SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PACIFIC SUNWEAR OF CALIFORNIA INC

CIK:**874841**| IRS No.: **953759463** | State of Incorp.:**CA** | Fiscal Year End: **0129**
Type: **10-Q** | Act: **34** | File No.: **000-21296** | Film No.: **081049052**
SIC: **5600** Apparel & accessory stores

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: August 2, 2008

OR

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

Commission file number 0-21296

PACIFIC SUNWEAR OF CALIFORNIA, INC.

(Exact name of registrant as specified in its charter)

California	95-3759463
(State of incorporation)	(I.R.S. Employer Identification No.)

3450 East Miraloma Avenue, Anaheim, CA 92806
(Address of principal executive offices and zip code)

(714) 414-4000
(Registrant' s telephone number)

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

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

Large Accelerated Filer ☑	Accelerated Filer ☐	Non-Accelerated Filer ☐ (Do not Check if a Smaller Reporting Company	Smaller Reporting Company ☐

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

On August 26, 2008, the registrant had 65,706,956 shares of Common Stock outstanding.

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PACIFIC SUNWEAR OF CALIFORNIA, INC.
FORM 10-Q
For the Quarter Ended August 2, 2008

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PACIFIC SUNWEAR OF CALIFORNIA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, all amounts in thousands except share amounts)

	August 2, 2008	February 2, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,560	$ 97,587
Merchandise inventories	229,738	170,182
Other current assets	83,288	52,818
Total current assets	**314,586**	**320,587**
PROPERTY AND EQUIPMENT, NET:		
Gross property and equipment	695,063	688,241
Less accumulated depreciation and amortization	(322,018)	(311,998)
Total property and equipment, net	**373,045**	**376,243**
Other Assets	**39,323**	**55,313**
TOTAL ASSETS	**$ 726,954**	**$ 752,143**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 131,990	$ 62,349
Short-term borrowings	10,780	–
Other current liabilities	68,843	71,107
Total current liabilities	**211,613**	**133,456**
Deferred lease incentives	57,835	74,012
Deferred rent	23,824	27,669
Other long-term liabilities	34,487	33,661
Total liabilities	**327,759**	**268,798**
Commitments and contingencies (Note 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 5,000,000 shares authorized; none issued	–	–
Common stock, $.01 par value; 170,859,375 shares authorized; 64,954,322 and 70,026,510 shares issued and outstanding, respectively	650	700
Additional paid-in capital	–	16,761
Retained earnings	398,545	465,884
Total shareholders' equity	**399,195**	**483,345**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 726,954**	**$ 752,143**

See accompanying footnotes

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PACIFIC SUNWEAR OF CALIFORNIA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE OPERATIONS (unaudited, in thousands except share and per share amounts)

	For the Second Quarter Ended		For the First Half Ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Net sales	$ 312,726	$ 311,775	$ 579,592	$ 579,881
Cost of goods sold, including buying, distribution and occupancy costs	217,468	209,929	408,869	402,837
Gross margin	**95,258**	**101,846**	**170,723**	**177,044**
Selling, general and administrative expenses	90,173	86,933	185,985	163,638
Operating income (loss) from continuing operations	**5,085**	**14,913**	**(15,262)**	**13,406**
Interest income, net	11	541	769	1,510
Income (loss) from continuing operations before income taxes	**5,096**	**15,454**	**(14,493)**	**14,916**
Income tax expense (benefit)	1,388	6,196	(6,232)	5,996
Income (loss) from continuing operations	**3,708**	**9,258**	**(8,261)**	**8,920**
Loss from discontinued operations, net of tax effects	(912)	(19,760)	(26,045)	(24,480)
Net income (loss)	**$ 2,796**	**$ (10,502)**	**$ (34,306)**	**$ (15,560)**
Comprehensive income (loss)	$ 2,796	$ (10,502)	$ (34,306)	$ (15,560)
Income (loss) from continuing operations per share:				
Basic	$ 0.06	$ 0.13	$ (0.12)	$ 0.13
Diluted	**$ 0.06**	**$ 0.13**	**$ (0.12)**	**$ 0.13**
Net income (loss) per share:				
Basic	$ 0.04	$ (0.15)	$ (0.50)	$ (0.22)
Diluted	**$ 0.04**	**$ (0.15)**	**$ (0.50)**	**$ (0.22)**
Weighted average shares outstanding:				
Basic	66,664,245	69,692,827	68,290,024	69,635,543
Diluted	66,704,159	70,064,804	68,290,024	69,986,773

