capital expenditures, largely in our retail segment, and the acquisition of our initial 10% interest in GRI. In 2007, net cash provided by investing activities was primarily due to net cash received from the sale of Barneys. Capital expenditures, which amounted to \$30.0 million in 2009, are expected to be approximately \$45 to \$50 million for 2010, primarily for retail store remodeling and computer systems. Although many of the anticipated expenditures for 2010 are discretionary, we believe they are necessary to maintain consistent operating levels. We expect to fund the expenditures from cash generated by operations.

Cash flows from financing activities of continuing operations used \$310.3 million in 2009, primarily for the repurchase of our 2009 Notes and associated costs and consent fees, costs related to our new secured revolving credit agreement, and the payment of dividends to our common shareholders.

Cash flows from financing activities of continuing operations used \$51.4 million in 2008, primarily for the payment of dividends to our common shareholders.

Cash flows from financing activities of continuing operations used \$666.4 million in 2007, primarily to repurchase our common stock and repay \$100.0 million of net borrowings under our Senior Credit Facilities.

On April 1, 2009, we commenced a cash tender offer to purchase any and all of our outstanding 2009 Notes, as well as a consent solicitation to amend the indenture governing our outstanding 2009 Notes, our 5.125% Senior Notes due 2014 and our 6.125% Senior Notes due 2034 (collectively, the "Notes"). The purpose of the consent solicitation was to receive the consent of holders of at least a majority in principal amount of the Notes outstanding for proposed amendments to the Indenture to provide for a carveout to the lien covenant, for liens incurred in connection with the new senior secured credit facility described above. We received the required consents on April 15, 2009; consequently, the Amendments became operative upon payment of the consent fee to each validly consenting holder of the Notes, and are binding on all holders, including non-consenting holders of Notes. The consideration for each \$1,000 principal amount of 2009 Notes validly tendered and not withdrawn pursuant to the tender offer was \$980, and the consent fee for each \$1,000 principal amount of Notes with respect to which holders validly delivered and did not revoke their consent pursuant to the consent solicitation was \$20.

Under the tender offer, we repurchased a total of \$242.5 million of our outstanding 2009 Notes for a payment of \$237.7 million, and we paid \$12.9 million in consent fees to holders of the Notes and \$1.8 million of related costs, resulting in a loss on debt extinguishment of \$1.5 million. Of the consent fees paid, a net \$7.1 million relates to the remaining outstanding Notes and will be amortized over the life of the remaining related Notes as additional interest expense.

We repurchased no common stock during 2009. As of December 31, 2009, \$304.1 million of Board authorized repurchases was still available. We may make additional share repurchases in the future depending on, among other things, market conditions and our financial condition, although any such repurchases will be subject to limitations under our current revolving credit agreement. Our Board of Directors has authorized our common stock repurchases as a tax-effective means to enhance shareholder value and distribute cash to shareholders and, to a lesser extent, to offset the impact of dilution resulting from the issuance of employee stock options and shares of restricted stock. In authorizing share repurchase programs, our Board of Directors gives careful consideration to both our projected cash flows and our existing capital resources.

On June 10, 2008, we received a final delivery of 3.2 million shares upon the conclusion of the ASR program. No cash was required to complete the final delivery of shares. We also received approximately \$1.0 million from Goldman as the final settlement of the ASR program, which was recorded as a reduction of the cost of the shares acquired under the ASR.

Prior to May 2009, we had a revolving credit agreement with several lending institutions to borrow an aggregate principal amount of up to \$600 million (which was reduced by amendment from \$750 million on January 5, 2009). This agreement could be used for letters of credit or cash borrowings. In May 2009, we replaced this revolving credit facility and our C\$10.0 million unsecured line of credit in Canada with a new three-year \$650 million secured revolving credit agreement. Under the New Credit Facility, up to the entire amount of the facility is available for cash borrowings, with up to \$400 million available for trade letters of credit and up to \$50 million for standby letters of credit, and a subfacility available to our Canadian subsidiaries of up to \$25 million for letters of credit and borrowings. Borrowings under the New Credit Facility may be used to refinance existing indebtedness and for general corporate purposes in the ordinary course of business. Such borrowings bear interest either based on the alternate base rate, as defined in the New Credit Facility, or based on Eurocurrency rates, each with a margin that depends on the availability remaining under the New Credit Facility. The New Credit Facility contains customary events of default.

Availability under the New Credit Facility is determined in reference to a borrowing base consisting of a percentage of eligible inventory, accounts receivable, credit card receivables and licensee receivables, minus reserves determined by the joint collateral agents. At December 31, 2009, we had no cash borrowings and \$35.5 million of letters of credit outstanding, and our remaining availability was \$360.8 million. If availability under the New Credit Facility falls below a stated level, we will be required to comply with a minimum fixed charge coverage ratio. The New Credit Facility also contains affirmative and negative covenants that, among other things, will limit or restrict our ability to (1) incur indebtedness, (2) create liens, (3) merge, consolidate, liquidate or dissolve, (4) make investments (including acquisitions), loans or advances, (5) sell assets, (6) enter into sale and leaseback transactions, (7) enter into swap agreements, (8) make certain restricted payments (including dividends and other payments in respect of capital stock), (9) enter into transactions with affiliates, (10) enter into restrictive agreements, and (11) amend material documents. The New Credit Facility is secured by a first priority lien on substantially all of our personal property.

As a result of the amendments to our prior revolving credit facility on January 5, 2009, Standard & Poor's downgraded our senior unsecured debt ratings from BB- to B+ on January 6, 2009 and Moody's downgraded our senior unsecured debt ratings from Ba2 to Ba3 on January 8, 2009. Under the New Credit Facility, our fees and interest rates are no longer affected by our credit rating, so further changes to our ratings will not increase our borrowing costs. However, any future downgrades could affect our ability or cost of obtaining additional funding.

Proceeds from the issuance of common stock to our employees exercising stock options amounted to \$0.1 million and \$11.1 million in 2008 and 2007, respectively. No employees exercised stock options in 2009.

We recorded net pension and postretirement losses of \$0.9 million in 2009 to other comprehensive income resulting primarily from a lowering of the discount rate used to determine projected pension benefits. We recorded net pension and postretirement losses of \$9.3 million in 2008 to other comprehensive income resulting primarily from the downturn in the financial markets, which generated lower than expected returns on our plan assets. We recorded net pension and postretirement liability gains of \$4.5 million to other comprehensive income in 2007 resulting primarily from the amortization of actuarial gains. Our pension and postretirement plans are currently underfunded by a total of \$19.6 million. As the benefits under our defined benefit pension plans are frozen with respect to service credits, the effects on future pension expense are not anticipated to be material to our results of operations or to our liquidity. We expect to contribute \$5.7 million to our defined benefit plans in 2010.

On February 10, 2010, we announced that our Board of Directors had declared a quarterly cash dividend of \$0.05 per share to all common stockholders of record as of February 26, 2010 for payment on March 12, 2010.

Economic Outlook

The current economic environment has resulted in lower consumer confidence and lower retail sales. This trend may lead to further reduced consumer spending which could affect our net sales and our

future profitability. Additionally, rising costs combined with reduced consumer spending may reduce our gross profit margins.

Due to the current and expected future economic conditions in the United States, we may experience increased risk related to the collectibility of our accounts receivable, and we may increase our provision for doubtful accounts in the future should any of our wholesale customers experience significant financial difficulties. If such conditions lead to defaults that are individually or cumulatively significant, we could experience a material adverse impact to our financial condition, results of operations and/or liquidity.

We believe that available cash and cash equivalents, funds generated by operations and the \$650.0 million New Credit Facility will provide the financial resources sufficient to meet our foreseeable working capital, dividend, capital expenditure and stock repurchase requirements and fund our contractual obligations and our contingent liabilities and commitments. Although there can be no assurance because of these challenging times for financial institutions, we believe that the participating banks will be willing and able to loan funds to us in accordance with their legal obligations under the New Credit Facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements within the meaning of SEC Regulation S-K Item 303(a)(4).

Contractual Obligations and Contingent Liabilities and Commitments

The following is a summary of our significant contractual obligations for the periods indicated that existed as of December 31, 2009, and, except for purchase obligations and other long-term liabilities, is based on information appearing in the Notes to Consolidated Financial Statements (amounts in millions).

| | Total | Less than 1 year | 1 - 3 years | 3 - 5 years | More than 5 years |
|--|-------------------|---------------------|-----------------|-----------------|-------------------------|
| Long-term debt | \$ 500.0 | \$ - | \$ - | \$ 250.0 | \$ 250.0 |
| Interest on long-term debt | 443.4 | 28.1 | 56.3 | 54.7 | 304.3 |
| Capital lease obligations | 43.7 | 4.5 | 7.1 | 7.3 | 24.8 |
| Operating lease obligations ⁽¹⁾ | 673.6 | 123.9 | 214.5 | 151.2 | 184.0 |
| Purchase obligations ⁽²⁾ | 761.9 | 741.2 | 13.0 | 7.7 | - |
| Minimum royalty payments ⁽³⁾ | 6.4 | 1.7 | 2.7 | 2.0 | - |
| Capital expenditure commitments | 9.2 | 9.2 | - | - | - |
| Deferred compensation | 7.8 | 7.8 | - | - | - |
| Other long-term liabilities ⁽⁴⁾ | 82.0 | 4.0 | 19.3 | 15.3 | 43.4 |
| Total contractual obligations ⁽⁵⁾ | <u>\$ 2,528.0</u> | <u>\$ 920.4</u> | <u>\$ 312.9</u> | <u>\$ 488.2</u> | <u>\$ 806.5</u> |

(1) Future rental commitments for leases have not been reduced by minimum non-cancelable sublease rentals aggregating \$19.9 million.

(2) Includes outstanding letters of credit of \$35.5 million, which primarily represent inventory purchase commitments which typically mature in two to six months.

(3) Under exclusive licenses to manufacture certain items under trademarks not owned by us pursuant to various license agreements, we are obligated to pay the licensors a percentage of our net sales of these licensed products, subject to minimum scheduled royalty and advertising payments.

(4) Consists primarily of deferred rent and pension and postretirement liabilities. Pension and postretirement liabilities, which total \$19.3 million, are reported under the more than five years column, as we cannot make reasonably reliable estimates of the timing and amounts to be paid. We plan to contribute \$5.7 million to our defined benefit plans in 2010.

(5) Excludes \$6.6 million of uncertain tax positions, for which we cannot make reasonably reliable estimates of the timing and amounts to be paid.

New Accounting Standards

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (now ASC Subtopic 825-10-65), which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This Staff Position is effective for interim reporting periods ending after June 15, 2009, and its requirements are reflected herein.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (now ASC Subtopic 320-10-65), which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This Staff Position is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this Staff Position did not have an effect on our operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (now ASC Subtopic 855-10). This standard establishes principles and requirements for subsequent events, which are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this standard sets forth (a) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This standard is effective for interim or annual financial periods ending after June 15, 2009 and is to be applied prospectively. The adoption of this standard did not have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" (now part of ASC Topic 860, also issued as ASU No. 2009-16). The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. This standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of this standard are to be applied to transfers that occur on or after the effective date. The adoption of this standard is not expected to have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (now part of ASC Subtopic 810, also issued as ASU No. 2009-17). This standard amends FASB Interpretation 46(R) to require an enterprise to perform an analysis to determine whether an enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and has the obligation to absorb losses of or the right to receive benefits from the entity. This standard also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this standard is not expected to have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" (now ASC Subtopic 105-10, also issued as ASU No. 2009-01). This standard establishes the ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have an impact on our results of operations or our financial position.

In August 2009, the FASB issued ASU No. 2009-5, "Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value." ASU No. 2009-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of ASC Topic 820. ASU No. 2009-5 is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of ASU No. 2009-5 is not expected to have a material impact on our results of operations or our financial position.

In October 2009, the FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605) - Multiple Deliverable Revenue Arrangements." ASU No. 2009-13 eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and expands the disclosures related to multiple-deliverable revenue arrangements. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The adoption of ASU No. 2009-13 will not have a material impact on our results of operations or our financial position.

In January 2010, the FASB issued ASU No. 2010-02, "Consolidation (Topic 810) - Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification." ASU No. 2010-02 clarifies that the scope of the decrease in ownership provisions of Topic 810 applies to a subsidiary or group of assets that is a business, a subsidiary that is a business that is transferred to an equity method investee or a joint venture or an exchange of a group of assets that constitutes a business for a noncontrolling interest in an entity and does not apply to sales in substance of real estate. ASU No. 2010-02 is effective as of the beginning of the period in which an entity adopts SFAS No. 160 or, if SFAS No. 160 has been previously adopted, the first interim or annual period ending on or after December 15, 2009, applied retrospectively to the first period that the entity adopted SFAS No. 160. The adoption of ASU No. 2010-02 did not have an impact on our results of operations or our financial position.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. ASU 2010-06 also includes conforming amendments to employers' disclosures about postretirement benefit plan assets. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those years.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Sensitive Instruments

We are exposed to the impact of interest rate changes, foreign currency fluctuations, and changes in the market value of our fixed rate long-term debt. We manage this exposure through regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Our policy allows the use of derivative financial instruments for identifiable market risk exposures, including interest rate and foreign currency fluctuations. We do not enter into derivative financial contracts for trading or other speculative purposes. The following quantitative disclosures were derived using quoted market prices, yields and theoretical pricing models obtained through independent pricing sources for the same or similar types of financial instruments, taking into consideration the underlying terms, such as the coupon rate, term to maturity and imbedded call options. Certain items such as lease contracts, insurance contracts, and obligations for pension and other post-retirement benefits were not included in the analysis. For further information see "Derivatives" and "Financial Instruments" in the Notes to Consolidated Financial Statements.

Interest Rates

Our primary interest rate exposures relate to the fair value of our fixed rate long-term debt and interest expense related to our revolving credit facility.

At December 31, 2009, the fair value of our fixed rate debt was \$449.4 million. On that date, the potential decrease in fair value of our fixed rate long-term debt instruments resulting from a hypothetical 10% adverse change in interest rates was approximately \$40.9 million.

Our primary interest rate exposures on variable rate credit facilities are with respect to United States and Canadian short-term rates. Cash borrowings under these facilities bear interest at rates that vary with changes in prevailing market rates. At December 31, 2009, we had \$650.0 million in variable rate credit facilities, under which no cash borrowings and \$35.5 million of letters of credit were outstanding.

Foreign Currency Exchange Rates

We are exposed to market risk related to changes in foreign currency exchange rates. Our products have historically been purchased from foreign manufacturers in pre-set United States dollar prices. We also have assets, liabilities and intercompany accounts denominated in certain foreign currencies that generate exchange gains and losses as exchange rates change. To date, we generally have not been materially adversely affected by fluctuations in exchange rates.

At December 31, 2009, we had outstanding foreign exchange contracts to exchange Canadian Dollars for a total notional value of US \$8.6 million at a weighted-average exchange rate of \$1.06893 maturing through May 2010. The fair value of these contracts at December 31, 2009 was a \$0.2 million unrealized loss. We believe that these financial instruments should not subject us to undue risk due to foreign exchange movements because gains and losses on these contracts should offset losses and gains on the assets, liabilities, and transactions being hedged. We are exposed to credit-related losses if the counterparty to a financial instrument fails to perform its obligation. However, we do not expect the counterparty, which presently has a high credit rating, to fail to meet its obligations.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

February 16, 2010

To the Stockholders of Jones Apparel Group, Inc.

The management of Jones Apparel Group, Inc. is responsible for the preparation, integrity, objectivity and fair presentation of the financial statements and other financial information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect the effects of certain judgments and estimates made by management.

In order to ensure that our internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for our financial reporting as of December 31, 2009. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, referred to as COSO. Our assessment included the documentation and understanding of our internal control over financial reporting. We have evaluated the design effectiveness and tested the operating effectiveness of internal controls to form our conclusion.

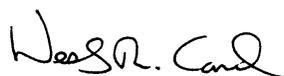
Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that pertain to maintaining records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, providing reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, assuring that receipts and expenditures are being made in accordance with authorizations of our management and directors and providing reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

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

Based on this assessment, the undersigned officers concluded that our internal controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings and that information required to be disclosed by us in these periodic filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

The Audit Committee of our Board of Directors, which consists of independent, non-executive directors, meets regularly with management, the internal auditors and the independent accountants to review accounting, reporting, auditing and internal control matters. The committee has direct and private access to both internal and external auditors.

BDO Seidman, LLP, the independent registered public accounting firm who audits our financial statements, has audited our internal control over financial reporting as of December 31, 2009 and has expressed an unqualified opinion thereon.



Wesley R. Card
Chief Executive Officer



John T. McClain
Chief Financial Officer



BDO Seidman, LLP
Accountants and Consultants

100 Park Ave
New York, NY 10017
Telephone: (212) 885-8000
Fax: (212) 697-1299

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Jones Apparel Group, Inc.
New York, New York

We have audited Jones Apparel Group's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Jones Apparel Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Jones Apparel Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Jones Apparel Group, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 16, 2010 expressed an unqualified opinion thereon.

New York, New York
February 16, 2010

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA



BDO Seidman, LLP
Accountants and Consultants

100 Park Ave
New York, NY 10017
Telephone: (212) 885-8000
Fax: (212) 697-1299

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Jones Apparel Group, Inc.
New York, New York

We have audited the accompanying consolidated balance sheets of Jones Apparel Group, Inc as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jones Apparel Group, Inc at December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Jones Apparel Group's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 16, 2010 expressed an unqualified opinion thereon.

A handwritten signature in black ink that reads "BDO Seidman, LLP". The signature is written in a cursive, flowing style.