See accompanying footnotes

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PACIFIC SUNWEAR OF CALIFORNIA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	First Half Ended	
	Aug. 2, 2008	Aug. 4, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (34,306)	$ (15,560)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	40,685	38,027
Asset impairment	11,705	9,934
Loss on disposal of property and equipment	1,649	2,263
Non-cash stock based compensation	2,463	3,023
Tax (deficiencies) benefits related to stock-based compensation	(968)	369
Excess tax benefits related to stock-based compensation	–	(344)
Change in operating assets and liabilities:		
Merchandise inventories	(59,556)	(50,871)
Other current assets	(30,470)	(10,699)
Other assets	15,990	(2,996)
Accounts payable	69,641	47,539
Other current liabilities	(4,296)	5,799
Deferred lease incentives	(16,177)	(8,088)
Deferred rent	(3,845)	(1,461)
Other long-term liabilities	818	2,538
Net cash (used in)/provided by operating activities	**(6,667)**	**19,473**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(48,836)	(63,175)
Purchases of available-for-sale marketable securities	–	(122,400)
Sales of available-for-sale marketable securities	–	137,900
Purchases of held-to-maturity marketable securities	–	(23,300)
Net cash used in investing activities	**(48,836)**	**(70,975)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(52,911)	–
Borrowings under credit facility	43,099	–
Principal payments under credit facility	(32,319)	–
Proceeds from exercise of stock options	1,614	1,896
Principal payments under capital lease obligations	(7)	(41)
Borrowing under long-term financing obligation	–	23,300
Excess tax benefits related to stock-based compensation	–	344
Net cash (used in)/provided by financing activities	**(40,524)**	**25,499**
NET DECREASE IN CASH AND CASH EQUIVALENTS:	**(96,027)**	**(26,003)**
CASH AND CASH EQUIVALENTS, beginning of period	97,587	52,267
CASH AND CASH EQUIVALENTS, end of period	**$ 1,560**	**$ 26,264**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1	$ 4
Cash paid for income taxes	$ 311	$ 11,167
SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS:		
Increase in non-cash property and equipment accruals	$ 1,985	$ 760
Capital lease transaction for property and equipment	$ 20	$ 3

See accompanying footnotes

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PACIFIC SUNWEAR OF CALIFORNIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarterly period ended August 2, 2008

(unaudited, all amounts in thousands except share and per share amounts unless otherwise indicated)

1. NATURE OF BUSINESS

Pacific Sunwear of California, Inc. and its subsidiaries (collectively, the "Company," "we," "us," or "our") is a leading lifestyle specialty retailer rooted in the youth culture and fashion vibe of Southern California. We sell casual apparel with a limited selection of accessories and footwear designed to meet the needs of teens and young adults. We operate a nationwide, primarily mall-based chain of retail stores, under the names "Pacific Sunwear" and "Pacific Sunwear Outlet" (as well as "PacSun" and "PacSun Outlet"). In addition, we operate an e-commerce website at www.pacsun.com which sells PacSun merchandise online, provides content and community for our target customers, and provides information about the Company.

2. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rules 5-02 and 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The condensed consolidated financial statements include the accounts of Pacific Sunwear of California, Inc. and its subsidiaries (Pacific Sunwear Stores Corp. and Miraloma Corp.). All intercompany transactions have been eliminated in consolidation.

In the opinion of management, all adjustments consisting only of normal, recurring entries necessary for a fair presentation have been included. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements as well as the reported revenues and expenses during the reporting period. Actual results could differ from these estimates. The results of operations for the first half ended August 2, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2009 ("fiscal 2008"). For further information, refer to the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended February 2, 2008 ("fiscal 2007").

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Information regarding our significant accounting policies is contained in Note 1, "Nature of Business and Summary of Significant Accounting Policies," to the consolidated financial statements in our annual report on Form 10-K for fiscal 2007. Presented below in this and the following notes is supplemental information that should be read in conjunction with "Notes to Consolidated Financial Statements" included in that report.