New York, New York
February 16, 2010

Jones Apparel Group, Inc.
Consolidated Balance Sheets
(All amounts in millions except per share data)

| December 31, | 2009 | 2008 |
|--|------------|------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 333.4 | \$ 338.3 |
| Accounts receivable | 303.1 | 370.2 |
| Inventories, primarily finished goods | 375.0 | 509.5 |
| Prepaid and refundable income taxes | - | 16.9 |
| Deferred taxes | 28.1 | 28.0 |
| Prepaid expenses and other current assets | 25.6 | 42.6 |
| TOTAL CURRENT ASSETS | 1,065.2 | 1,305.5 |
| PROPERTY, PLANT AND EQUIPMENT, at cost, less accumulated depreciation and amortization | 239.0 | 301.0 |
| GOODWILL | 40.1 | 160.7 |
| OTHER INTANGIBLES, less accumulated amortization | 559.8 | 590.8 |
| PREPAID AND REFUNDABLE INCOME TAXES | 4.7 | - |
| DEFERRED TAXES | 3.9 | 14.2 |
| INVESTMENT IN AND LOANS TO UNCONSOLIDATED AFFILIATE | 42.1 | 19.6 |
| OTHER ASSETS | 70.2 | 35.7 |
| TOTAL ASSETS | \$ 2,025.0 | \$ 2,427.5 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt | \$ - | \$ 250.0 |
| Current portion of capital lease obligations | 2.6 | 3.1 |
| Accounts payable | 185.3 | 231.4 |
| Income taxes payable | 11.8 | 0.1 |
| Accrued employee compensation and benefits | 42.7 | 30.0 |
| Accrued restructuring and severance payments | 9.7 | 13.0 |
| Accrued expenses and other current liabilities | 72.0 | 84.3 |
| TOTAL CURRENT LIABILITIES | 324.1 | 611.9 |
| NONCURRENT LIABILITIES: | | |
| Long-term debt | 499.5 | 499.5 |
| Obligations under capital leases | 26.9 | 29.4 |
| Income taxes | - | 20.8 |
| Other | 82.0 | 83.7 |
| TOTAL NONCURRENT LIABILITIES | 608.4 | 633.4 |
| TOTAL LIABILITIES | 932.5 | 1,245.3 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| EQUITY: | | |
| Preferred stock, \$.01 par value - shares authorized 1.0; none issued | - | - |
| Common stock, \$.01 par value - shares authorized 200.0; issued 156.8 and 154.8 | 1.6 | 1.5 |
| Additional paid-in capital | 1,360.3 | 1,350.7 |
| Retained earnings | 1,564.4 | 1,668.0 |
| Accumulated other comprehensive loss | (7.6) | (11.7) |
| Treasury stock, 71.4 shares for both periods, at cost | (1,826.3) | (1,826.3) |
| TOTAL JONES STOCKHOLDERS' EQUITY | 1,092.4 | 1,182.2 |
| Noncontrolling interest | 0.1 | - |
| TOTAL EQUITY | 1,092.5 | 1,182.2 |
| TOTAL LIABILITIES AND EQUITY | \$ 2,025.0 | \$ 2,427.5 |

See accompanying notes to consolidated financial statements

Jones Apparel Group, Inc.
Consolidated Statements of Operations
(All amounts in millions except per share data)

| Year Ended December 31, | 2009 | 2008 | 2007 |
|--|------------------|-------------------|-----------------|
| Net sales | \$ 3,279.7 | \$ 3,562.6 | \$ 3,793.3 |
| Licensing income | 46.8 | 52.1 | 52.0 |
| Other revenues | 0.9 | 1.7 | 3.2 |
| Total revenues | 3,327.4 | 3,616.4 | 3,848.5 |
| Cost of goods sold | 2,181.5 | 2,440.2 | 2,609.1 |
| Gross profit | 1,145.9 | 1,176.2 | 1,239.4 |
| Selling, general and administrative expenses | 1,008.7 | 1,069.2 | 1,100.4 |
| Trademark impairments | 28.7 | 25.2 | 88.0 |
| Goodwill impairment | 120.6 | 813.2 | 78.0 |
| Operating loss | (12.1) | (731.4) | (27.0) |
| Interest income | 2.8 | 7.5 | 3.7 |
| Interest expense and financing costs | 55.6 | 49.1 | 51.5 |
| Loss and costs associated with repurchase of 4.250% Senior Notes | 1.5 | - | - |
| Gain on sale of interest in Australian joint venture | - | 0.8 | 8.2 |
| Equity in (loss) earnings of unconsolidated affiliates | (3.7) | (0.7) | 8.1 |
| Loss from continuing operations before provision (benefit) for income taxes | (70.1) | (772.9) | (58.5) |
| Provision (benefit) for income taxes | 16.2 | (6.6) | (104.4) |
| (Loss) income from continuing operations | (86.3) | (766.3) | 45.9 |
| Income from discontinued operations, including gain on sale of Barneys, net of tax | - | 0.9 | 265.2 |
| Net (loss) income | (86.3) | (765.4) | 311.1 |
| Less: income attributable to noncontrolling interest | 0.3 | - | - |
| (Loss) income attributable to Jones | \$ (86.6) | \$ (765.4) | \$ 311.1 |
| (Loss) earnings per share | | | |
| Basic | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.62 |
| Basic (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.07 |
| Diluted | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.58 |
| Diluted (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.03 |
| Weighted average common shares outstanding | | | |
| Basic | 81.7 | 82.9 | 99.9 |
| Diluted | 81.7 | 82.9 | 101.3 |
| Dividends declared per share | \$ 0.20 | \$ 0.56 | \$ 0.56 |

See accompanying notes to consolidated financial statements

Jones Apparel Group, Inc.
Consolidated Statements of Changes in Equity
(All amounts in millions except per share data)

| | Number of common shares outstanding | Total equity | Common stock | Addi- tional paid-in capital | Retained earnings | Accumu- lated other compre- hensive (loss)income | Treasury stock | Non- controlling interest |
|---|--|-----------------|-----------------|---------------------------------------|----------------------|--|-------------------|---------------------------------|
| Balance, January 1, 2007 | 107.9 | \$ 2,211.6 | \$ 1.5 | \$ 1,320.0 | \$ 2,226.4 | \$ (5.9) | \$ (1,330.4) | - |
| Year ended December 31, 2007: | | | | | | | | |
| Comprehensive income: | | | | | | | | |
| Net income | - | 311.1 | - | - | 311.1 | - | - | - |
| Pension and postretirement liability adjustments, net of \$1.7 tax | - | 2.9 | - | - | - | 2.9 | - | - |
| Change in fair value of cash flow hedges, net of \$1.8 tax benefit | - | (2.5) | - | - | - | (2.5) | - | - |
| Reclassification adjustment for hedge gains and losses included in net income, net of \$0.4 tax benefit | - | 0.5 | - | - | - | 0.5 | - | - |
| Foreign currency translation adjustments | - | 7.6 | - | - | - | 7.6 | - | - |
| Total comprehensive income | - | 319.6 | - | - | - | - | - | - |
| Effect of sale of Barneys | - | (7.3) | - | (6.8) | - | (0.5) | - | - |
| Forfeitures of restricted stock by employees, net of issuances | (0.2) | - | - | - | - | - | - | - |
| Amortization expense in connection with employee stock options and restricted stock | - | 14.0 | - | 14.0 | - | - | - | - |
| Exercise of employee stock options | 0.6 | 11.1 | - | 11.1 | - | - | - | - |
| Tax effects from exercise of employee stock options and vesting of restricted stock | - | 1.4 | - | 1.4 | - | - | - | - |
| Dividends on common stock (\$0.56 per share) | - | (57.2) | - | - | (57.2) | - | - | - |
| Treasury stock acquired | (23.0) | (496.9) | - | - | - | - | (496.9) | - |
| Other | - | 0.5 | - | - | 0.5 | - | - | - |
| Balance, December 31, 2007 | 85.3 | 1,996.8 | 1.5 | 1,339.7 | 2,480.8 | 2.1 | (1,827.3) | - |
| Year ended December 31, 2008: | | | | | | | | |
| Comprehensive loss: | | | | | | | | |
| Net loss | - | (765.4) | - | - | (765.4) | - | - | - |
| Pension and postretirement liability adjustments, net of \$3.6 tax benefit | - | (5.7) | - | - | - | (5.7) | - | - |
| Change in fair value of cash flow hedges, net of \$0.6 tax | - | 0.6 | - | - | - | 0.6 | - | - |
| Reclassification adjustment for hedge gains and losses included in net loss, net of \$0.3 tax benefit | - | 0.7 | - | - | - | 0.7 | - | - |
| Foreign currency translation adjustments | - | (9.4) | - | - | - | (9.4) | - | - |
| Total comprehensive loss | - | (779.2) | - | - | - | - | - | - |
| Issuance of restricted stock to employees, net of forfeitures | 1.3 | - | - | - | - | - | - | - |
| Amortization expense in connection with employee stock options and restricted stock | - | 12.3 | - | 12.3 | - | - | - | - |
| Exercise of employee stock options | - | 0.1 | - | 0.1 | - | - | - | - |
| Tax effects from exercise of employee stock options and vesting of restricted stock | - | (1.4) | - | (1.4) | - | - | - | - |
| Dividends on common stock (\$0.56 per share) | - | (47.4) | - | - | (47.4) | - | - | - |
| Treasury stock acquired | (3.2) | 1.0 | - | - | - | - | 1.0 | - |
| Balance, December 31, 2008 | 83.4 | 1,182.2 | 1.5 | 1,350.7 | 1,668.0 | (11.7) | (1,826.3) | - |
| Year ended December 31, 2009: | | | | | | | | |
| Comprehensive loss: | | | | | | | | |
| Net (loss) income | - | (86.3) | - | - | (86.6) | - | - | 0.3 |
| Pension and postretirement liability adjustments, net of \$0.3 tax benefit | - | (0.6) | - | - | - | (0.6) | - | - |
| Change in fair value of cash flow hedges, net of \$0.4 tax benefit | - | (0.7) | - | - | - | (0.7) | - | - |
| Reclassification adjustment for hedge gains and losses included in net loss, net of \$0.2 tax benefit | - | 0.4 | - | - | - | 0.4 | - | - |
| Foreign currency translation adjustments | - | 5.0 | - | - | - | 5.0 | - | - |
| Total comprehensive loss | - | (82.2) | - | - | - | - | - | - |
| Issuance of restricted stock to employees, net of forfeitures | 2.0 | - | - | - | - | - | - | - |
| Amortization expense in connection with employee stock options and restricted stock | - | 13.0 | 0.1 | 12.9 | - | - | - | - |
| Distributions to noncontrolling interest | - | (0.2) | - | - | - | - | - | (0.2) |
| Tax effects from vesting of restricted stock | - | (1.1) | - | (1.1) | - | - | - | - |
| Tax effects of expired employee stock options | - | (2.2) | - | (2.2) | - | - | - | - |
| Dividends on common stock (\$0.20 per share) | - | (17.0) | - | - | (17.0) | - | - | - |
| Balance, December 31, 2009 | 85.4 | \$ 1,092.5 | \$ 1.6 | \$ 1,360.3 | \$ 1,564.4 | \$ (7.6) | \$ (1,826.3) | \$ 0.1 |

See accompanying notes to consolidated financial statements

Jones Apparel Group, Inc.
Consolidated Statements of Cash Flows
(All amounts in millions)

| Year Ended December 31, | 2009 | 2008 | 2007 |
|---|-----------|------------|----------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net (loss) income | \$ (86.3) | \$ (765.4) | \$ 311.1 |
| Less: Income from discontinued operations, net of tax | - | (0.9) | (265.2) |
| (Loss) income from continuing operations | (86.3) | (766.3) | 45.9 |
| Adjustments to reconcile (loss) income from continuing operations to net cash provided by operating activities, net of acquisitions and divestitures: | | | |
| Loss and costs associated with repurchase of 4.250% Senior Notes | 1.5 | - | - |
| Impairment losses on property, plant and equipment | 24.4 | 0.9 | 2.1 |
| Trademark impairments | 28.7 | 25.2 | 88.0 |
| Goodwill impairment | 120.6 | 813.2 | 78.0 |
| Amortization of employee stock options and restricted stock | 13.0 | 12.3 | 14.0 |
| Depreciation and other amortization | 78.7 | 80.8 | 76.5 |
| Gain on sale of interest in Australian joint venture | - | (0.8) | (8.2) |
| Equity in loss (earnings) of unconsolidated affiliates | 3.7 | 0.7 | (8.1) |
| Dividends received from unconsolidated affiliates | - | - | 2.6 |
| Provision for losses on accounts receivable | 1.7 | 10.3 | 0.2 |
| Deferred taxes | 10.7 | (5.0) | 8.7 |
| Write-off of deferred financing fees | 4.4 | 1.1 | - |
| Losses on sales of property, plant and equipment | 0.7 | 2.7 | 4.0 |
| Other items, net | 0.6 | (0.4) | (1.8) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 56.3 | (45.2) | 22.5 |
| Inventories | 136.9 | 11.1 | 9.6 |
| Prepaid expenses and other current assets | 9.5 | 22.2 | 1.2 |
| Accounts payable | (46.8) | 8.6 | (55.5) |
| Income taxes payable/prepaid income taxes | 0.6 | 12.8 | (171.7) |
| Accrued expenses and other current liabilities | (4.6) | (15.9) | 4.9 |
| Other assets and liabilities | (5.3) | 7.2 | 6.6 |
| Total adjustments | 435.3 | 941.8 | 73.6 |
| Net cash provided by operating activities of continuing operations | 349.0 | 175.5 | 119.5 |
| Net cash provided by operating activities of discontinued operations | - | - | 39.0 |
| Net cash provided by operating activities | 349.0 | 175.5 | 158.5 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Proceeds from sale of Barneys, net of cash sold and selling costs | - | - | 845.5 |
| Proceeds from sale of interest in Australian joint venture | - | 0.8 | 20.7 |
| Investment in GRI Group Limited | (15.2) | (20.2) | - |
| Costs related to acquisition of Rachel Roy Fashions, Inc. | - | (0.2) | - |
| Capital expenditures | (30.0) | (71.2) | (111.2) |
| Proceeds from sale of Mexican operations | - | 5.9 | - |
| Proceeds from sales of property, plant and equipment | - | 0.5 | 3.0 |
| Net cash (used in) provided by investing activities of continuing operations | (45.2) | (84.4) | 758.0 |
| Net cash used in investing activities of discontinued operations | - | - | (40.5) |
| Net cash (used in) provided by investing activities | (45.2) | (84.4) | 717.5 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Repurchase of 4.250% Senior Notes | (237.7) | - | - |
| Redemption at maturity of 4.250% Senior Notes | (7.5) | - | - |
| Payment of consent fees | (12.9) | - | - |
| Costs associated with consent fees and repurchase of notes | (1.8) | - | - |
| Costs related to secured revolving credit agreement | (30.1) | - | - |
| Net repayment under credit facilities | - | - | (100.0) |
| Purchases of treasury stock | - | 1.0 | (496.9) |
| Proceeds from exercise of employee stock options | - | 0.1 | 11.1 |
| Dividends paid | (17.0) | (47.4) | (57.2) |
| Net cash transferred to discontinued operations | - | - | (21.7) |
| Principal payments on capital leases | (3.1) | (4.8) | (4.1) |
| Excess tax benefits from share-based payment arrangement | - | - | 2.4 |
| Other | (0.2) | (0.3) | - |
| Net cash used in financing activities of continuing operations | (310.3) | (51.4) | (666.4) |
| Net cash provided by financing activities of discontinued operations | - | - | 17.9 |
| Net cash used in financing activities | (310.3) | (51.4) | (648.5) |
| EFFECT OF EXCHANGE RATES ON CASH | 1.6 | (4.2) | 3.8 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4.9) | 35.5 | 231.3 |
| CASH AND CASH EQUIVALENTS, BEGINNING, including \$7.2 reported under assets held for sale in 2007 | 338.3 | 302.8 | 71.5 |
| CASH AND CASH EQUIVALENTS, ENDING | \$ 333.4 | \$ 338.3 | \$ 302.8 |

See accompanying notes to consolidated financial statements

SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Jones Apparel Group, Inc. and our wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The results of operations of acquired companies are included in our operating results from the respective dates of acquisition. We also have a 25% interest in GRI, which is accounted for under the equity method of accounting.

We design, contract for the manufacture of and market a broad range of women's collection sportswear, suits and dresses, casual sportswear and jeanswear for women and children, and women's footwear and accessories. We sell our products through a broad array of distribution channels, including better specialty and department stores and mass merchandisers, primarily in the United States and Canada. We also operate our own network of retail and factory outlet stores, as well as several e-commerce web sites. In addition, we license the use of several of our brand names to select manufacturers and distributors of women's and men's apparel and accessories worldwide.

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

On September 6, 2007, we completed the sale of Barneys to an affiliate of Istithmar PJSC. The results of operations of Barneys for all periods have been reported as discontinued operations. We classify as discontinued operations for all periods presented any component of our business that we believe is probable of being sold or has been sold that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes. For those components, we have no significant continuing involvement after disposal and their operations and cash flows are eliminated from our ongoing operations. Sales of significant components of our business not classified as discontinued operations are reported as a component of income from continuing operations.

Credit Risk

Financial instruments which potentially subject us to concentration of credit risk consist principally of cash investments and accounts receivable. We place our cash and cash equivalents in investment-grade, highly-liquid U.S. government agency and corporate money market accounts. We perform ongoing credit evaluations of our customers' financial condition and, generally, require no collateral from our customers. The allowance for non-collection of accounts receivable is based upon the expected collectibility of all accounts receivable.

Derivative Financial Instruments

Our primary objectives for holding derivative financial instruments are to manage foreign currency and interest rate risks. We do not use financial instruments for trading or other speculative purposes. We have historically used derivative financial instruments to hedge both the fair value of recognized assets or liabilities (a "fair value" hedge) and the variability of anticipated cash flows of a forecasted transaction (a "cash flow" hedge). Our strategies related to derivative financial instruments have been:

- the use of foreign currency forward contracts to hedge a portion of anticipated future short-term inventory purchases to offset the effects of changes in foreign currency exchange rates (primarily between the U.S. Dollar and the Canadian Dollar) and
- the use of interest rate swaps to effectively convert a portion of our outstanding fixed-rate debt to variable-rate debt to take advantage of lower interest rates.

The derivatives we use in our risk management strategies are highly effective hedges because all the critical terms of the derivative instruments match those of the hedged item. On the date the derivative contract is entered into, we designate the derivative as either a fair value hedge or a cash flow hedge. Changes in derivative fair values that are designated as fair value hedges are recognized in earnings as offsets to the changes in fair value of the related hedged assets and liabilities. Changes in derivative fair values that are designated as cash flow hedges are deferred and recorded as a component of accumulated other comprehensive income until the associated hedged transactions impact the income statement, at which time the deferred gains and losses are reclassified to either cost of sales for inventory purchases or to selling, general and administrative ("SG&A") expenses for all other items. Any ineffective portion of a hedging derivative's change in fair value will be immediately recognized in cost of sales. Differentials to be paid or received under interest rate swap contracts are recognized in income over the life of the contracts as adjustments to interest expense. Gains or losses generated from the early termination of interest rate swap contracts and treasury locks are amortized to earnings over the remaining terms of the contracts as adjustments to interest expense. The fair values of the derivatives, which are based on observable inputs such as yield curves or foreign exchange spot rates, are reported as other current assets or accrued expenses and other current liabilities, as appropriate.

Accounts Receivable

Accounts receivable are reported at amounts we expect to be collected, net of trade discounts and deductions for co-op advertising normally taken by our customers, allowances we provide to our retail customers to effectively flow goods through the retail channels, an allowance for non-collection due to the financial position of our customers and credit card accounts, and an allowance for estimated sales returns.

Inventories and Cost of Sales

Inventories are valued at the lower of cost or market. Inventory values are determined using the FIFO (first in, first out) and weighted average cost methods. We reduce the carrying cost of inventories for obsolete or slow moving items as necessary to properly reflect inventory value. The cost elements included in inventory consist of all direct costs of merchandise (net of purchase discounts and vendor allowances), allocated overhead (primarily design and indirect production costs), inbound freight and merchandise acquisition costs such as commissions and import fees.

Cost of sales includes the inventory cost elements listed above as well as warehouse outbound freight, internally transferred merchandise freight and realized gains or losses on foreign currency forward contracts associated with inventory purchases. Our cost of sales may not be comparable to those of other entities, since some entities include all of the costs associated with their distribution functions in cost of sales while we include these costs in SG&A expenses.

Property, Plant, Equipment and Depreciation and Amortization

Property, plant and equipment are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated useful lives of the assets. Leasehold improvements recorded at the inception of a lease are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter; for improvements made during the lease term, the amortization period is the shorter of the useful life or the remaining lease term (including any renewal periods that are deemed to be reasonably assured). Property under capital leases is amortized over the lives of the respective leases or the estimated useful lives of the assets, whichever is shorter.

Operating Leases

Total rent payments under operating leases that include scheduled payment increases and rent holidays are amortized on a straight-line basis over the term of the lease. Rent expense on our buildings and retail stores is classified as an SG&A expense and, for certain stores, includes contingent rents that are based on a percentage of retail sales over stated levels. Landlord allowances are amortized by the straight-line method over the term of the lease as a reduction of rent expense.

Goodwill and Other Intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method of accounting. We test at least annually our goodwill and other intangibles without determinable lives (primarily tradenames and trademarks) for impairment through the use of discounted cash flow models. Other intangibles with determinable lives, including license agreements, are amortized on a straight-line basis over the estimated useful lives of the assets (currently ranging from three to 19 years).

Foreign Currency Translation

The financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with ASC Section 830, "Foreign Currency Matters." Where the functional currency of a foreign subsidiary is its local currency, balance sheet accounts are translated at the current exchange rate and income statement items are translated at the average exchange rate for the period. Gains and losses resulting from translation are accumulated in a separate component of stockholders' equity. These adjustments, along with gains and losses on transactions denominated and settled in a foreign currency, are reflected in the consolidated statements of operations. Net foreign currency losses reflected in results from continuing operations were \$1.2 million, \$0.2 million and \$0.2 million in 2009, 2008 and 2007, respectively.

Defined Benefit Plans

Our funding policy is to contribute at least the minimum amount to meet the funding ratio requirements of the Pension Protection Act.

Treasury Stock

Treasury stock is recorded at acquisition cost. Gains and losses on disposition are recorded as increases or decreases to additional paid-in capital with losses in excess of previously recorded gains charged directly to retained earnings.

Revenue Recognition

Wholesale apparel and footwear and accessories sales are recognized either when products are shipped or, in certain situations, upon acceptance by the customer. Retail sales are recorded at the time of register receipt. Allowances for estimated returns are provided when sales are recorded primarily by reducing revenues for the total revenues related to estimated returns, with an offsetting reduction to cost of sales for the cost of the estimated returns. Sales taxes collected from retail customers are excluded from reported revenues. Licensing income is recognized based on the higher of contractual minimums or sales of licensed products reported by our licensees.

Shipping and Handling Costs

Shipping and handling costs billed to customers are recorded as revenue. Freight costs associated with shipping goods to customers are recorded as a cost of sales.

Advertising Expense

We record national advertising campaign costs as an expense when the advertising first takes place and we expense advertising production costs as incurred, net of reimbursements for cooperative advertising. Advertising costs associated with our cooperative advertising programs are accrued as the related revenues are recognized. Net advertising expense reflected in results from continuing operations was \$45.3 million, \$54.7 million and \$54.2 million in 2009, 2008 and 2007, respectively, net of co-operative advertising reimbursements of \$11.6 million, \$12.9 million and \$12.8 million, respectively.

Income Taxes

We use the asset and liability method of accounting for income taxes. Current tax assets and liabilities are recognized for the estimated Federal, foreign, state and local income taxes payable or refundable on the tax returns for the current year. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income tax provisions are based on the changes to the respective assets and liabilities from period to period. Valuation allowances are recorded to reduce deferred tax assets when uncertainty regarding their realizability exists.

Earnings per Share

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (now ASC Subtopic 260-10-45-61A), which classifies unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities and requires them to be included in the computation of earnings per share pursuant to the two-class method described in ASC Subtopic 260-10-45-60B. We adopted this Staff Position on January 1, 2009. Prior period earnings per share figures have been restated to conform to this presentation.

We have outstanding restricted stock grants that qualify as participating securities. Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. Basic earnings per common share is calculated by dividing earnings allocated to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of unvested restricted stock not classified as participating securities and common shares issuable upon exercise of stock options. The difference between reported basic and diluted weighted-average common shares results from the assumption that all dilutive stock options outstanding were exercised and all outstanding restricted shares have vested.

The following options to purchase shares of common stock were outstanding during a portion of 2007 but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the common shares and, therefore, would be antidilutive. For 2008 and 2009, none of the options outstanding were included in the computation of diluted earnings per share due to the net loss for the year.

| <u>For the year ended December 31,</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-------------|-------------|-------------|
| Number of options (in millions) | - | - | 8.3 |
| Weighted average exercise price | - | - | \$32.65 |

Restricted Stock

Compensation cost for restricted stock is measured as the excess, if any, of the quoted market price of our stock at the date the common stock is issued over the amount the employee must pay to acquire the stock (which is generally zero). The compensation cost, net of projected forfeitures, is recognized over the period between the issue date and the date any restrictions lapse.

Long-Lived Assets

We review certain long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In that regard, we assess the recoverability of such assets based upon estimated non-discounted cash flow forecasts. If an asset impairment is identified, the asset is written down to fair value based on discounted cash flow or other fair value measures.

Cash Equivalents

We consider all highly liquid short-term investments to be cash equivalents.

Presentation of Prior Year Data

Certain reclassifications have been made to conform prior year data with the current presentation.

New Accounting Standards

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (now ASC Subtopic 825-10-65), which requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This Staff Position is effective for interim reporting periods ending after June 15, 2009, and its requirements are reflected herein.

In April 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (now ASC Subtopic 320-10-65), which amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This Staff Position is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this Staff Position did not have an effect on our operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (now ASC Subtopic 855-10). This standard establishes principles and requirements for subsequent events, which are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this standard sets forth (a) the period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity shall make about events or transactions that occurred after the balance sheet date. This standard is effective for interim or annual financial periods ending after June 15, 2009 and is to be applied prospectively. The adoption of this standard did not have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" (now part of ASC Topic 860, also issued as ASU No. 2009-16). The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. This standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The recognition and measurement provisions of this standard are to be applied to transfers that occur on or after the effective date. The adoption of this standard is not expected to have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (now part of ASC Subtopic 810, also issued as ASU No. 2009-17). This standard amends FASB Interpretation 46(R) to require an enterprise to perform an analysis to determine whether an enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and has the obligation to absorb losses of or the right to receive benefits from the entity. This standard also requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. This standard is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. The adoption of this standard is not expected to have a material impact on our results of operations or our financial position.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162" (now ASC Subtopic 105-10, also issued as ASU No. 2009-01). This standard establishes the ASC as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have an impact on our results of operations or our financial position.

In August 2009, the FASB issued ASU No. 2009-5, "Fair Value Measurements and Disclosures (Topic 820) - Measuring Liabilities at Fair Value." ASU No. 2009-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using a valuation technique that uses the quoted price of the identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets, or another valuation technique that is consistent with the principles of ASC Topic 820. ASU No. 2009-5 is effective for the first reporting period (including interim periods) beginning after issuance. The adoption of ASU No. 2009-5 is not expected to have a material impact on our results of operations or our financial position.

In October 2009, the FASB issued ASU No. 2009-13, "Revenue Recognition (Topic 605) - Multiple Deliverable Revenue Arrangements." ASU No. 2009-13 eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and expands the disclosures related to multiple-deliverable revenue arrangements. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. The adoption of ASU No. 2009-13 will not have a material impact on our results of operations or our financial position.

In January 2010, the FASB issued ASU No. 2010-02, "Consolidation (Topic 810) - Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification." ASU No. 2010-02 clarifies that the scope of the decrease in ownership provisions of Topic 810 applies to a subsidiary or group of assets that is a business, a subsidiary that is a business that is transferred to an equity method investee or a joint venture or an exchange of a group of assets that constitutes a business for a noncontrolling interest in an entity and does not apply to sales in substance of real estate. ASU No. 2010-02 is effective as of the beginning of the period in which an entity adopts SFAS No. 160 or, if SFAS No. 160 has been previously adopted, the first interim or annual period ending on or after December 15, 2009, applied retrospectively to the first period that the entity adopted SFAS No. 160. The adoption of ASU No. 2010-02 did not have an impact on our results of operations or our financial position.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements." ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. ASU 2010-06 also includes conforming amendments to employers' disclosures about postretirement benefit plan assets. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those years.

(LOSS) EARNINGS PER SHARE

The computation of basic and diluted (loss) earnings per share is as follows:

| Year Ended December 31, (In millions except per share amounts) | 2009 | 2008 | 2007 |
|--|-----------|------------|----------|
| (Loss) income from continuing operations | \$ (86.3) | \$ (766.3) | \$ 45.9 |
| Less: income from continuing operations attributable to noncontrolling interest | 0.3 | - | - |
| (Loss) income from continuing operations attributable to Jones | (86.6) | (766.3) | 45.9 |
| Less: (loss) income from continuing operations allocated to participating securities | (3.6) | (16.0) | 0.5 |
| (Loss) income from continuing operations available to common stockholders of Jones | (83.0) | (750.3) | 45.4 |
| Income from discontinued operations | - | 0.9 | 265.2 |
| Less: income from discontinued operations allocated to participating securities | - | - | 3.6 |
| Income from discontinued operations available to common stockholders of Jones | - | 0.9 | 261.6 |
| (Loss) income available to common stockholders of Jones | \$ (83.0) | \$ (749.4) | \$ 307.0 |
| Weighted-average common shares outstanding - basic | 81.7 | 82.9 | 99.9 |
| Effect of dilutive employee stock options | - | - | 1.4 |
| Weighted-average common shares and share equivalents outstanding - diluted | 81.7 | 82.9 | 101.3 |
| (Loss) earnings per share - basic | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.62 |
| Basic (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.07 |
| (Loss) earnings per share - diluted | | | |
| (Loss) income from continuing operations attributable to Jones | \$ (1.02) | \$ (9.05) | \$ 0.45 |
| Income from discontinued operations attributable to Jones | - | 0.01 | 2.58 |
| Diluted (loss) earnings per share attributable to Jones | \$ (1.02) | \$ (9.04) | \$ 3.03 |

ACCOUNTS RECEIVABLE AND SIGNIFICANT CUSTOMERS

Accounts receivable consist of the following:

| December 31, (In millions) | 2009 | 2008 |
|--|----------|----------|
| Trade accounts receivable | \$ 327.9 | \$ 397.6 |
| Allowances for doubtful accounts, returns, discounts and co-op advertising | (24.8) | (27.4) |
| | \$ 303.1 | \$ 370.2 |

A significant portion of our sales are to retailers throughout the United States and Canada. We have one significant customer in our wholesale better apparel, wholesale jeanswear and wholesale footwear and accessories operating segments. Macy's, Inc. accounted for approximately 21%, 21% and 20% of consolidated gross revenues for 2009, 2008 and 2007, respectively, and accounted for approximately and 17% of accounts receivable at both December 31, 2009 and 2008.

Due to our 25% ownership interest in GRI, GRI is deemed to be a related party. Included in accounts receivable are amounts due from GRI in the amount of \$40.7 million and \$43.3 million at December 31, 2009 and 2008, respectively. Net revenues from GRI amounted to \$47.0 million and \$61.1 million for 2009 and 2008, respectively. On April 23, 2009, we converted \$10.0 million of outstanding GRI accounts receivable to a three-year interest-bearing convertible note. GRI has the option, during the 90-day period that begins when the audited financial statements for the GRI fiscal year ending January 31, 2011 become available (or such shorter period that ends on the maturity date of the note), to convert the note into common shares of GRI at a conversion rate based on the greater of eight times the net income of GRI for such fiscal year, or an appraised value determined as of that date.

DISCONTINUED OPERATIONS

On September 6, 2007, we completed the sale of Barneys to an affiliate of Istithmar PJSC. In 2007, we recognized a net after-tax gain on the sale of \$254.2 million. In 2008, we reached final settlement on certain liabilities remaining from the sale, resulting in an additional after-tax gain of \$0.9 million. The results of operations of Barneys have been reported as discontinued operations in all periods. Operating results of Barneys, which were formerly included in our retail segment, are summarized as follows:

| Year Ended December 31, (In millions) | 2009 | 2008 | 2007 |
|--|------|--------|----------|
| Total revenues | \$ - | \$ - | \$ 452.1 |
| Income from operations of Barneys before provision for income taxes | \$ - | \$ - | \$ 22.0 |
| Provision for income taxes | - | - | 11.0 |
| Income from operations of Barneys | - | - | 11.0 |
| Gain on sale of Barneys before provision for income taxes ¹ | - | 1.5 | 389.1 |
| Provision for income taxes | - | 0.6 | 134.9 |
| Gain on sale of Barneys | - | 0.9 | 254.2 |
| Income from discontinued operations | \$ - | \$ 0.9 | \$ 265.2 |

¹ Net of \$247.4 million of goodwill allocated to Barneys in 2007.

We allocated \$5.5 million of interest expense in 2007 to discontinued operations based on the weighted-average monthly borrowing rate under our senior credit facilities applied to the average net monthly balance of funds that had been advanced to Barneys.

ACCRUED RESTRUCTURING COSTS

Manufacturing Restructuring

On September 12, 2006, we announced the closing of certain El Paso, Texas and Mexican operations related to the decision by Polo to discontinue the *Polo Jeans Company* product line (the “manufacturing restructuring”), which we produced for Polo subsequent to the sale of the *Polo Jeans Company* business to Polo in February 2006. In connection with the closings, we incurred \$6.9 million of one-time termination benefits and associated employee costs for 1,838 employees and \$1.0 million of other costs. Of this amount, \$2.3 million has been recorded as an SG&A expense and \$5.6 million was recorded as cost of sales in the wholesale jeanswear segment. At that time, we also determined the estimated fair value of the property, plant and equipment employed in Mexico was less than its carrying value. As a result, we recorded an impairment loss of \$8.6 million, which was reported as cost of sales in the wholesale jeanswear segment in 2006. The closings were substantially completed by the end of March 2007. On May 8, 2008, we sold the Mexican operations for \$5.9 million, resulting in a gain of \$0.2 million.

The details of the manufacturing restructuring accruals are as follows:

| (In millions) | One-time termination benefits | Other associated costs | Total manufacturing restructuring |
|----------------------------|-------------------------------------|------------------------------|---|
| Balance, January 1, 2007 | \$ 2.8 | \$ 0.6 | \$ 3.4 |
| Additions | 1.1 | 0.5 | 1.6 |
| Payments and reductions | (3.6) | (0.2) | (3.8) |
| Balance, December 31, 2007 | 0.3 | 0.9 | 1.2 |
| Reversals | (0.2) | (0.4) | (0.6) |
| Payments and reductions | (0.1) | (0.4) | (0.5) |
| Balance, December 31, 2008 | - | 0.1 | 0.1 |
| Reversals | - | (0.1) | (0.1) |
| Balance, December 31, 2009 | \$ - | \$ - | \$ - |

During 2008 and 2007, \$0.1 million and \$3.6 million of the termination benefits accrual were utilized (relating to severance for three and 123 employees, respectively). The net accrual of \$0.1 million at December 31, 2008 is reported as accrued restructuring and severance payments.

Moderate Apparel Restructuring

In connection with the exit from and reorganization of certain moderate apparel product lines, we decided to close certain New York offices, and on October 9, 2007, we announced the closing of warehouse facilities in Goose Creek, South Carolina. We recorded \$7.2 million of one-time termination benefits and associated employee costs for approximately 440 employees and \$4.2 million of lease obligations as SG&A expenses in our wholesale jeanswear segment. These closings were substantially complete by the end of February 2008.

The details of the moderate apparel restructuring accruals are as follows:

| (In millions) | One-time termination benefits | Lease obligations | Total moderate apparel restructuring |
|----------------------------|-------------------------------------|-------------------|--|
| Balance, January 1, 2007 | \$ - | \$ - | \$ - |
| Additions | 7.9 | - | 7.9 |
| Payments and reductions | (2.2) | - | (2.2) |
| Balance, December 31, 2007 | 5.7 | - | 5.7 |
| (Reversals) additions | (0.5) | 0.9 | 0.4 |
| Payments and reductions | (4.3) | (0.6) | (4.9) |
| Balance, December 31, 2008 | 0.9 | 0.3 | 1.2 |
| (Reversals) additions | (0.2) | 3.3 | 3.1 |
| Payments and reductions | (0.7) | (1.6) | (2.3) |
| Balance, December 31, 2009 | \$ - | \$ 2.0 | \$ 2.0 |

During 2009, 2008 and 2007, \$0.7 million, \$4.3 million and \$2.2 million of the termination benefits accrual were utilized (relating to severance for one, 328 and 113 employees, respectively). The net accrual of \$2.0 million at December 31, 2009 is reported as \$0.7 million of accrued restructuring and severance payments and \$1.3 million of other noncurrent assets. The net accrual of \$1.2 million at December 31, 2008 is reported as \$1.3 million of accrued restructuring and severance payments and \$0.1 million of other noncurrent assets.

Other Restructurings

Retail Stores. On May 30, 2006, we announced the closing of our Stein Mart leased shoe departments, effective January 2007. In connection with the closing, we accrued \$1.2 million of one-time termination benefits and associated employee costs in 2006 for 468 employees. These amounts, which are reported as SG&A expenses in the retail segment, were paid in 2007.

In 2007, we discontinued our *Anne Klein Accessories* retail concept. We accrued \$0.1 million of one-time termination benefits and associated employee costs in 2007 for 26 employees. These amounts, which are reported as SG&A expenses in the retail segment, were paid in 2008.

We began 2009 with 1,017 retail locations. During 2009, we decided to close approximately 265 underperforming retail locations by the end of 2010, of which 99 closed during the year. We accrued \$4.6 million of termination benefits and associated employee costs for approximately 1,220 employees, including both store employees and administrative support personnel. In connection with our decision to close these stores, we reviewed the associated long-term assets for impairments. As a result of this review, we recorded \$23.2 million of impairment losses on leasehold improvements and furniture and fixtures located in the stores to be closed. These costs are reported as SG&A expenses in the retail segment.

Jewelry. During 2009, we decided to discontinue the domestic manufacturing, product development and sourcing activities of our jewelry business, and also announced the closing of our jewelry distribution center by the end of 2010. Total costs are expected to be \$6.6 million. We accrued \$6.3 million of termination benefits and associated employee costs for approximately 148 employees. The remaining \$0.3 million will be recorded over the period the related employees provide services. These costs are reported as SG&A expenses in the wholesale footwear and accessories segment.

Edison Warehouse. On October 17, 2007, we announced the closing of warehouse facilities in Edison, New Jersey. In connection with the closing, we accrued \$2.6 million of one-time termination benefits and associated employee costs for 158 employees. These costs are reported as SG&A expenses in the wholesale jeanswear segment. The closing was substantially complete by the end of June 2008.

Texas Warehouse. On December 1, 2009, we announced the closing of warehouse facilities in Socorro, Texas. Total costs are expected to be \$3.3 million. We accrued \$3.1 million of termination benefits and associated employee costs for approximately 219 employees. The remaining \$0.2 million will be recorded over the period the related employees provide services. These costs are reported as SG&A expenses in the wholesale jeanswear segment. The closing will be substantially complete by the end of April 2010.

The details of these restructuring accruals are as follows:

| (In millions) | Retail stores | Jewelry | Texas warehouse | Edison warehouse |
|----------------------------|---------------|---------|-----------------|------------------|
| Balance, January 1, 2007 | \$ 1.2 | \$ - | \$ - | \$ - |
| Additions | 0.1 | - | - | 2.8 |
| Payments and reductions | (1.2) | - | - | - |
| Balance, December 31, 2007 | 0.1 | - | - | 2.8 |
| Reversals | - | - | - | (0.2) |
| Payments and reductions | (0.1) | - | - | (2.2) |
| Balance, December 31, 2008 | - | - | - | 0.4 |
| Additions | 4.6 | 6.3 | 3.1 | - |
| Payments and reductions | (2.7) | (3.4) | - | (0.4) |
| Balance, December 31, 2009 | \$ 1.9 | \$ 2.9 | \$ 3.1 | \$ - |

During 2009, 2008 and 2007, \$6.5 million, \$2.3 million and \$1.2 million of the termination benefits accruals were utilized (relating to partial or full severance for 456, 180 and 469 employees, respectively). The net accruals of \$7.9 million and \$0.4 million at December 31, 2009 and 2008, respectively, are reported as accrued restructuring and severance payments.

Acquisition Restructurings

In connection with the acquisitions of McNaughton (in 2001), Kasper (in 2003) and Maxwell (in 2004), we assessed and formulated plans to restructure certain operations of each company. These plans involved the closure of manufacturing facilities, certain offices, foreign subsidiaries, and selected domestic and international retail locations. The objectives of the plans were to eliminate unprofitable or marginally profitable lines of business and reduce overhead expenses. These costs were reported as a component of goodwill.

The details of the acquisition restructuring accruals are as follows:

| (In millions) | One-time termination benefits | Other costs | Total acquisition restructuring |
|----------------------------|-------------------------------------|----------------|------------------------------------|
| Balance, January 1, 2007 | \$ 0.1 | \$ 1.4 | \$ 1.5 |
| Payments and reductions | - | (0.3) | (0.3) |
| Balance, December 31, 2007 | 0.1 | 1.1 | 1.2 |
| Payments and reductions | (0.1) | (0.3) | (0.4) |
| Balance, December 31, 2008 | - | 0.8 | 0.8 |
| Payments and reductions | - | (0.3) | (0.3) |
| Balance, December 31, 2009 | <u>\$ -</u> | <u>\$ 0.5</u> | <u>\$ 0.5</u> |

The net accruals of \$0.5 million and \$0.8 million at December 31, 2009 and 2008, respectively, are reported as other noncurrent liabilities.

PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment are as follows:

| December 31, (In millions) | 2009 | 2008 | Useful lives (years) |
|---|-----------------|-----------------|----------------------------|
| Land and buildings | \$ 73.1 | \$ 73.0 | 10 - 20 |
| Leasehold improvements | 246.9 | 261.6 | 1 - 18 |
| Machinery, equipment and software | 385.2 | 365.7 | 3 - 10 |
| Furniture and fixtures | 66.0 | 70.9 | 5 - 8 |
| Construction in progress | 7.2 | 14.1 | - |
| | <u>778.4</u> | <u>785.3</u> | |
| Less: accumulated depreciation and amortization | 539.4 | 484.3 | |
| | <u>\$ 239.0</u> | <u>\$ 301.0</u> | |

Depreciation and amortization expense relating to property, plant and equipment (including capitalized leases) reflected in results from continuing operations was \$67.5 million, \$76.3 million and \$74.4 million in 2009, 2008 and 2007, respectively. At December 31, 2009, we had outstanding commitments of approximately \$9.2 million relating primarily to the construction or remodeling of retail store locations and distribution centers. We capitalized approximately \$0.5 million of interest in 2007 as part of the cost of major capital projects and capitalized no interest in 2008 or 2009.

Included in property, plant and equipment are the following capitalized leases:

| December 31, (In millions) | 2009 | 2008 | Useful lives (years) |
|--------------------------------|----------------|----------------|----------------------------|
| Buildings | \$ 37.8 | \$ 37.8 | 10 - 20 |
| Machinery and equipment | 14.0 | 13.9 | 3 - 5 |
| | <u>51.8</u> | <u>51.7</u> | |
| Less: accumulated amortization | 25.4 | 21.7 | |
| | <u>\$ 26.4</u> | <u>\$ 30.0</u> | |

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of the purchase price and related costs over the value assigned to net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. Accounting rules require that we test at least annually for possible goodwill impairment. We perform our test in the fourth fiscal quarter of each year using a discounted cash flow analysis that requires that certain assumptions and estimates be made regarding industry economic factors and future profitability and cash flows. As a result of the 2007 impairment analysis, we determined that the remaining goodwill balance existing in our wholesale jeanswear segment was impaired as a result of decreases in projected revenues and profitability for certain brands. Accordingly, we recorded an impairment charge of \$78.0 million. As a result of the 2008 impairment analysis, we determined that the goodwill balance existing in our wholesale footwear and accessories segment was impaired as a result of decreases in projected revenues and profitability for the segment. Accordingly, we recorded an impairment charge of \$813.2 million. As a result of the 2009 impairment analysis, we determined that the goodwill balance existing in our retail segment was impaired as a result of decreases in projected revenues and profitability for the segment. Accordingly, we recorded an impairment charge of \$120.6 million.

The changes in the carrying amount of goodwill for 2008 and 2009, by segment and in total, are as follows:

| (In millions) | Wholesale Better Apparel | Wholesale Jeanswear | Wholesale Footwear & Accessories | Retail | Total |
|-------------------------------|--------------------------------|------------------------|--|----------|------------|
| Balance, January 1, 2008 | | | | | |
| Goodwill | \$ 40.1 | \$ 519.2 | \$ 813.2 | \$ 120.6 | \$ 1,493.1 |
| Accumulated impairment losses | - | (519.2) | - | - | (519.2) |
| Net goodwill | 40.1 | - | 813.2 | 120.6 | 973.9 |
| Impairment loss | - | - | (813.2) | - | (813.2) |
| Balance, December 31, 2008 | | | | | |
| Goodwill | 40.1 | 519.2 | 813.2 | 120.6 | 1,493.1 |
| Accumulated impairment losses | - | (519.2) | (813.2) | - | (1,332.4) |
| Net goodwill | 40.1 | - | - | 120.6 | 160.7 |
| Impairment loss | - | - | - | (120.6) | (120.6) |
| Balance, December 31, 2009 | | | | | |
| Goodwill | 40.1 | 519.2 | 813.2 | 120.6 | 1,493.1 |
| Accumulated impairment losses | - | (519.2) | (813.2) | (120.6) | (1,453.0) |
| Net goodwill | \$ 40.1 | \$ - | \$ - | \$ - | \$ 40.1 |

We also perform our annual impairment test for indefinite-lived trademarks during the fourth fiscal quarter of the year. As a result of the 2007 impairment analysis, we recorded trademark impairment charges of \$7.5 million as a result of decreases in projected revenues for certain brands. We also recorded trademark impairment charges of \$80.5 million in 2007 as a result of our decision to discontinue or significantly reduce the scale of certain brands. As a result of the 2008 impairment analysis, we recorded trademark impairment charges of \$25.2 million as a result of decreases in projected revenues for certain brands. As a result of the 2009 impairment analysis, we recorded trademark impairment charges of \$28.7 million as a result of decreases in projected revenues for certain brands. All trademark impairment charges are reported as SG&A expenses in the licensing, other and eliminations segment.

The components of other intangible assets are as follows:

| December 31, (In millions) | 2009 | | 2008 | |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| License agreements | \$ 60.5 | \$ 48.1 | \$ 60.5 | \$ 45.8 |
| Acquired favorable leases | 0.5 | 0.3 | 0.5 | 0.3 |
| | 61.0 | 48.4 | 61.0 | 46.1 |
| Indefinite-life trademarks | 547.2 | - | 575.9 | - |
| | \$ 608.2 | \$ 48.4 | \$ 636.9 | \$ 46.1 |

Amortization expense reflected in results from continuing operations for intangible assets subject to amortization was \$2.3 million, \$2.8 million and \$2.3 million for 2009, 2008 and 2007, respectively. Amortization expense for intangible assets subject to amortization for each of the years in the five-year period ending December 31, 2014 is estimated to be \$2.0 million in 2010, \$2.0 million in 2011, \$1.9 million in 2012, \$1.4 million in 2013 and \$1.4 million in 2014.

The cash flow models we use to estimate the fair values of our goodwill and trademarks involve several assumptions. Changes in these assumptions could materially impact our fair value estimates. Assumptions critical to our fair value estimates are: (i) discount rates used to derive the present value factors used in determining the fair value of the reporting units and trademarks; (ii) royalty rates used in our trademark valuations; (iii) projected revenue growth rates; and (iv) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period-specific facts and circumstances. The following table shows the range of assumptions we used to derive our fair value estimates as part of our annual impairment testing for 2009 and 2008.

| | 2009 | | 2008 | |
|---------------------------------------|----------|-------------|----------|-------------|
| | Goodwill | Trademarks | Goodwill | Trademarks |
| Discount rates | 12.9% | 12.9% | 11.5% | 11.5% |
| Royalty rates | -- | 4.0% - 7.0% | -- | 4.0% - 7.0% |
| Weighted-average revenue growth rates | 2.3% | 6.1% | 2.8% | 7.5% |
| Long-term growth rates | 3.0% | 0% - 3.0% | 3.0% | 0% - 3.0% |

FAIR VALUES

ASC Subtopic 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Subtopic 820-10 outlines a valuation framework, creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements, and details the disclosures that are required for items measured at fair value. We currently do not have non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis. We are permitted to choose to measure many financial instruments and certain other items at fair value, although we did not elect the fair value measurement option for any of our financial assets or liabilities.

We have several financial instruments that must be measured under the fair value standard, including derivatives, the assets and liabilities of the Jones Apparel Group, Inc. Deferred Compensation Plan (the "Rabbi Trust") and deferred director fees that are valued based on the quoted market price of our common stock. Our financial assets and liabilities are to be measured using inputs from the three levels of the fair value hierarchy, which are as follows:

- Level 1 - inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date;
- Level 2 - inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and
- Level 3 - unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing assets or liabilities based on the best information available.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

In accordance with the fair value hierarchy described above, the following table shows the fair value of our financial assets and liabilities that are required to be measured at fair value on a recurring basis at December 31, 2009 and 2008.

| (In millions) | | | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobserv- able inputs (Level 3) |
|-------------------------|---|----------------|--|---|--|
| Description | Classification | Total Value | | | |
| December 31, 2009: | | | | | |
| Rabbi Trust assets | Other current assets | \$ 7.8 | \$ 7.8 | \$ - | \$ - |
| | Total assets | \$ 7.8 | \$ 7.8 | \$ - | \$ - |
| Rabbi Trust liabilities | Accrued employee compensation and benefits | \$ 7.8 | \$ 7.8 | \$ - | \$ - |
| Derivatives | Accrued expenses and other current liabilities | 0.2 | - | 0.2 | - |
| Deferred director fees | Accrued expenses and other current liabilities | 1.1 | 1.1 | - | - |
| | Total liabilities | \$ 9.1 | \$ 8.9 | \$ 0.2 | \$ - |
| December 31, 2008: | | | | | |
| Rabbi Trust assets | Other current assets | \$ 6.4 | \$ 6.4 | \$ - | \$ - |
| Derivatives | Other current assets | 0.1 | - | 0.1 | - |
| | Total assets | \$ 6.5 | \$ 6.4 | \$ 0.1 | \$ - |
| Rabbi Trust liabilities | Accrued employee compensation and benefits | \$ 6.4 | \$ 6.4 | \$ - | \$ - |
| Deferred director fees | Accrued expenses and other current liabilities | 0.2 | 0.2 | - | - |
| | Total liabilities | \$ 6.6 | \$ 6.6 | \$ - | \$ - |

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In accordance with the fair value hierarchy described above, the following table shows the fair value of our non-financial assets and liabilities that were measured at fair value on a nonrecurring basis at December 31, 2009, and the total losses recorded as a result of the remeasurement process.

| (In millions) | Fair Value Measurements Using | | | | | Total losses recorded for 2009 |
|------------------------|-------------------------------------|--|---|---|------|--------------------------------|
| | Carrying Value at December 31, 2009 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | | |
| Property and equipment | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 24.4 |
| Trademarks | 118.2 | - | - | 118.2 | - | 28.7 |
| Goodwill | - | - | - | - | - | 120.6 |

During 2009, property and equipment utilized in our retail operations with a carrying amount of \$24.4 million were written down to a fair value of zero, primarily as a result of our decision to close approximately 265 underperforming retail locations. These losses were recorded as an SG&A expense in the retail segment. During 2009, trademarks with a carrying amount of \$146.9 million were written down to a fair value of \$118.2 million and the \$120.6 million of goodwill assigned to our retail segment was written down to a fair value of zero. For further information regarding the losses recorded for trademarks and goodwill, see "Goodwill and Other Intangible Assets."

Financial Instruments

As a result of our global operating and financing activities, we are exposed to changes in interest rates and foreign currency exchange rates which may adversely affect results of operations and financial condition. In seeking to minimize the risks and/or costs associated with such activities, we manage exposure to changes in interest rates and foreign currency exchange rates through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The instruments eligible for utilization include forward, option and swap agreements. We do not use financial instruments for trading or other speculative purposes. At December 31, 2009, we had outstanding foreign exchange contracts to exchange Canadian Dollars for a total notional value of US \$8.6 million at a weighted-average exchange rate of \$1.06893 maturing through May 2010.

At December 31, 2009 and 2008, the fair values of cash and cash equivalents, receivables and accounts payable approximated their carrying values due to the short-term nature of these instruments. The fair value of the note receivable from GRI approximates the \$10.0 million carrying value as it is a variable-rate instrument. The estimated fair values of other financial instruments subject to fair value disclosures, determined based on broker quotes or quoted market prices or exchange rates for the same or similar instruments, and the related carrying amounts are as follows:

| December 31, (In millions) | 2009 | | 2008 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt, including current portion | \$ 499.5 | \$ 449.4 | \$ 749.5 | \$ 462.2 |
| Foreign currency exchange contracts, net (liability) asset | (0.2) | (0.2) | 0.1 | 0.1 |

Financial instruments expose us to counterparty credit risk for nonperformance and to market risk for changes in interest and currency rates. We manage exposure to counterparty credit risk through specific minimum credit standards and procedures to monitor the amount of credit exposure. Our financial instrument counterparties are substantial investment or commercial banks with significant experience with such instruments.

CREDIT FACILITIES

Prior to May 2009, we had a revolving credit agreement with several lending institutions to borrow an aggregate principal amount of up to \$600 million (which was reduced by amendment from \$750 million on January 5, 2009). This agreement could be used for letters of credit or cash borrowings. In May 2009, we replaced this revolving credit facility and our C\$10.0 million unsecured line of credit in Canada with a new three-year \$650 million secured revolving credit agreement (the "New Credit Facility"). Under the New Credit Facility, up to the entire amount of the facility is available for cash borrowings, with up to \$400 million available for trade letters of credit and up to \$50 million for standby letters of credit, and a subfacility available to our Canadian subsidiaries of up to \$25 million for letters of credit and borrowings. Borrowings under the New Credit Facility may be used to refinance existing indebtedness and for general corporate purposes in the ordinary course of business. Such borrowings bear interest either based on the alternate base rate, as defined in the New Credit Facility, or based on Eurocurrency rates, each with a margin that depends on the availability remaining under the New Credit Facility. The New Credit Facility contains customary events of default. We wrote off \$4.4 million of deferred financing costs related to our prior credit agreement as a result of a change in the composition of participating lending institutions, which is reported as interest expense and financing costs. We wrote off \$1.1 million of deferred financing fees in 2008 related to modifications made to prior revolving credit agreements as a result of reductions made to the borrowing capacity of those agreements, which is reported as interest expense and financing costs.

Availability under the New Credit Facility is determined in reference to a borrowing base consisting of a percentage of eligible inventory, accounts receivable, credit card receivables and licensee receivables, minus reserves determined by the joint collateral agents. At December 31, 2009, we had no cash borrowings and \$35.5 million of letters of credit outstanding, and our remaining availability was \$360.8 million. If availability under the New Credit Facility falls below a stated level, we will be required to comply with a minimum fixed charge coverage ratio. The New Credit Facility also contains affirmative and negative covenants that, among other things, will limit or restrict our ability to (1) incur indebtedness, (2) create liens, (3) merge, consolidate, liquidate or dissolve, (4) make investments (including acquisitions), loans or advances, (5) sell assets, (6) enter into sale and leaseback transactions, (7) enter into swap agreements, (8) make certain restricted payments (including dividends and other payments in respect of capital stock), (9) enter into transactions with affiliates, (10) enter into restrictive agreements, and (11) amend material documents. The New Credit Facility is secured by a first priority lien on substantially all of our personal property.

The weighted-average interest rate for our credit facilities was 6.75% and 4.8% at December 31, 2009 and 2008, respectively.

LONG-TERM DEBT

Long-term debt consists of the following:

| <u>December 31,</u> (In millions) | <u>2009</u> | <u>2008</u> |
|---|-----------------|-----------------|
| 4.250% Senior Notes due 2009 | \$ - | \$ 250.0 |
| 5.125% Senior Notes due 2014, net of unamortized discount of \$0.1 and \$0.1 | 249.9 | 249.9 |
| 6.125% Senior Notes due 2034, net of unamortized discount of \$0.4 and \$0.4 | 249.6 | 249.6 |
| | <u>499.5</u> | <u>749.5</u> |
| Less current portion | - | 250.0 |
| | <u>\$ 499.5</u> | <u>\$ 499.5</u> |

Long-term debt maturities during the next five years amount to \$250.0 million in 2014. All of our notes contain certain covenants, including, among others, restrictions on liens, sale-leaseback transactions

and additional secured debt, and pay interest semiannually. The weighted-average interest rate of our long-term debt was 5.6% and 5.2% at December 31, 2009 and 2008, respectively.

On April 1, 2009, we commenced a cash tender offer to purchase any and all of our outstanding 4.250% Senior Notes due 2009 (the "2009 Notes"), as well as a consent solicitation to amend the indenture governing our outstanding 2009 Notes, our 5.125% Senior Notes due 2014 and our 6.125% Senior Notes due 2034 (collectively, the "Notes"). The purpose of the consent solicitation was to receive the consent of holders of at least a majority in principal amount of the Notes outstanding for proposed amendments to the Indenture to provide for a carveout to the lien covenant, for liens incurred in connection with the New Credit Facility. We received the required consents on April 15, 2009; consequently, the Amendments became operative upon payment of the consent fee to each validly consenting holder of the Notes, and are binding on all holders, including non-consenting holders of Notes. The consideration for each \$1,000 principal amount of 2009 Notes validly tendered and not withdrawn pursuant to the tender offer was \$980, and the consent fee for each \$1,000 principal amount of Notes with respect to which holders validly delivered and did not revoke their consent pursuant to the consent solicitation was \$20.

Under the tender offer, we repurchased a total of \$242.5 million of our outstanding 2009 Notes for a payment of \$237.7 million, and we paid \$12.9 million in consent fees to holders of the Notes and \$1.8 million of related costs, resulting in a loss on debt extinguishment of \$1.5 million. Of the consent fees paid, a net \$7.1 million relates to the remaining outstanding Notes and will be amortized over the life of the remaining related Notes as additional interest expense.

On November 15, 2009, we redeemed the remaining \$7.5 million outstanding 2009 Notes at maturity.

ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is comprised of the following:

| December 31, (In millions) | 2009 | 2008 |
|--|----------|-----------|
| Foreign currency translation adjustments | \$ 7.2 | \$ 2.2 |
| Pension and postretirement liability adjustments | (14.7) | (14.1) |
| Unrealized (losses) gains on hedge contracts | (0.1) | 0.2 |
| | \$ (7.6) | \$ (11.7) |

DERIVATIVES

ASC Topic 815, "Derivatives and Hedging," establishes accounting and reporting standards for derivative instruments. Specifically, ASC Topic 815 requires us to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either stockholders' equity or net income, depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

We use foreign currency forward contracts for the specific purpose of hedging the exposure to variability in forecasted cash flows associated primarily with inventory purchases. These instruments are designated as cash flow hedges as the principal terms of the forward exchange contracts are the same as the underlying forecasted foreign currency cash flows. Therefore, changes in the fair value of the forward contracts should be highly effective in offsetting changes in the expected foreign currency cash flows, and accordingly, changes in the fair value of forward exchange contracts are recorded in accumulated other comprehensive income, net of related tax effects, with the corresponding asset or liability recorded in the balance sheet. Amounts recorded in accumulated other comprehensive income are reflected in current-period earnings when the hedged transaction affects earnings. Fair values are calculated by comparing

each hedging agreement's contractual exchange rate with the currency exchange spot rate at the reporting date.

The following summarizes the U.S. Dollar notional amount and the fair value of our Canadian foreign currency forward exchange contracts, which we have classified as cash flow hedges. The contracts outstanding at December 31, 2009 mature at various dates through May 2010.

| (In millions) | December 31, 2009 | | December 31, 2008 | |
|-------------------------------|-------------------|--|-------------------|-----------------------------------|
| | Notional amount | Fair value - other current liabilities | Notional amount | Fair value - other current assets |
| Canadian Dollar - U.S. Dollar | \$ 8.6 | \$ 0.2 | \$ 10.5 | \$ 0.1 |

The effect of our cash flow hedges on the statement of operations was as follows:

| (In millions) | Amount of Pretax Gain (Loss) Recognized in Other Comprehensive Income | | | Location of Pretax Gain (Loss) Reclassified from Other Comprehensive Income into Income | Amount of Pretax Gain (Loss) Reclassified from Other Comprehensive Income into Income | | |
|----------------------------|---|--------|----------|---|---|----------|----------|
| | 2009 | 2008 | 2007 | | 2009 | 2008 | 2007 |
| Derivative type | | | | | | | |
| Foreign exchange contracts | \$ (1.1) | \$ 1.2 | \$ (3.8) | Cost of sales | \$ (0.6) | \$ (1.0) | \$ (0.6) |

Since the derivatives we use in our risk management strategies are highly effective hedges because all the critical terms of the derivative instruments match those of the hedged item, we record no ineffectiveness related to our cash flow hedges. If foreign currency exchange rates do not change from their December 31, 2009 amounts, we estimate that any reclassifications from other comprehensive income to earnings within the next 12 months will not be material. The actual amounts that will be reclassified to earnings over the next 12 months could vary, however, as a result of changes in market conditions.

OBLIGATIONS UNDER CAPITAL LEASES

Obligations under capital leases consist of the following:

| December 31, | 2009 | | 2008 | |
|---|------|------|------|------|
| (In millions) | | | | |
| Warehouses, office facilities and equipment | \$ | 29.5 | \$ | 32.5 |
| Less: current portion | | 2.6 | | 3.1 |
| Obligations under capital leases - noncurrent | \$ | 26.9 | \$ | 29.4 |

We lease an office facility in Bristol, Pennsylvania under a 20-year net lease that runs until July 2018 and requires minimum annual rent payments of approximately \$1.1 million. The building was capitalized at \$12.2 million, which approximated the present value of the minimum lease payments. We also lease various equipment under two- to five-year leases at an aggregate annualized rental of \$1.8 million. The equipment was capitalized at \$7.4 million, which approximated the present value of the minimum lease payments.

In 2003, we entered into a sale-leaseback agreement for our Virginia warehouse facility. This transaction resulted in a net gain of \$7.5 million that has been deferred and is being amortized over the lease term, which runs until March 2023 and requires minimum annual rent payments of \$2.4 million. The building was capitalized at \$25.6 million, which approximated the present value of the minimum lease payments.

The following is a schedule by year of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 2009:

Year Ending December 31,

(In millions)

| | | |
|---|----|------|
| 2010 | \$ | 4.5 |
| 2011 | | 3.5 |
| 2012 | | 3.6 |
| 2013 | | 3.6 |
| 2014 | | 3.7 |
| Later years | | 24.8 |
| Total minimum lease payments | | 43.7 |
| Less: amount representing interest | | 14.2 |
| Present value of net minimum lease payments | \$ | 29.5 |

COMMON STOCK

The Board of Directors has authorized several programs to repurchase our common stock from time to time in open market transactions. We repurchased \$496.9 million of our common stock during 2007 and no amounts in 2008 or 2009. As of December 31, 2009, \$304.1 million of Board authorized repurchases was still available. We may make additional share repurchases in the future depending on, among other things, market conditions and our financial condition, although any such repurchases will be subject to limitations under our current revolving credit agreement.

Our Board of Directors has authorized our common stock repurchases as a tax-effective means to enhance shareholder value and distribute cash to shareholders and, to a lesser extent, to offset the impact of dilution resulting from the issuance of employee stock options and shares of restricted stock. We believe that we have sufficient sources of funds to repurchase shares without significantly impacting our short-term or long-term liquidity. In authorizing future share repurchase programs, our Board of Directors gives careful consideration to our projected cash flows, our existing capital resources and repurchase limitations under our current revolving credit agreement.

On September 6, 2007, we entered into an accelerated stock repurchase ("ASR") agreement with Goldman, Sachs & Co. ("Goldman") to repurchase \$400 million of our outstanding common stock. Purchases under the ASR were subject to collar provisions that established minimum and maximum numbers of shares based generally on the volume-weighted average price of our common stock during the term of the ASR program. We received an initial delivery of 15.5 million shares on September 11, 2007 and a second delivery of 2.4 million shares on October 18, 2007. Final settlement of the ASR program was scheduled for no later than July 19, 2008 and could occur earlier at the option of Goldman or later under certain circumstances. On June 5, 2008, Goldman informed us that it had concluded the ASR. As a result, we received a final delivery of 3.2 million shares on June 10, 2008, bringing the aggregate number of shares received under the ASR program to 21.1 million shares. No cash was required to complete the final delivery of shares. The combined average price for the shares delivered under the ASR was \$19.00 per share.

COMMITMENTS AND CONTINGENCIES

(a) CONTINGENT LIABILITIES. We have been named as a defendant in various actions and proceedings, including actions brought by certain employees whose employment has been terminated arising from our ordinary business activities. Although the amount of any liability that could arise with respect to these actions cannot be accurately predicted, in our opinion, any such liability will not have a material adverse effect on our financial position or results of operations.

(b) ROYALTIES. We have an exclusive licenses to produce and sell women's footwear under the *Dockers® Women* trademark in the United States (including its territories and possessions) and infants', toddlers' and boys' footwear (excluding girls' footwear) under the *Dockers®* and *Dockers® Premium* trademarks in the United States (including its territories and possessions) pursuant to agreements with

Levi Strauss & Co. which expire on December 31, 2011. The agreements require us to pay a percentage of net sales against guaranteed minimum royalty and advertising payments as set forth in the agreement. Minimum payments under these agreements amount to \$0.8 million and \$0.9 million for 2010 and 2011, respectively.

We have an exclusive license to produce, market and distribute costume jewelry in the United States, Canada, Mexico and Japan under the *Givenchy* trademark pursuant to an agreement with Givenchy, which expires on December 31, 2011. The agreement requires us to pay a percentage of net sales against guaranteed minimum royalty and advertising payments as set forth in the agreement. Minimum payments under this agreement amount to \$0.7 million per year.

We have an exclusive license with New Balance Athletic Shoe, Inc. and its affiliate New Balance Licensing, LLC to create and distribute a fashion-lifestyle footwear collection that brings together New Balance's innovative performance and materials technology with Nine West's fashion styling. The agreement, which expires December 31, 2010, requires us to pay a percentage of net sales as set forth in the agreement. No minimum payments are required under this agreement.

In January 2010, we entered into a sub-license agreement with VCJS LLC ("VCJS") to design, develop, produce and distribute in the United States, Mexico and Canada *Jessica Simpson* jeanswear under the *Jessica Simpson* (signature) trademark which VCJS licenses from With You, Inc. ("WYI"). The agreement, which expires on December 31, 2014 (October 15, 2014 if the master license between WYI and VCJS is not renewed), requires us to pay a percentage of net sales against guaranteed minimum royalty and pooled marketing fee payments as set forth in the agreement. Minimum payments under these agreements amount to \$0.1 million, \$0.4 million, \$0.7 million, \$0.8 million and \$1.1 million for 2010, 2011, 2012, 2013 and 2014, respectively.

(c) LEASES. Total rent expense charged to continuing operations for 2009, 2008 and 2007 was as follows.

| Year Ended December 31, (In millions) | 2009 | 2008 | 2007 |
|--|----------|----------|----------|
| Minimum rent | \$ 121.5 | \$ 130.2 | \$ 130.9 |
| Contingent rent | 0.5 | 0.3 | 0.5 |
| Less: sublease rent | (3.5) | (7.6) | (5.3) |
| | \$ 118.5 | \$ 122.9 | \$ 126.1 |

The following is a schedule by year of minimum rental payments required under operating leases:

| Year Ending December 31, (In millions) | |
|---|----------|
| 2010 | \$ 123.9 |
| 2011 | 117.2 |
| 2012 | 97.3 |
| 2013 | 79.6 |
| 2014 | 71.6 |
| Later years | 184.0 |
| | \$ 673.6 |

Certain of the leases provide for renewal options and the payment of real estate taxes and other occupancy costs. Future rental commitments for leases have not been reduced by minimum non-cancelable sublease rentals aggregating \$19.9 million.

STATEMENT OF CASH FLOWS

| Year Ended December 31, | 2009 | 2008 | 2007 |
|--|---------|---------|---------|
| (In millions) | | | |
| Supplemental disclosures of cash flow information for continuing operations: | | | |
| Cash paid (received) during the year for: | | | |
| Interest | \$ 43.9 | \$ 45.6 | \$ 52.1 |
| Net income tax (refunds) payments | (1.9) | (16.0) | 67.7 |
| Supplemental disclosures of non-cash investing and financing activities for continuing operations: | | | |
| Property acquired through capital lease financing | 0.1 | 4.0 | 4.1 |
| Restricted stock issued to employees | 7.3 | 20.3 | 19.2 |

INCOME TAXES

The following summarizes the (benefit) provision for income taxes for continuing operations:

| Year Ended December 31, | 2009 | 2008 | 2007 |
|--------------------------------------|----------|-----------|------------|
| (In millions) | | | |
| Current: | | | |
| Federal | \$ (5.2) | \$ (15.3) | \$ (123.5) |
| State and local | 4.9 | 9.2 | 5.2 |
| Foreign | 5.8 | 4.5 | 5.2 |
| | 5.5 | (1.6) | (113.1) |
| Deferred: | | | |
| Federal | 13.0 | 2.5 | 11.3 |
| State and local | 1.0 | (5.7) | (3.0) |
| Foreign | (3.3) | (1.8) | 0.4 |
| | 10.7 | (5.0) | 8.7 |
| Provision (benefit) for income taxes | \$ 16.2 | \$ (6.6) | \$ (104.4) |

The domestic and foreign components of loss before (benefit) provision for income taxes from continuing operations are as follows:

| Year Ended December 31, | 2009 | 2008 | 2007 |
|---|-----------|------------|-----------|
| (In millions) | | | |
| Loss from continuing operations before provision (benefit) for income taxes | | | |
| United States | \$ (54.1) | \$ (770.6) | \$ (73.0) |
| Foreign | (16.0) | (2.3) | 14.5 |
| | \$ (70.1) | \$ (772.9) | \$ (58.5) |

The provision (benefit) for income taxes from continuing operations on adjusted historical income differs from the amounts computed by applying the applicable Federal statutory rates due to the following:

| Year Ended December 31, | 2009 | 2008 | 2007 |
|--|-----------|------------|------------|
| (In millions) | | | |
| Benefit for Federal income taxes at the statutory rate | \$ (24.5) | \$ (270.5) | \$ (20.5) |
| State and local income taxes, net of federal benefit | 3.3 | 2.2 | 0.4 |
| Foreign income tax difference | (2.1) | (4.8) | (4.2) |
| Nondeductible goodwill impairment | 41.3 | 265.8 | 27.3 |
| Change in deferred balance - fixed assets | (2.3) | - | - |
| Valuation allowances | 0.6 | - | (107.2) |
| Other items, net | (0.1) | 0.7 | (0.2) |
| Provision (benefit) for income taxes | \$ 16.2 | \$ (6.6) | \$ (104.4) |

We have not provided for U.S. Federal and foreign withholding taxes on \$27.2 million of foreign subsidiary undistributed earnings as of December 31, 2009. Such earnings are intended to be reinvested indefinitely.

The following is a summary of the significant components of our deferred tax assets and liabilities:

| December 31, | 2009 | 2008 |
|---|---------|---------|
| (In millions) | | |
| Deferred tax assets (liabilities): | | |
| Nondeductible accruals and allowances | \$ 51.7 | \$ 58.0 |
| Depreciation | 14.8 | 15.3 |
| Intangible asset valuation and amortization | (87.6) | (73.2) |
| Loss and credit carryforwards | 42.5 | 34.4 |
| Amortization of stock-based compensation | 12.4 | 13.2 |
| Deferred compensation | 2.6 | 2.2 |
| Inventory valuation | (7.8) | (10.9) |
| Inventory overhead | 0.1 | 1.1 |
| Pension | 8.4 | 7.4 |
| Gain on sale-leaseback transaction | 2.4 | 2.7 |
| Prepaid expenses | (2.0) | (1.9) |
| Display costs | (1.6) | (1.8) |
| Other (net) | 1.9 | 0.9 |
| Valuation allowances | (5.8) | (5.2) |
| Net deferred tax asset | \$ 32.0 | \$ 42.2 |
| Included in: | | |
| Current assets | 28.1 | 28.0 |
| Noncurrent assets | 3.9 | 14.2 |
| Net deferred tax asset | \$ 32.0 | \$ 42.2 |

As of December 31, 2009, we had federal, state and foreign net operating loss carryforwards of \$399.0 million, which expire through 2029, foreign and general business tax credit carryforwards of \$11.5 million, which expire through 2029 and state tax credit carryforwards of \$8.1 million, which expire through 2026.

In 2006, we determined that \$303.1 million of capital loss carryforwards, \$12.8 million of state net operating loss carryforwards and \$6.2 million of state credit carryforwards may not be utilized; therefore, we established valuation allowances of \$107.7 million, \$0.7 million (net of federal tax benefit) and \$4.0 million (net of federal tax benefit) related to the capital loss, state net operating loss and credit carryforwards, respectively.

In 2007, the capital loss valuation allowance of \$107.7 million was reversed as capital gain income generated from the sale of Barneys fully utilized the capital loss carryforwards. The reversal has been recorded in income from continuing operations as the creation of the valuation allowance was recorded in continuing operations in 2006 upon the sale of our *Polo Jeans Company* business. The state net operating

loss valuation allowance of \$0.7 million was also reversed as the 2002 state net operating loss carryforward was unable to be utilized. During the fourth fiscal quarter of 2007, we determined that \$1.8 million of state credit carryforwards expiring through 2021 may not be utilized; therefore, we established a valuation allowance of \$1.2 million (net of federal tax benefit) related to the state credit carryforward.

During the fourth fiscal quarter of 2009, we determined that \$10.7 million of state net operating loss carryforwards expiring through 2013 may not be utilized; therefore, we established a valuation allowance of \$0.6 million (net of federal tax benefit) related to the state net operating loss carryforwards.

Uncertain tax positions

Our total unrecognized tax benefits as of December 31, 2009 and December 31, 2008 were \$6.6 million and \$14.1 million, respectively (net of federal tax benefit), which included \$6.0 million and \$7.3 million of interest and penalties, respectively (net of federal tax benefit).

| (In millions) | 2009 | 2008 |
|--|---------|---------|
| Uncertain tax positions, beginning of year | \$ 14.1 | \$ 16.7 |
| (Decreases) increases for tax positions related to prior years | (0.3) | 3.1 |
| Settlements with tax authorities during the year | (7.2) | (5.7) |
| Uncertain tax positions, end of year | \$ 6.6 | \$ 14.1 |

If recognized as of December 31, 2009 and 2008, \$6.6 million and \$14.1 million, respectively (net of federal tax benefit) of our unrecognized tax benefit would reduce income tax expense and the effective tax rate.

We file a consolidated U.S. federal income tax return as well as separate, unitary and combined income tax returns in multiple state jurisdictions. In addition, we file income tax returns in various foreign jurisdictions.

The Internal Revenue Service has completed examination of our federal returns for taxable years prior to 2006. Our state income tax examinations, with limited exceptions, have been completed for the periods prior to 2005. The Internal Revenue Service is currently examining our 2006 through 2008 federal income tax returns. We reasonably expect to settle all ongoing audits by December 31, 2010.

STOCK OPTIONS AND RESTRICTED STOCK

Under the Jones Apparel Group, Inc. 2009 Long Term Incentive Plan, we may grant stock options and other awards from time to time to key employees, officers, directors, advisors and independent consultants to us or to any of our subsidiaries. In general, options become exercisable over either a three-year or five-year period from the grant date and expire 10 years after the date of grant for options granted on or before May 28, 2003 and seven years after the date of grant thereafter. In certain cases for non-employee directors, options become exercisable six months after the grant date. Shares available for future option and restricted stock grants at December 31, 2009 and 2008 totaled 2.5 million and 4.2 million, respectively. Our policy is to issue new shares upon the exercise of options and, when possible, to offset these new shares by repurchasing shares in the open market. We currently have no plans to repurchase any shares in 2010.

Compensation cost recorded for stock-based employee compensation awards (including awards to non-employee directors) reflected in continuing operations as an SG&A expense was \$13.0 million, \$12.3 million and \$14.0 million for 2009, 2008 and 2007, respectively. The total tax benefit recognized for the compensation cost recorded for stock-based employee compensation awards for 2009, 2008 and 2007 totaled \$4.6 million, \$4.1 million and \$2.4 million, respectively. Total compensation cost for continuing operations related to unvested awards not yet recognized at December 31, 2009 was \$7.6 million, which is expected to be amortized over a weighted-average period of approximately 16 months. Cash received

from option exercises for 2008 and 2007 was \$0.1 million and \$11.1 million, respectively. No options were exercised in 2009.

The following tables summarize information about stock option transactions and related information (options in millions):

| | 2009 | | 2008 | | 2007 | |
|---------------------------|---------|---------------------------------|---------|---------------------------------|---------|---------------------------------|
| | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price | Options | Weighted Average Exercise Price |
| Outstanding, January 1 | 7.0 | \$32.73 | 7.6 | \$32.44 | 9.4 | \$31.43 |
| Exercised | - | - | - | - | (0.6) | 19.61 |
| Cancelled | (0.3) | 33.22 | (0.3) | 34.21 | (1.0) | 32.46 |
| Expired | (0.5) | 31.54 | (0.3) | 24.37 | (0.2) | 23.60 |
| Outstanding, December 31, | 6.2 | \$32.79 | 7.0 | \$32.73 | 7.6 | \$32.44 |
| Exercisable, December 31 | 6.1 | \$32.74 | 6.8 | \$32.61 | 7.2 | \$32.20 |

| | 2009 | 2008 | 2007 |
|--|-------|--------|--------|
| Weighted-average contractual term (in years) of: | | | |
| Options outstanding at end of year | 1.6 | 2.5 | 3.4 |
| Options exercisable at end of year | 1.6 | 2.5 | 3.3 |
| Intrinsic value (in millions) of: | | | |
| Options outstanding at end of year | \$0.3 | \$ 0.1 | \$ 0.3 |
| Options exercisable at end of year | \$0.3 | \$ 0.1 | \$ 0.3 |
| Options exercised during the year | - | - | \$ 6.8 |
| Fair value (in millions) of options vested during the year | \$2.1 | \$ 2.2 | \$ 3.0 |

The fair value of each option award is estimated on the date of the grant using the Black-Scholes-Merton option pricing model. Expected volatilities are based on historical volatility of our stock price and implied volatilities from publicly traded options on our stock. We use historical data to estimate an option's expected life; the expected life for grants to senior management-level employees and other employees are considered separately for valuation purposes. The risk-free interest rate input is based on the U.S. Treasury yield curve in effect at the time of the grant. Compensation cost, net of projected forfeitures, is recognized on a straight-line basis over the period between the grant and vesting dates, with compensation cost for grants with a graded vesting schedule recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. We did not grant any options in 2007, 2008 or 2009.

Compensation cost for restricted stock is measured as the excess, if any, of the quoted market price of our stock at the grant date over the amount the employee must pay to acquire the stock (which is generally zero). The compensation cost, net of projected forfeitures, is recognized over the period between the issue date and the date any restrictions lapse, with compensation cost for grants with a graded vesting schedule recognized on a straight-line basis over the requisite service period for the total award. The restrictions do not affect voting and dividend rights.

The following tables summarize information about unvested restricted stock transactions (shares in millions):

| | 2009 | | 2008 | | 2007 | |
|-------------------------|--------|-----------------------------|--------|-----------------------------|--------|-----------------------------|
| | Shares | Weighted Average Fair Value | Shares | Weighted Average Fair Value | Shares | Weighted Average Fair Value |
| Nonvested, January 1 | 1.8 | \$19.78 | 0.8 | \$32.48 | 1.3 | \$33.61 |
| Granted | 2.1 | 3.55 | 1.3 | 15.32 | 0.8 | 32.36 |
| Vested | (0.2) | 28.99 | (0.2) | 35.34 | (0.3) | 34.46 |
| Forfeited | (0.1) | 11.80 | (0.1) | 22.22 | (1.0) | 33.21 |
| Nonvested, December 31, | 3.6 | \$10.33 | 1.8 | \$19.78 | 0.8 | \$32.48 |

| | 2009 | 2008 | 2007 |
|---|-------|-------|--------|
| Fair value (in millions) of shares vested during the year | \$4.5 | \$8.0 | \$11.9 |

During 2009, 2,051,820 shares of restricted common stock were issued to employees and directors under the 1999 Stock Incentive Plan and the 2009 Long-Term Incentive Plan. The restrictions generally lapse on the third anniversary of issue. The value of this stock based on quoted market values at the grant dates was \$7.3 million.

During 2008, 1,327,074 shares of restricted common stock were issued to employees and directors under the 1999 Stock Incentive Plan. The restrictions generally lapse on the third anniversary of issue. The value of this stock based on quoted market values at the grant dates was \$20.3 million.

During 2007, 761,750 shares of restricted common stock were issued to employees and directors under the 1999 Stock Incentive Plan. The restrictions generally lapse on the third anniversary of issue. The value of this stock based on quoted market values at the grant dates was \$24.6 million.

EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

We maintain the Jones Apparel Group, Inc. Retirement Plan (the "Jones Plan") under Section 401(k) of the Internal Revenue Code (the "Code"). Employees not covered by a collective bargaining agreement and meeting certain other requirements are eligible to participate in the Jones Plan. Under the Jones Plan, participants may elect to have up to 50% of their salary (subject to limitations imposed by the Code) deferred and deposited with a qualified trustee, who in turn invests the money in a variety of investment vehicles as selected by each participant. All employee contributions into the Jones Plan are 100% vested.

We have elected to make the Jones Plan a "Safe Harbor Plan" under Section 401(k)(12) of the Code. As a result of this election, we make a fully-vested safe harbor matching contribution for all eligible participants amounting to 100% of the first 3% of the participant's salary deferred and 50% of the next 2% of salary deferred, subject to maximums set by the Department of the Treasury. We may, at our sole discretion, contribute additional amounts to all employees on a pro rata basis.

We contributed approximately \$7.0 million, \$7.1 million and \$6.9 million to our defined contribution plan from continuing operations during 2009, 2008 and 2007, respectively.

Defined Benefit Plans

We maintain several defined benefit plans, including the Pension Plan for Associates of Nine West Group Inc. (the "Cash Balance Plan") and The Napier Company Retirement Plan for certain associates of Victoria (the "Napier Plan"). The Cash Balance Plan expresses retirement benefits as an account balance which increases each year through interest credits, with service credits frozen as of February 15, 1999. All benefits under the Napier Plan are frozen at the amounts earned by the participants as of December 31, 1995. Our funding policy is to contribute at least the minimum amount to meet the funding ratio

requirements of the Pension Protection Act, which began to phase in during 2008. We plan to contribute \$5.7 million to our defined benefit plans in 2010. The measurement date for all plans is December 31.

Obligations and Funded Status

| Year Ended December 31, (In millions) | 2009 | 2008 |
|--|-----------|-----------|
| Change in benefit obligation | | |
| Benefit obligation, beginning of year | \$ 40.3 | \$ 39.0 |
| Interest cost | 2.7 | 2.6 |
| Actuarial loss (gain) - effect of assumption changes | 4.1 | 1.5 |
| Settlements | - | 0.8 |
| Benefits paid | (3.3) | (3.6) |
| Benefit obligation, end of year | 43.8 | 40.3 |
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | 26.4 | 34.6 |
| Actual return on plan assets | 3.7 | (6.8) |
| Employer contribution | 1.5 | 2.2 |
| Benefits paid | (3.3) | (3.6) |
| Fair value of plan assets, end of year | 28.3 | 26.4 |
| Underfunded status at end of year | \$ (15.5) | \$ (13.9) |

Amounts Recognized on the Balance Sheet

| December 31, (In millions) | 2009 | 2008 |
|-------------------------------|---------|---------|
| Noncurrent liabilities | \$ 15.5 | \$ 13.9 |

Amounts Recognized in Accumulated Other Comprehensive (Loss) Income

| December 31, (In millions) | 2009 | 2008 |
|-------------------------------|---------|---------|
| Net loss | \$ 23.8 | \$ 22.9 |

Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets

| December 31, (In millions) | 2009 | 2008 |
|--------------------------------|---------|---------|
| Projected benefit obligation | \$ 43.8 | \$ 40.3 |
| Accumulated benefit obligation | 43.8 | 40.3 |
| Fair value of plan assets | 28.3 | 26.4 |

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income or Loss

| Year Ended December 31, (In millions) | 2009 | 2008 |
|---|--------|---------|
| Net Periodic Benefit Cost: | | |
| Interest cost | \$ 2.7 | \$ 2.6 |
| Expected return on plan assets | (2.0) | (2.7) |
| Settlement costs | - | 1.8 |
| Amortization of net loss | 1.5 | 0.8 |
| Total net periodic benefit cost | 2.2 | 2.5 |
| Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income or Loss: | | |
| Net loss | 2.5 | 11.0 |
| Amortization of net gain | (1.5) | (1.8) |
| | 1.0 | 9.2 |
| Total recognized in net periodic benefit cost and other comprehensive income | \$ 3.2 | \$ 11.7 |

The estimated net loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2010 is \$1.6 million.

Assumptions

| | 2009 | 2008 |
|--|------|------|
| Weighted-average assumptions used to determine: | | |
| Benefit obligations at December 31 | | |
| Discount rate | 6.1% | 6.8% |
| Expected long-term return on plan assets | 7.9% | 7.9% |
| Net periodic benefit cost for year ended December 31 | | |
| Discount rate | 6.8% | 6.8% |
| Expected long-term return on plan assets | 7.9% | 7.9% |

Significant assumptions related to the calculation of our obligations include the discount rate used to calculate the present value of benefit obligations to be paid in the future and the expected long-term rate of return on assets. We review these assumptions annually based upon currently available information, including information provided by our actuaries. Based on these reviews, we lowered the discount rate for benefit obligations at December 31, 2009 to 6.1%, as compared with 6.8% in the prior year, based on the Citigroup Above Median AA Spot Rates as of December 31, 2009. At December 31, 2009, an unfavorable quarter-point (0.25%) change in the discount rate would increase our benefit obligation liability by \$1.5 million and our 2010 expense by \$0.1 million, while a quarter-point change in the expected long-term return on plan asset assumption would increase our 2010 expense by \$0.1 million.

Estimated Future Benefit Payments

| Year Ending December 31, (In millions) | |
|---|---------|
| 2010 | \$ 1.7 |
| 2011 | 1.7 |
| 2012 | 1.9 |
| 2013 | 2.1 |
| 2014 | 2.1 |
| 2015 through 2019 | 13.0 |
| | \$ 22.5 |

Plan Assets

Our overall investment strategy is to diversify investments across types of investments and investment managers. The primary objectives are to achieve a rate of return sufficient to meet current and future plan cash requirements and to emphasize long-term growth of principal while avoiding excessive risk and maintaining fund liquidity. Permitted investment vehicles include investment-grade fixed income securities, domestic and foreign equity securities, mutual funds, guaranteed insurance contracts and real estate, while speculative and derivative investment vehicles, short selling and margin transactions are generally prohibited. The investment managers have full discretion to manage their portion of the investments subject to the objectives and policies of the respective plans. The performance of the investment managers is reviewed on a regular basis. At December 31, 2009, the weighted-average target allocation percentages for fund investments were 59% equity securities and 41% fixed income securities.

To determine the overall expected long-term rate-of-return-on-assets assumption, we add an expected inflation rate to the expected long-term real returns of our various asset classes, taking into account expected volatility and correlation between the returns of the asset classes as follows: for equities and real estate, a historical average arithmetic real return; for government fixed-income securities, current yields on inflation-indexed bonds; and for corporate fixed-income securities, the yield on government fixed-income securities plus a blend of current and historical credit spreads.

The fair values of our pension plan assets at December 31, 2009 by asset category are presented in the following table. All fair values are based on quoted prices in active markets for identical assets (Level 1 in the fair value hierarchy).

(In millions)

| <u>Asset Category</u> | |
|-----------------------------|----------------|
| Cash and equivalents (a) | \$ 13.2 |
| Equity securities: | |
| U.S. companies (b) | 12.9 |
| International companies (c) | 2.2 |
| Fixed income (a)(d) | - |
| Total | <u>\$ 28.3</u> |

- (a) Due to a change in our fixed income managers for the plans at December 31, 2009, amounts that had been previously invested in fixed income securities were temporarily invested in money market funds pending transfer to the new fixed income manager for investment into fixed income securities. This transfer was completed in January 2010.
- (b) This category consists of both index and actively managed mutual funds that invest in large and mid-cap U.S. common stocks.
- (c) This category consists of both index and actively managed mutual funds that invest in large and emerging market international common stocks.
- (d) This category consists of managed mutual funds that invest in high-grade corporate, government and mortgage backed securities.

Other Plans

We also maintain the Nine West Group Inc. Supplemental Executive Retirement Plan, the Nine West Group Inc. Postretirement Executive Life Plan, the Nine West Group, Inc. Postretirement Medical Plan and the Nine West Group Inc. Long Term Disabled Postemployment Benefit Plan, none of which have a material effect on our results of operations or on our financial position. These plans, which are unfunded, were underfunded by \$4.1 million at December 31, 2009. Of this amount, \$0.3 million is reported under accrued expenses and other current liabilities and \$3.8 million is reported under other noncurrent liabilities.

We also maintain the Jones Apparel Group, Inc. Deferred Compensation Plan, a non-qualified defined contribution plan for certain management and other highly compensated employees (the "Rabbi

Trust"). Under the plan, participants may elect have up to 90% of their salary and annual bonus deferred and deposited with a qualified trustee, who in turn invests the money in a variety of investment vehicles as selected by each participant. The assets of the Rabbi Trust, consisting of primarily debt and equity securities, are recorded at current market prices (Level 1 in the fair value hierarchy). The trust assets are available to satisfy claims of our general creditors in the event of bankruptcy. The trust's assets, included in prepaid expenses and other current assets, and the corresponding deferred compensation liability, included in accrued employee compensation and benefits, were \$7.8 million and \$6.4 million at December 31, 2009 and 2008, respectively. This plan has no effect on our results of operations.

We participate in a multi-employer defined benefit plan that covers union employees at a distribution center that has been closed. As a result of closing this facility, in March 2009 we paid a partial withdrawal liability payment of \$2.4 million. Should any of the other participating companies in this plan also cease participation, we may become liable for a full withdrawal liability payment. We do not believe any resulting liability will be material.

EQUITY METHOD INVESTMENTS

We had two joint ventures formed with HCL Technologies Limited ("HCL") to provide us with computer consulting, programming and associated support services. HCL is a global technology and software services company offering a suite of services targeted at technology vendors, software product companies and organizations. We had a 49% ownership interest in each joint venture, which operated under the names HCL Jones Technologies, LLC and HCL Jones Technologies (Bermuda), Ltd. The agreement under which the joint ventures were established terminated in January 2008.

We had a 50% ownership interest in a joint venture with Sutton Development Pty. Ltd. ("Sutton") to operate retail locations in Australia, which operated under the name Nine West Australia Pty Ltd. We sold our interest in this joint venture to Sutton on December 3, 2007 for \$20.7 million, which resulted in a pre-tax gain of \$8.2 million. The sales price was subject to certain working capital adjustments, which resulted in additional sales proceeds and pre-tax gain of \$0.8 million in 2008.

On June 20, 2008, we acquired a 10% equity interest in GRI, an international accessories and apparel brand management and retail-distribution network, for \$20.2 million. On June 24, 2009, we increased our equity interest to 25% for an additional \$15.2 million. The selling shareholders of GRI are entitled to receive an additional cash payment equaling 60% of the amount of GRI's fiscal year 2011 net income that exceeds a certain threshold. GRI is the exclusive licensee of several of our brands in Asia, including *Nine West*, *Anne Klein New York*, *AK Anne Klein*, *Easy Spirit*, *Enzo Angiolini* and *Joan & David*. GRI also distributes other women's apparel, shoes and accessory brands. See "Accounts Receivable" for additional information regarding GRI.

BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION

We identify operating segments based on, among other things, differences in products sold and the way our management organizes the components of our business for purposes of allocating resources and assessing performance. Our operations are comprised of four reportable segments: wholesale better apparel, wholesale jeanswear, wholesale footwear and accessories, and retail. Segment revenues are generated from the sale of apparel, footwear and accessories through wholesale channels and our own retail locations. The wholesale segments include wholesale operations with third party department and other retail stores and our own retail stores, the retail segment includes operations by our own stores, and income and expenses related to trademarks, licenses and general corporate functions are reported under "licensing, other and eliminations." We define segment profit as operating income before net interest expense, goodwill impairment charges, gains or losses on sales of subsidiaries, equity in earnings of unconsolidated affiliates and income taxes. Summarized below are our revenues and income by reportable segment for 2009, 2008 and 2007.

| (In millions) | Wholesale Better Apparel | Wholesale Jeanswear | Wholesale Footwear & Accessories | Retail | Licensing, Other & Eliminations | Consolidated |
|---|--------------------------------|------------------------|--|------------------|---------------------------------------|-------------------|
| For the year ended December 31, 2009 | | | | | | |
| Revenues from external customers | \$ 922.8 | \$ 828.9 | \$ 839.6 | \$ 689.3 | \$ 46.8 | \$ 3,327.4 |
| Intersegment revenues | 133.7 | 2.0 | 56.4 | - | (192.1) | - |
| Total revenues | <u>1,056.5</u> | <u>830.9</u> | <u>896.0</u> | <u>689.3</u> | <u>(145.3)</u> | <u>3,327.4</u> |
| Segment income (loss) | <u>\$ 112.1</u> | <u>\$ 65.7</u> | <u>\$ 61.4</u> | <u>\$ (71.4)</u> | <u>\$ (59.3)</u> | 108.5 |
| Net interest expense | | | | | | (52.8) |
| Goodwill impairment | | | | | | (120.6) |
| Loss and costs associated with repurchase of 4.250% Senior Notes | | | | | | (1.5) |
| Equity in loss of unconsolidated affiliate | | | | | | (3.7) |
| Loss from continuing operations before provision for income taxes | | | | | | <u>\$ (70.1)</u> |
| Depreciation and amortization | \$ 13.7 | \$ 1.3 | \$ 7.9 | \$ 21.4 | \$ 47.4 | \$ 91.7 |
| For the year ended December 31, 2008 | | | | | | |
| Revenues from external customers | \$ 1,098.7 | \$ 796.5 | \$ 938.3 | \$ 730.2 | \$ 52.7 | \$ 3,616.4 |
| Intersegment revenues | 146.5 | 3.8 | 81.8 | - | (232.1) | - |
| Total revenues | <u>1,245.2</u> | <u>800.3</u> | <u>1,020.1</u> | <u>730.2</u> | <u>(179.4)</u> | <u>3,616.4</u> |
| Segment income (loss) | <u>\$ 122.3</u> | <u>\$ 18.8</u> | <u>\$ 56.4</u> | <u>\$ (54.3)</u> | <u>\$ (61.6)</u> | 81.6 |
| Net interest expense | | | | | | (41.6) |
| Goodwill impairment | | | | | | (813.2) |
| Gain on sale of Mexican operations and interest in Australian joint venture | | | | | | 1.0 |
| Equity in loss of unconsolidated affiliates | | | | | | (0.7) |
| Loss from continuing operations before benefit for income taxes | | | | | | <u>\$ (772.9)</u> |
| Depreciation and amortization | \$ 7.4 | \$ 4.2 | \$ 8.7 | \$ 26.2 | \$ 46.6 | \$ 93.1 |
| For the year ended December 31, 2007 | | | | | | |
| Revenues from external customers | \$ 1,101.0 | \$ 985.0 | \$ 955.8 | \$ 753.7 | \$ 53.0 | \$ 3,848.5 |
| Intersegment revenues | 155.8 | 10.7 | 72.6 | - | (239.1) | - |
| Total revenues | <u>1,256.8</u> | <u>995.7</u> | <u>1,028.4</u> | <u>753.7</u> | <u>(186.1)</u> | <u>3,848.5</u> |
| Segment income (loss) | <u>\$ 126.0</u> | <u>\$ (4.2)</u> | <u>\$ 109.2</u> | <u>\$ (43.2)</u> | <u>\$ (136.8)</u> | 51.0 |
| Net interest expense | | | | | | (47.8) |
| Goodwill impairment | | | | | | (78.0) |
| Gain on sale of interest in Australian joint venture | | | | | | 8.2 |
| Equity in earnings of unconsolidated affiliates | | | | | | 8.1 |
| Loss from continuing operations before benefit for income taxes | | | | | | <u>\$ (58.5)</u> |
| Depreciation and amortization | \$ 11.2 | \$ 10.4 | \$ 10.9 | \$ 23.0 | \$ 35.0 | \$ 90.5 |
| Total assets | | | | | | |
| December 31, 2009 | \$ 773.1 | \$ 556.2 | \$ 433.7 | \$ 194.1 | \$ 67.9 | \$ 2,025.0 |
| December 31, 2008 | 1,098.9 | 711.5 | 371.7 | 127.2 | 118.2 | 2,427.5 |
| December 31, 2007 | 1,146.4 | 703.5 | 1,127.7 | 209.9 | 49.1 | 3,236.6 |

Revenues from external customers and long-lived assets excluding deferred taxes related to continuing operations in the United States and foreign countries are as follows:

| On or for the Year Ended December 31, (In millions) | 2009 | 2008 | 2007 |
|--|-------------------|-------------------|-------------------|
| Revenues from external customers: | | | |
| United States | \$ 3,033.6 | \$ 3,279.0 | \$ 3,523.2 |
| Foreign countries | 293.8 | 337.4 | 325.3 |
| | <u>\$ 3,327.4</u> | <u>\$ 3,616.4</u> | <u>\$ 3,848.5</u> |
| Long-lived assets: | | | |
| United States | \$ 908.4 | \$ 1,083.5 | \$ 1,930.0 |
| Foreign countries | 47.5 | 24.3 | 11.2 |
| | <u>\$ 955.9</u> | <u>\$ 1,107.8</u> | <u>\$ 1,941.2</u> |

SUPPLEMENTAL PRO FORMA CONDENSED FINANCIAL INFORMATION

Certain of our subsidiaries function as co-issuers (fully and unconditionally guaranteed on a joint and several basis) of the outstanding debt of Jones Apparel Group, Inc. ("Jones"), including Jones USA, Jones Apparel Group Holdings, Inc. ("Jones Holdings"), Nine West Footwear Corporation ("Nine West") and Jones Retail Corporation ("Jones Retail").

The following condensed consolidating balance sheets, statements of operations and statements of cash flows for the "Issuers" (consisting of Jones and Jones USA, Jones Holdings, Nine West and Jones Retail, which are all our subsidiaries that act as co-issuers and co-obligors) and the "Others" (consisting of all of our other subsidiaries, excluding all obligor subsidiaries) have been prepared using the equity method of accounting in accordance with the requirements for presentation of such information. Separate financial statements and other disclosures concerning Jones are not presented as Jones has no independent operations or assets. There are no contractual restrictions on distributions from Jones USA, Jones Holdings, Nine West or Jones Retail to Jones. Effective January 1, 2010, Nine West merged into Jones Retail, which then changed its name to JAG Footwear, Accessories and Retail Corporation.

Condensed Consolidating Balance Sheets (In millions)

| | December 31, 2009 | | | | December 31, 2008 | | | |
|--|-------------------|-------------------|---------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
| | Issuers | Others | Eliminations | Consolidated | Issuers | Others | Eliminations | Consolidated |
| ASSETS | | | | | | | | |
| CURRENT ASSETS: | | | | | | | | |
| Cash and cash equivalents | \$ 322.1 | \$ 11.3 | \$ - | \$ 333.4 | \$ 318.4 | \$ 19.9 | \$ - | \$ 338.3 |
| Accounts receivable | 189.5 | 113.6 | - | 303.1 | 219.7 | 150.5 | - | 370.2 |
| Inventories | 259.7 | 115.1 | 0.2 | 375.0 | 339.3 | 170.6 | (0.4) | 509.5 |
| Prepaid and refundable income taxes | 0.7 | 0.1 | (0.8) | - | 15.0 | 0.2 | 1.7 | 16.9 |
| Deferred taxes | 13.3 | 14.8 | - | 28.1 | 12.5 | 16.7 | (1.2) | 28.0 |
| Prepaid expenses and other current assets | 18.2 | 7.4 | - | 25.6 | 34.7 | 7.9 | - | 42.6 |
| TOTAL CURRENT ASSETS | 803.5 | 262.3 | (0.6) | 1,065.2 | 939.6 | 365.8 | 0.1 | 1,305.5 |
| Property, plant and equipment - net | 93.4 | 145.6 | - | 239.0 | 135.4 | 165.6 | - | 301.0 |
| Due from affiliates | - | 1,382.9 | (1,382.9) | - | - | 1,154.6 | (1,154.6) | - |
| Goodwill | 40.1 | - | - | 40.1 | 160.7 | - | - | 160.7 |
| Other intangibles - net | 0.5 | 559.3 | - | 559.8 | 0.5 | 590.3 | - | 590.8 |
| Prepaid and refundable income taxes | 5.4 | - | (0.7) | 4.7 | - | - | - | - |
| Deferred taxes | 83.3 | - | (79.4) | 3.9 | 73.7 | - | (59.5) | 14.2 |
| Investments in and loans to subsidiaries | 2,125.2 | 42.1 | (2,125.2) | 42.1 | 1,866.2 | 19.6 | (1,866.2) | 19.6 |
| Other assets | 60.2 | 10.0 | - | 70.2 | 25.9 | 10.0 | (0.2) | 35.7 |
| TOTAL ASSETS | \$ 3,211.6 | \$ 2,402.2 | \$ (3,588.8) | \$ 2,025.0 | \$ 3,202.0 | \$ 2,305.9 | \$ (3,080.4) | \$ 2,427.5 |
| LIABILITIES AND EQUITY | | | | | | | | |
| CURRENT LIABILITIES: | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ - | \$ - | \$ - | \$ 250.0 | \$ - | \$ - | \$ 250.0 |
| Current portion of capital lease obligations | - | 2.6 | - | 2.6 | - | 3.1 | - | 3.1 |
| Accounts payable | 129.8 | 55.5 | - | 185.3 | 160.4 | 71.0 | - | 231.4 |
| Income taxes payable | 23.1 | 7.8 | (19.1) | 11.8 | - | 19.5 | (19.4) | 0.1 |
| Deferred taxes | - | - | - | - | - | 1.3 | (1.3) | - |
| Accrued expenses and other current liabilities | 75.7 | 48.7 | - | 124.4 | 85.7 | 41.6 | - | 127.3 |
| TOTAL CURRENT LIABILITIES | 228.6 | 114.6 | (19.1) | 324.1 | 496.1 | 136.5 | (20.7) | 611.9 |
| NONCURRENT LIABILITIES: | | | | | | | | |
| Long-term debt | 499.5 | - | - | 499.5 | 499.5 | - | - | 499.5 |
| Obligations under capital leases | - | 26.9 | - | 26.9 | - | 29.4 | - | 29.4 |
| Deferred taxes | - | 203.5 | (203.5) | - | - | 47.1 | (47.1) | - |
| Income taxes payable | - | 0.7 | (0.7) | - | 15.6 | 5.2 | - | 20.8 |
| Due to affiliates | 1,382.9 | - | (1,382.9) | - | 1,154.6 | - | (1,154.6) | - |
| Other | 63.3 | 18.7 | - | 82.0 | 66.8 | 16.9 | - | 83.7 |
| TOTAL NONCURRENT LIABILITIES | 1,945.7 | 249.8 | (1,587.1) | 608.4 | 1,736.5 | 98.6 | (1,201.7) | 633.4 |
| TOTAL LIABILITIES | 2,174.3 | 364.4 | (1,606.2) | 932.5 | 2,232.6 | 235.1 | (1,222.4) | 1,245.3 |
| EQUITY: | | | | | | | | |
| Common stock and additional paid-in capital | 1,361.9 | 1,540.5 | (1,540.5) | 1,361.9 | 1,352.2 | 1,706.8 | (1,706.8) | 1,352.2 |
| Retained earnings | 1,509.3 | 493.3 | (438.2) | 1,564.4 | 1,455.2 | 365.7 | (152.9) | 1,668.0 |
| Accumulated other comprehensive (loss) income | (7.6) | 3.9 | (3.9) | (7.6) | (11.7) | (1.7) | 1.7 | (11.7) |
| Treasury stock | (1,826.3) | - | - | (1,826.3) | (1,826.3) | - | - | (1,826.3) |
| Total Jones stockholders' equity | 1,037.3 | 2,037.7 | (1,982.6) | 1,092.4 | 969.4 | 2,070.8 | (1,858.0) | 1,182.2 |
| Noncontrolling interest | - | 0.1 | - | 0.1 | - | - | - | - |
| TOTAL EQUITY | 1,037.3 | 2,037.8 | (1,982.6) | 1,092.5 | 969.4 | 2,070.8 | (1,858.0) | 1,182.2 |
| TOTAL LIABILITIES AND EQUITY | \$ 3,211.6 | \$ 2,402.2 | \$ (3,588.8) | \$ 2,025.0 | \$ 3,202.0 | \$ 2,305.9 | \$ (3,080.4) | \$ 2,427.5 |

Condensed Consolidating Statements of Operations
(In millions)

| | Year Ended December 31, 2009 | | | | Year Ended December 31, 2008 | | | | Year Ended December 31, 2007 | | | |
|---|------------------------------|----------|--------------|--------------|------------------------------|----------|--------------|--------------|------------------------------|------------|--------------|--------------|
| | Issuers | Others | Eliminations | Consolidated | Issuers | Others | Eliminations | Consolidated | Issuers | Others | Eliminations | Consolidated |
| Net sales | \$ 2,337.9 | \$ 955.8 | \$ (14.0) | \$ 3,279.7 | \$ 2,630.6 | \$ 949.4 | \$ (17.4) | \$ 3,562.6 | \$ 2,642.9 | \$ 1,167.7 | \$ (17.3) | \$ 3,793.3 |
| Licensing income | 0.1 | 46.7 | - | 46.8 | 0.1 | 52.0 | - | 52.1 | 0.1 | 51.9 | - | 52.0 |
| Other revenues | 0.9 | - | - | 0.9 | 1.1 | 0.6 | - | 1.7 | 1.0 | 2.2 | - | 3.2 |
| Total revenues | 2,338.9 | 1,002.5 | (14.0) | 3,327.4 | 2,631.8 | 1,002.0 | (17.4) | 3,616.4 | 2,644.0 | 1,221.8 | (17.3) | 3,848.5 |
| Cost of goods sold | 1,495.2 | 689.8 | (3.5) | 2,181.5 | 1,756.5 | 692.1 | (8.4) | 2,440.2 | 1,723.5 | 893.9 | (8.3) | 2,609.1 |
| Gross profit | 843.7 | 312.7 | (10.5) | 1,145.9 | 875.3 | 309.9 | (9.0) | 1,176.2 | 920.5 | 327.9 | (9.0) | 1,239.4 |
| Selling, general and administrative expenses | 930.4 | 89.8 | (11.5) | 1,008.7 | 975.7 | 106.4 | (12.9) | 1,069.2 | 981.6 | 131.6 | (12.8) | 1,100.4 |
| Trademark impairments | - | 28.7 | - | 28.7 | - | 25.2 | - | 25.2 | - | 88.0 | - | 88.0 |
| Goodwill impairment | 120.6 | - | - | 120.6 | 812.0 | 67.6 | (66.4) | 813.2 | 394.7 | 78.0 | (394.7) | 78.0 |
| Operating (loss) income | (207.3) | 194.2 | 1.0 | (12.1) | (912.4) | 110.7 | 70.3 | (731.4) | (455.8) | 30.3 | 398.5 | (27.0) |
| Net interest expense (income) and financing costs | 58.2 | (5.4) | - | 52.8 | 51.6 | (10.0) | - | 41.6 | 66.6 | (18.8) | - | 47.8 |
| Loss and costs associated with repurchase of 4.250% Senior Notes | 1.5 | - | - | 1.5 | - | - | - | - | - | - | - | - |
| Gain on sale of interest in Australian joint venture | - | - | - | - | - | 0.8 | - | 0.8 | - | 8.2 | - | 8.2 |
| Equity in (loss) earnings of unconsolidated affiliates | - | (3.7) | - | (3.7) | - | (0.5) | (0.2) | (0.7) | 0.5 | 5.6 | 2.0 | 8.1 |
| (Loss) income from continuing operations before (benefit) provision for income taxes | (267.0) | 195.9 | 1.0 | (70.1) | (964.0) | 121.0 | 70.1 | (772.9) | (521.9) | 62.9 | 400.5 | (58.5) |
| (Benefit) provision for income taxes | (65.9) | 68.0 | 14.1 | 16.2 | (106.4) | 94.9 | 4.9 | (6.6) | (147.4) | 43.1 | (0.1) | (104.4) |
| (Loss) income from continuing operations | (201.1) | 127.9 | (13.1) | (86.3) | (857.6) | 26.1 | 65.2 | (766.3) | (374.5) | 19.8 | 400.6 | 45.9 |
| Income (loss) from discontinued operations, including gain on sale of Barneys in 2007, net of tax | - | - | - | - | 0.9 | - | - | 0.9 | 291.8 | (26.6) | - | 265.2 |
| Equity in earnings (loss) of subsidiaries | 272.3 | - | (272.3) | - | 133.1 | - | (133.1) | - | (155.8) | - | 155.8 | - |
| Net income (loss) | 71.2 | 127.9 | (285.4) | (86.3) | (723.6) | 26.1 | (67.9) | (765.4) | (238.5) | (6.8) | 556.4 | 311.1 |
| Less: income attributable to noncontrolling interest | - | 0.3 | - | 0.3 | - | - | - | - | - | - | - | - |
| Income (loss) attributable to Jones | \$ 71.2 | \$ 127.6 | \$ (285.4) | \$ (86.6) | \$ (723.6) | \$ 26.1 | \$ (67.9) | \$ (765.4) | \$ (238.5) | \$ (6.8) | \$ 556.4 | \$ 311.1 |

Condensed Consolidating Statements of Cash Flows
(In millions)

| | Year Ended December 31, 2009 | | | | Year Ended December 31, 2008 | | | | Year Ended December 31, 2007 | | | |
|--|------------------------------|---------|--------------|--------------|------------------------------|---------|--------------|--------------|------------------------------|---------|--------------|--------------|
| | Issuers | Others | Eliminations | Consolidated | Issuers | Others | Eliminations | Consolidated | Issuers | Others | Eliminations | Consolidated |
| Cash flows from operating activities: | | | | | | | | | | | | |
| Net cash provided by operating activities of continuing operations | \$ 325.5 | \$ 23.5 | \$ - | \$ 349.0 | \$ 141.1 | \$ 35.2 | \$ (0.8) | \$ 175.5 | \$ 106.9 | \$ 33.3 | \$ (20.7) | \$ 119.5 |
| Net cash provided by operating activities of discontinued operations | - | - | - | - | - | - | - | - | - | 39.0 | - | 39.0 |
| Net cash provided by operating activities | 325.5 | 23.5 | - | 349.0 | 141.1 | 35.2 | (0.8) | 175.5 | 106.9 | 72.3 | (20.7) | 158.5 |
| Cash flows from investing activities: | | | | | | | | | | | | |
| Proceeds from sale of Barneys, net of cash sold and selling costs | - | - | - | - | - | - | - | - | 845.5 | - | - | 845.5 |
| Proceeds from sale of interest in Australian joint venture | - | - | - | - | - | 0.8 | - | 0.8 | - | 20.7 | - | 20.7 |
| Proceeds from sale of Mexican operations | - | - | - | - | - | 5.9 | - | 5.9 | - | - | - | - |
| Capital expenditures | (15.3) | (14.7) | - | (30.0) | (39.9) | (31.3) | - | (71.2) | (59.5) | (51.7) | - | (111.2) |
| Investment in GRI Group Limited | - | (15.2) | - | (15.2) | - | (20.2) | - | (20.2) | - | - | - | - |
| Proceeds from sales of property, plant and equipment | - | - | - | - | 0.4 | 0.1 | - | 0.5 | 0.2 | 2.8 | - | 3.0 |
| Other | - | - | - | - | (0.2) | - | - | (0.2) | - | - | - | - |
| Net cash (used in) provided by investing activities of continuing operations | (15.3) | (29.9) | - | (45.2) | (39.7) | (44.7) | - | (84.4) | 786.2 | (28.2) | - | 758.0 |
| Net cash used in investing activities of discontinued operations | - | - | - | - | - | - | - | - | - | (40.5) | - | (40.5) |
| Net cash (used in) provided by investing activities | (15.3) | (29.9) | - | (45.2) | (39.7) | (44.7) | - | (84.4) | 786.2 | (68.7) | - | 717.5 |
| Cash flows from financing activities: | | | | | | | | | | | | |
| Repurchase of 4.250% Senior Notes | (237.7) | - | - | (237.7) | - | - | - | - | - | - | - | - |
| Redemption at maturity of 4.250% Senior Notes | (7.5) | - | - | (7.5) | - | - | - | - | - | - | - | - |
| Payment of consent fees | (12.9) | - | - | (12.9) | - | - | - | - | - | - | - | - |
| Costs associated with consent fees and repurchase of notes | (1.8) | - | - | (1.8) | - | - | - | - | - | - | - | - |
| Net repayment under credit facilities | - | - | - | - | - | - | - | - | (100.0) | - | - | (100.0) |
| Costs related to secured revolving credit agreement | (29.6) | (0.5) | - | (30.1) | - | - | - | - | - | - | - | - |
| Purchases of treasury stock | - | - | - | - | 1.0 | - | - | 1.0 | (496.9) | - | - | (496.9) |
| Proceeds from exercise of employee stock options | - | - | - | - | 0.1 | - | - | 0.1 | 11.1 | - | - | 11.1 |
| Dividends paid | (17.0) | - | - | (17.0) | (47.4) | (0.8) | 0.8 | (47.4) | (57.2) | (20.7) | 20.7 | (57.2) |
| Net cash transferred to discontinued operations | - | - | - | - | - | - | - | - | (21.7) | - | - | (21.7) |
| Excess tax benefits from share-based payments | - | - | - | - | - | - | - | - | 2.4 | - | - | 2.4 |
| Other items | - | (3.3) | - | (3.3) | (0.7) | (4.4) | - | (5.1) | (0.8) | (3.3) | - | (4.1) |
| Net cash used in financing activities of continuing operations | (306.5) | (3.8) | - | (310.3) | (47.0) | (5.2) | 0.8 | (51.4) | (663.1) | (24.0) | 20.7 | (666.4) |
| Net cash provided by financing activities of discontinued operations | - | - | - | - | - | - | - | - | - | 17.9 | - | 17.9 |
| Net cash used in financing activities | (306.5) | (3.8) | - | (310.3) | (47.0) | (5.2) | 0.8 | (51.4) | (663.1) | (6.1) | 20.7 | (648.5) |
| Effect of exchange rates on cash | - | 1.6 | - | 1.6 | - | (4.2) | - | (4.2) | - | 3.8 | - | 3.8 |
| Net increase (decrease) in cash and cash equivalents | 3.7 | (8.6) | - | (4.9) | 54.4 | (18.9) | - | 35.5 | 229.0 | 2.3 | - | 231.3 |
| Cash and cash equivalents, beginning, including cash reported under assets held for sale in 2007 | 318.4 | 19.9 | - | 338.3 | 264.0 | 38.8 | - | 302.8 | 35.0 | 36.5 | - | 71.5 |
| Cash and cash equivalents, ending | \$ 322.1 | \$ 11.3 | \$ - | \$ 333.4 | \$ 318.4 | \$ 19.9 | \$ - | \$ 338.3 | \$ 264.0 | \$ 38.8 | \$ - | \$ 302.8 |

UNAUDITED CONSOLIDATED FINANCIAL INFORMATION

Unaudited interim consolidated financial information for the two years ended December 31, 2009 is summarized as follows:

| (In millions except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| 2009 | | | | |
| Net sales | \$ 879.4 | \$ 793.4 | \$ 843.9 | \$ 762.8 |
| Total revenues | 891.1 | 803.9 | 855.7 | 776.7 |
| Gross profit | 293.3 | 282.1 | 304.4 | 266.1 |
| Operating income (loss) (1) | 13.7 | 42.1 | 60.9 | (128.8) |
| Net income (loss) | 0.3 | 13.1 | 30.6 | (130.3) |
| Basic earnings (loss) per share | \$ 0.00 | \$ 0.15 | \$ 0.36 | \$ (1.53) |
| Diluted earnings (loss) per share | 0.00 | 0.15 | 0.36 | (1.53) |
| Dividends declared per share | \$ 0.05 | \$ 0.05 | \$ 0.05 | \$ 0.05 |
| 2008 | | | | |
| Net sales | \$ 963.4 | \$ 820.2 | \$ 948.6 | \$ 830.5 |
| Total revenues | 975.4 | 829.4 | 964.7 | 846.9 |
| Gross profit | 320.7 | 282.4 | 323.3 | 249.9 |
| Operating income (loss) (2) | 39.9 | 25.5 | 51.8 | (848.6) |
| Income (loss) from continuing operations | 19.5 | 10.6 | 26.3 | (822.8) |
| Income (loss) from discontinued operations | - | - | 1.0 | (0.1) |
| Net income (loss) | 19.5 | 10.6 | 27.3 | (822.9) |
| Basic earnings (loss) per share from continuing operations | \$ 0.23 | \$ 0.12 | \$ 0.32 | \$ (9.86) |
| Basic earnings per share from discontinued operations | - | - | 0.01 | - |
| Basic earnings (loss) per share | 0.23 | 0.12 | 0.33 | (9.86) |
| Diluted earnings (loss) per share from continuing operations | \$ 0.23 | \$ 0.12 | \$ 0.32 | \$ (9.86) |
| Diluted earnings per share from discontinued operations | - | - | 0.01 | - |
| Diluted earnings (loss) per share | 0.23 | 0.12 | 0.33 | (9.86) |
| Dividends declared per share | \$ 0.14 | \$ 0.14 | \$ 0.14 | \$ 0.14 |

Quarterly figures may not add to full year due to rounding.

- (1) Includes goodwill impairment of \$120.6 million and trademark impairments of \$28.7 million in the fourth fiscal quarter of 2009.
- (2) Includes goodwill impairment of \$813.2 million and trademark impairments of \$25.2 million in the fourth fiscal quarter of 2008.

SUBSEQUENT EVENTS

On February 4, 2010, we announced that we had acquired 100% of the membership interests of Moda Nicola International, LLC ("MNI"), owner of the *Robert Rodriguez Collection*, a privately held designer, marketer and wholesaler of women's contemporary eveningwear and sportswear. The initial estimated purchase price was \$17.0 million, subject to certain holdback provisions and working capital adjustments. Under the terms of the agreement, the selling members of MNI are entitled to receive future cash payments upon achievement of certain financial targets set within the agreement. This acquisition will be reported as part of our wholesale better apparel segment.

We have evaluated subsequent events through February 16, 2010, the date on which these financial statements were issued.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

As required by Exchange Act Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report.

The purpose of disclosure controls is to ensure that information required to be disclosed in our reports filed with or submitted to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure. The purpose of internal controls is to provide reasonable assurance that our transactions are properly authorized, our assets are safeguarded against unauthorized or improper use and our transactions are properly recorded and reported to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Our management does not expect that our disclosure controls or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable rather than absolute assurance that the objectives of the control system are met. The design of a control system must also reflect the fact that there are resource constraints, with the benefits of controls considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud (if any) within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that simple errors or mistakes can occur. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Our internal controls are evaluated on an ongoing basis by our Internal Audit department, by other personnel in our organization and by our independent auditors in connection with their audit and review activities. The overall goals of these various evaluation activities are to monitor our disclosure and internal controls and to make modifications as necessary, as disclosure and internal controls are intended to be dynamic systems that change (including improvements and corrections) as conditions warrant. Part of this evaluation is to determine whether there were any significant deficiencies or material weaknesses in our internal controls, or whether we had identified any acts of fraud involving personnel who have a significant role in the our internal controls. Significant deficiencies are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements; material weaknesses are particularly serious conditions where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that both our disclosure controls and procedures and our internal controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings and

ensuring that information required to be disclosed by us in these periodic filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that our internal controls are effective in ensuring that our financial statements are fairly presented in conformity with generally accepted accounting principles.

We have made changes to our internal controls and procedures over financial reporting to address the implementation of SAP, an enterprise resource planning ("ERP") system. We began the process of implementing SAP throughout Jones Apparel Group, Inc. and our consolidated subsidiaries in 2006. SAP will integrate our operational and financial systems and expand the functionality of our financial reporting processes. During the fourth fiscal quarter of 2009, no additional businesses were converted to this system. We have adequately controlled the transition to the new processes and controls, with no negative impact to our internal control environment. We expect to continue the implementation of this system to all locations over a multi-year period. As the phased roll out occurs, we will experience changes in internal control over financial reporting each quarter. We expect this ERP system to further advance our control environment by automating manual processes, improving management visibility and standardizing processes as its full capabilities are utilized.

Management's Annual Report on Internal Control Over Financial Reporting

Management's report on Internal Control Over Financial reporting appears on page 52. Our independent registered public accounting firm, BDO Seidman, LLP, has issued an audit report on our internal control over financial reporting, which appears on page 53.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information about our directors appearing in the Proxy Statement under the caption "Election of Directors" is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics and a Code of Ethics for Senior Executive and Financial Officers, which applies to our Chief Executive Officer, Chief Financial Officer, Controller and other personnel performing similar functions. Both codes are posted on our website, www.jonesapparel.com under the "Our Company - Corporate Governance" caption. We intend to make all required disclosures regarding any amendment to, or a waiver of, a provision of the Code of Ethics for Senior Executive and Financial Officers by posting such information on our website.

The information appearing in the Proxy Statement relating to the members of the Audit Committee and the Audit Committee financial expert under the captions "Corporate Governance - Board Structure and Committee Composition" and "Corporate Governance - Board Structure and Committee Composition - Audit Committee" and the information appearing in the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by this reference.

The balance of the information required by this item is contained in the discussion entitled "Executive Officers of the Registrant" in Part I of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the Proxy Statement under the captions "Executive Compensation," "Corporate Governance - Compensation Committee Interlocks and Insider Participation" and the information appearing in the Proxy Statement relating to the compensation of directors under the caption "Corporate Governance - Director Compensation and Stock Ownership Guidelines" is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing in the Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners" is incorporated herein by this reference.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our existing equity compensation plans as of December 31, 2009. For further information, see "Stock Options and Restricted Stock" in Notes to Consolidated Financial Statements.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders | 6,215,377 | \$32.79 | 2,497,100 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 6,215,377 | \$32.79 | 2,497,100 |

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing in the Proxy Statement under the captions "Corporate Governance - Independence of Directors," "Corporate Governance - Board Structure and Committee Composition" and "Corporate Governance - Policy with Respect to Related Person Transactions" is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information appearing in the Proxy Statement under the caption "Fees Paid to Independent Registered Public Accountants" is incorporated herein by this reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements.

The following financial statements are included in Item 8 of this report:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - December 31, 2009 and 2008

Consolidated Statements of Operations - Years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Equity - Years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows - Years ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements (includes certain supplemental financial information required by Item 8 of Form 10-K)

2. The schedule and report of independent registered public accounting firm thereon, listed in the Index to Financial Statement Schedules attached hereto.

3. The exhibits listed in the Exhibit Index attached hereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

February 16, 2010

JONES APPAREL GROUP, INC.
(Registrant)

By: /s/ Wesley R. Card
Wesley R. Card
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|-------------------|
| <u>/s/ Wesley R. Card</u> Wesley R. Card | Chief Executive Officer and Director (Principal Executive Officer) | February 16, 2010 |
| <u>/s/ Sidney Kimmel</u> Sidney Kimmel | Chairman and Director | February 16, 2010 |
| <u>/s/ John T. McClain</u> John T. McClain | Chief Financial Officer (Principal Financial Officer) | February 16, 2010 |
| <u>/s/ Christopher R. Cade</u> Christopher R. Cade | Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer) | February 16, 2010 |
| <u>/s/ Matthew H. Kamens</u> Matthew H. Kamens | Director | February 16, 2010 |
| <u>/s/ J. Robert Kerrey</u> J. Robert Kerrey | Director | February 16, 2010 |
| <u>/s/ Ann N. Reese</u> Ann N. Reese | Director | February 16, 2010 |
| <u>/s/ Gerald C. Crotty</u> Gerald C. Crotty | Director | February 16, 2010 |
| <u>/s/ Lowell W. Robinson</u> Lowell W. Robinson | Director | February 16, 2010 |
| <u>/s/ Donna F. Zarcone</u> Donna F. Zarcone | Director | February 16, 2010 |
| <u>/s/ Margaret H. Georgiadis</u> Margaret H. Georgiadis | Director | February 16, 2010 |
| <u>/s/ Robert L. Mettler</u> Robert L. Mettler | Director | February 16, 2010 |

INDEX TO FINANCIAL STATEMENT SCHEDULES

Report of Independent Registered Public Accounting Firm on Schedule II.

Schedule II. Valuation and qualifying accounts

Schedules other than those listed above have been omitted since the information is not applicable, not required or is included in the respective financial statements or notes thereto.

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Description of Exhibit¹</u> |
|---------------------------|---|
| 2.1 | Agreement and Plan of Merger dated September 10, 1998, among Jones Apparel Group, Inc., SAI Acquisition Corp., Sun Apparel, Inc. and the selling shareholders (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K dated September 24, 1998). |
| 2.2 | Agreement and Plan of Merger dated as of March 1, 1999, among Jones Apparel Group, Inc., Jill Acquisition Sub Inc. and Nine West Group Inc. (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K dated March 2, 1999). |
| 2.3 | Securities Purchase and Sale Agreement dated as of July 31, 2000, among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Victoria + Co Ltd. and the Shareholders and Warrantholders of Victoria + Co Ltd (incorporated by reference to Exhibit 2.1 of our Quarterly Report on Form 10-Q for the three months ended April 2, 2000). |
| 2.4 | Agreement and Plan of Merger dated as of April 13, 2001, among Jones Apparel Group, Inc., MCN Acquisition Corp. and McNaughton Apparel Group Inc. (incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K dated April 13, 2001). |
| 2.5 | Purchase Agreement dated as of August 7, 2003 between Kasper A.S.L., Ltd. and Jones Apparel Group, Inc. (incorporated by reference to Exhibit 2.1 of our Quarterly Report on Form 10-Q for the nine months ended October 4, 2003). |
| 2.6 | Agreement and Plan of Merger dated as of June 18, 2004, among Jones Apparel Group, Inc., MSC Acquisition Corp. and Maxwell Shoe Company Inc. (incorporated by reference to Exhibit 99.D.3 of Amendment No. 16 to our Schedule TO dated June 21, 2004). |
| 3.1 | Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 1998). |
| 3.2* | Amended and Restated By-Laws. |
| 4.1 | Form of Certificate evidencing shares of common stock of Jones Apparel Group, Inc. (incorporated by reference to Exhibit 4.1 of our Shelf Registration Statement on Form S-3, filed on October 28, 1998 (Registration No. 333-66223)). |
| 4.2 | Exchange and Note Registration Rights Agreement dated June 15, 1999, among Jones Apparel Group, Inc., Bear, Stearns & Co. Inc., Chase Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc., BancBoston Robertson Stephens Inc., Banc of America Securities LLC, ING Baring Furman Selz LLC, Lazard Freres & Co. LLC, Tucker Anthony Cleary Gull, Brean Murray & Co., Inc. and The Buckingham Research Group Incorporated (incorporated by reference to Exhibit 4.5 of our Quarterly Report on Form 10-Q for the six months ended July 4, 1999). |

| <u>Exhibit No.</u> | <u>Description of Exhibit¹</u> |
|--------------------|---|
| 4.3 | Indenture dated as of November 22, 2004, among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Jones Apparel Group USA, Inc., Nine West Footwear Corporation and Jones Retail Corporation, as Issuers and SunTrust Bank, as Trustee, including Form of 4.250% Senior Notes due 2009, Form of 5.125% Senior Notes due 2014 and Form of 6.125% Senior Notes due 2034 (incorporated by reference to Exhibit 4.14 of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004). |
| 4.4 | Form of Exchange and Note Registration Rights Agreement dated November 22, 2004 among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Jones Apparel Group USA, Inc., Nine West Footwear Corporation and Jones Retail Corporation, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Representatives of the Several Initial Purchasers listed in Schedule I thereto, with respect to 4.250% Senior Notes due 2009, 5.125% Senior Notes due 2014 and 6.125% Senior Notes due 2034 (incorporated by reference to Exhibit 4.15 of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004). |
| 4.5 | First Supplemental Indenture dated as of December 31, 2006, by and among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Jones Apparel Group USA, Inc., Nine West Footwear Corporation, Jones Retail Corporation, Kasper, Ltd., as Issuers, and U.S. Bank National Association (as successor in interest to SunTrust Bank), as Trustee, relating to the 4.250% Senior Notes Due 2009, 5.125% Senior Notes due 2014 and 6.125% Senior Notes due 2034 (incorporated by reference to Exhibit 4.7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006). |
| 10.1 | 1991 Stock Option Plan (incorporated by reference to Exhibit 10.5 of our Registration Statement on Form S-1 filed on April 3, 1991 (Registration No. 33-39742)). [†] |
| 10.2 | 1996 Stock Option Plan (incorporated by reference to Exhibit 10.33 of our Annual Report on Form 10-K for the fiscal year ended December 31, 1996). [†] |
| 10.3 | 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005). [†] |
| 10.4 | Form of Agreement Evidencing Stock Option Awards Under the 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004). [†] |
| 10.5 | Form of Agreement Evidencing Restricted Stock Awards Under the 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the three months ended April 2, 2005). [†] |
| 10.6 | Employment Agreement dated as of July 1, 2000, between Jones Apparel Group, Inc. and Sidney Kimmel (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the nine months ended October 1, 2000). [†] |
| 10.7 | Amended and Restated Employment Agreement dated March 11, 2002, between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the three months ended April 6, 2002). [†] |
| 10.8 | Amended and Restated Employment Agreement dated April 4, 2002, between Jones Apparel Group, Inc. and Ira M. Dansky (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the three months ended April 6, 2002). [†] |
| 10.9 | Buying Agency Agreement dated August 31, 2001, between Nine West Group Inc. and Bentley HSTE Far East Services Limited (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the nine months ended October 6, 2001). |
| 10.10 | Buying Agency Agreement dated November 30, 2001, between Nine West Group Inc. and Bentley HSTE Far East Services, Limited (incorporated by reference to Exhibit 10.22 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2001). |

| <u>Exhibit No.</u> | <u>Description of Exhibit[†]</u> |
|--------------------|--|
| 10.11 | Amendment dated February 28, 2003 to the Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.22 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002). [†] |
| 10.12 | Amendment dated February 28, 2003 to the Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Ira M. Dansky (incorporated by reference to Exhibit 10.24 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2002). [†] |
| 10.13 | Amendment No. 2 dated March 8, 2006 to Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated March 8, 2006). [†] |
| 10.14 | Jones Apparel Group, Inc. Deferred Compensation Plan for Outside Directors, as amended and restated (incorporated by reference to Exhibit 10.14 our Annual Report on Form 10-K for the fiscal year ended December 31, 2008). [†] |
| 10.15 | Form of Agreement Evidencing Restricted Stock Awards for Outside Directors Under the 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the three months ended April 2, 2005). [†] |
| 10.16 | Amended and Restated Five-Year Credit Agreement dated as of June 15, 2004, by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners, Wachovia Bank, National Association, as Administrative Agent, Citibank, N.A. and JPMorgan Chase Bank, as Syndication Agents, and Bank of America, N.A., Barclays Bank PLC and Suntrust Bank as Documentation Agents (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the six months ended July 3, 2004). |
| 10.17 | Amendment to the Amended and Restated Five-Year Credit Agreement dated as of November 17, 2004 among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein and Wachovia Bank, National Association as agent for the Lenders (incorporated by reference to Exhibit 10.31 of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004). |
| 10.18 | Amended and Restated Five-Year Credit Agreement dated as of May 16, 2005, by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein, J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Co-Lead Arrangers and Joint Bookrunners, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank and Citibank, N.A., as Syndication Agents, and Bank of America, N.A., Barclays Bank PLC and Suntrust Bank as Documentation Agents (incorporated by reference to Exhibit 10.26 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005). |
| 10.19 | Jones Apparel Group, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.32 of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004). [†] |
| 10.20 | Amendment No. 3 dated April 17, 2007 to Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated April 17, 2007). [†] |
| 10.21 | Summary Sheet of Compensation of Non-Management Directors of Jones Apparel Group, Inc. (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended April 5, 2008). [†] |
| 10.22 | Jones Apparel Group, Inc. Severance Plan, as amended, and Summary Plan Description (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended October 4, 2008). [†] |
| 10.23 | Jones Apparel Group, Inc. 2007 Executive Annual Cash Incentive Plan (incorporated by reference to Annex C of our Proxy Statement for our 2007 Annual Meeting of Stockholders). [†] |

| Exhibit No. | Description of Exhibit¹ |
|--------------------|--|
| 10.24 | Stock Purchase Agreement dated June 22, 2007 among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Barneys New York, Inc., Istithmar Bentley Holding Co. and Istithmar Bentley Acquisition Co. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated June 22, 2007). |
| 10.25 | Amendment No. 4 dated July 12, 2007 to Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated July 11, 2007). [†] |
| 10.26 | Employment Agreement dated as of July 11, 2007 between Jones Apparel Group, Inc. and John T. McClain (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated July 11, 2007). [†] |
| 10.27 | Letter Amendment and Waiver dated July 27, 2007, by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein, and Wachovia Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated July 27, 2007). |
| 10.28 | Letter Amendment and Waiver dated July 27, 2007, by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein, and Wachovia Bank, National Association, as Administrative Agent. (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated July 27, 2007). |
| 10.29 | Amended and Restated Stock Purchase Agreement dated August 8, 2007 among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Barneys New York, Inc., Istithmar Bentley Holding Co. and Istithmar Bentley Acquisition Co. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated August 8, 2007). |
| 10.30 | Master Confirmation dated September 6, 2007 between Jones Apparel Group, Inc. and Goldman, Sachs & Co. relating to accelerated stock repurchase agreement (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated September 6, 2007). |
| 10.31 | Supplemental Confirmation dated September 6, 2007 between Jones Apparel Group, Inc. and Goldman, Sachs & Co. relating to accelerated stock repurchase agreement (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated September 6, 2007). [#] |
| 10.32 | Amendment No. 2 dated December 10, 2007 to Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Ira M. Dansky (incorporated by reference to Exhibit 10.39 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007). [†] |
| 10.33 | Amended and Restated Employment Agreement dated February 20, 2008 between Nine West Footwear Corporation and Andrew Cohen (incorporated by reference to Exhibit 10.40 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007). [†] |
| 10.34 | Amendment No. 3 dated as of June 6, 2008 to the Amended and Restated Five- Year Credit Agreement dated as of June 15, 2004 by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein and Wachovia Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated June 5, 2008). |
| 10.35 | Amendment No. 2 dated as of June 6, 2008 to the Amended and Restated Five- Year Credit Agreement dated as of May 16, 2005 by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein and Wachovia Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated June 5, 2008). |
| 10.36 | Amendment No. 3 dated as of January 5, 2009 to the Amended and Restated Five- Year Credit Agreement dated as of May 16, 2005 by and among Jones Apparel Group USA, Inc., the Additional Obligors referred to therein, the Lenders referred to therein and Wachovia Bank, National Association, as agent for the Lenders (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated December 24, 2008). |

| Exhibit No. | Description of Exhibit¹ |
|--------------------|--|
| 10.37 | Security Agreement dated as of January 5, 2009 by and among Jones Apparel Group USA, Inc., the other Grantors referred to therein and Wachovia Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated December 24, 2008). |
| 10.38 | Assumption Agreement dated as of January 20, 2009 by and among Energie Knitwear, Inc., Jones Apparel Group Canada, LP, Jones Canada, Inc., Jones Apparel Group Canada ULC, Jones Investment Co. Inc., Jones Jeanswear Group, Inc., L.E.I. Group, Inc., Nine West Development Corporation, Victoria + Co. Ltd and Wachovia Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.38 our Annual Report on Form 10-K for the fiscal year ended December 31, 2008). |
| 10.39 | Second Supplemental Indenture dated as of April 15, 2009 between Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Jones Apparel Group USA, Inc., Nine West Footwear Corporation and Jones Retail Corporation, as Issuers, and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated April 15, 2009). |
| 10.40 | Credit Agreement, dated as of May 13, 2009, among Jones Apparel Group, Inc., Jones Apparel Group Holdings, Inc., Jones Apparel Group USA, Inc., Jones Retail Corporation, Nine West Footwear Corporation, Energie Knitwear, Inc., Jones Investment Co. Inc., Jones Jeanswear Group, Inc., L.E.I. Group, Inc., Nine West Development Corporation and Victoria + Co Ltd., as U.S. Borrowers, Jones Apparel Group Canada, LP, as Canadian Borrower, the lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent, JPMorgan Chase Bank, N.A., Toronto Branch, as Canadian administrative agent, JPMorgan Chase Bank, N.A. and General Electric Capital Corporation, as joint collateral agents, Citibank, N.A., as syndication agent, and Bank of America, N.A., Wachovia Bank, National Association and SunTrust Bank, as documentation agents (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated May 13, 2009). |
| 10.41 | Amendment No. 1, dated as of June 2, 2009, to Buying Agency Agreement between Nine West Footwear Corporation and Bentley HSTE Far East Services Limited (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2009). |
| 10.42 | Jones Apparel Group, Inc. 2009 Long Term Incentive Plan (incorporated by reference to Annex B of our Proxy Statement for our 2009 Annual Meeting of Stockholders). [†] |
| 10.43* | Form of Section 409A Amendment to Employment Agreement. [†] |
| 10.44 | Amendment No. 2 dated December 8, 2009 to Employment Agreement between Jones Apparel Group, Inc. and John T. McClain dated as of July 11, 2007 (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated December 8, 2009). [†] |
| 10.45* | Form of Agreement Evidencing Restricted Stock Awards Under the 2009 Long Term Incentive Plan. [†] |
| 10.46* | Form of Agreement Evidencing Restricted Stock Awards for Outside Directors Under the 2009 Long Term Incentive Plan. [†] |
| 10.47 | Employment Agreement dated as of January 31, 2000, between Jones Apparel Group, Inc. and Richard Dickson (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated January 31, 2010). [†] |
| 10.48 | Amendment No. 6 dated as of February 9, 2010 to the Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Wesley R. Card (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K dated February 9, 2010). [†] |
| 10.49 | Amendment No. 4 dated as of February 9, 2010 to the Amended and Restated Employment Agreement between Jones Apparel Group, Inc. and Ira M. Dansky (incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K dated February 9, 2010). [†] |
| 12* | Computation of Ratio of Earnings to Fixed Charges. |
| 21* | List of Subsidiaries. |

| <u>Exhibit No.</u> | <u>Description of Exhibit¹</u> |
|---------------------------|---|
| 23* | Consent of BDO Seidman, LLP. |
| 24* | Powers of Attorney. |
| 31* | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32* | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase |

¹ Exhibits filed with Forms 10-K, 10-Q, 8-K or Schedule 14A of Jones Apparel Group, Inc. were filed under SEC File No. 001-10746.

* Filed herewith.

♦ Furnished herewith.

Portions deleted pursuant to application for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934.

† Management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

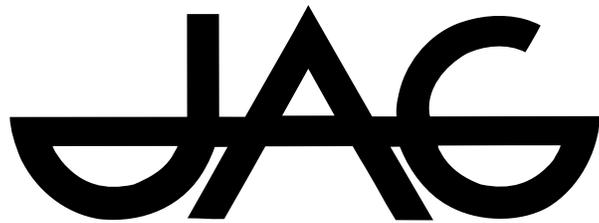
JONES APPAREL GROUP, INC.

Annual Report on Form 10-K

For the Year Ended December 31, 2009

SCHEDULES AND EXHIBITS

The schedules and exhibits to this annual report are listed and briefly described in the Index to Financial Statement Schedules and the Exhibit Index (pages 98 - 103). We will furnish any or all of these schedules or exhibits upon the payment of 25¢ per page (\$10.00 minimum). Any request for schedules and exhibits should be addressed to John T. McClain, Chief Financial Officer, Jones Apparel Group, Inc., 1411 Broadway, New York New York 10018. The request should state which schedules and exhibits are desired, should state that the person making such request was a stockholder on March 23, 2010, and should be accompanied by a remittance payable to Jones Apparel Group, Inc. in the correct amount (at least \$10.00). The Schedules and Exhibits may also be obtained from the electronic filing copy of this document contained in the Securities and Exchange Commission's EDGAR system at www.sec.gov.



JONES APPAREL GROUP



PRINTED ON RECYCLED PAPER