New Accounting Pronouncements – In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This new standard provides guidance for using fair value to measure assets and liabilities and information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This framework is intended to provide increased consistency in how fair value determinations are made under various existing accounting standards which permit, or in some cases require, estimates of fair market value. SFAS 157 also expands financial statement disclosure requirements about a company' s use of fair value measurements, including the effect of such measures on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, the

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FASB staff has approved a one year deferral for the implementation of SFAS 157 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Non-financial assets and liabilities for which we have not applied the provisions of SFAS 157 include those measured at fair value in goodwill impairment testing and asset impairments under SFAS 144. We adopted this statement for financial assets and liabilities effective February 3, 2008. There was no impact from adoption of this standard on our financial position or results of operations. We do not expect adoption of this standard as it pertains to non-financial assets and liabilities to have a material impact on our financial position or results of operations. See Note 13, “Fair Value Measurements.”

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities” (“SFAS 159”), which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. We adopted SFAS 159 effective February 3, 2008. The adoption of this standard did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations” (“SFAS 141(R)”), which requires us to record fair value estimates of contingent consideration and certain other potential liabilities during the original purchase price allocation, expense acquisition costs as incurred and does not permit certain restructuring activities previously allowed under EITF 95-3 to be recorded as a component of purchase accounting. We will adopt this standard at the beginning of our fiscal year in 2010 for all prospective business acquisitions, if any.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS 160”), which causes non-controlling interests in subsidiaries to be included in the equity section of the balance sheet. We will adopt this standard at the beginning of our fiscal year in 2010. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

4. DISCONTINUED OPERATIONS

During the first quarter of fiscal 2008 ended May 3, 2008, we completed inventory liquidation sales and closed our remaining demo stores. During the fourth quarter of fiscal 2007 ended February 2, 2008, we closed our nine-store footwear concept, One Thousand Steps (“OTS”). Accordingly, the operations of the demo and OTS businesses have been removed from continuing operations and are presented as discontinued operations within our condensed consolidated statements of operations and comprehensive operations for all periods presented. The operating results of the discontinued operations are summarized as follows:

	For the Second Quarter Ended:		For the First Half Ended:	
	Aug. 2, 2008	Aug. 4, 2007	Aug. 2, 2008	Aug. 4, 2007
Net sales	$ –	$ 32,443	$ 27,051	$ 84,922
Income (loss) before income tax benefit	312	(33,499)	(40,135)	(41,159)
Income tax expense (benefit)	1,224	(13,739)	(14,090)	(16,679)
Net loss	(912)	(19,760)	(26,045)	(24,480)
Net loss per share, diluted	$ (0.02)	$ (0.28)	$ (0.38)	$ (0.35)

At August 2, 2008, estimated lease termination liabilities of approximately $4 million remained in accrued liabilities associated with demo stores for which lease termination negotiations had not yet been finalized or paid. We have completed lease termination negotiations for substantially all of the closed stores. All remaining demo assets have been disposed of or written off.

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5. SEGMENT REPORTING

We operate exclusively in the retail apparel industry in which we distribute, design and produce clothing and related products catering to the teen/young adult demographic through primarily mall-based retail stores. In recent years, our operating and reportable segments included the operations of the demo and OTS store concepts. As discussed in Note 4, we are now a "one brand" business (PacSun) having discontinued the demo and OTS businesses. Accordingly, for fiscal 2008, we have identified three operating segments (PacSun, PacSun Outlet, and pacsun.com) as defined by SFAS 131, "Disclosures about Segments of an Enterprise and Related Information." The three operating segments have been aggregated into one reportable segment based on the similar nature of products sold, production, merchandising and distribution processes involved, target customers, and economic characteristics among the three operating segments.

6. STOCK-BASED COMPENSATION

We account for stock-based compensation in accordance with the provisions of SFAS 123(R), "Share-Based Payment." Forfeitures are estimated at the date of grant based on historical rates and reduce the compensation expense to be recognized. The expected terms of options granted are derived from historical data on employee exercises. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the date of grant. Expected volatility is based primarily on the historical volatility of our stock. We record stock-based compensation expense using the graded vesting method over the vesting period, which is generally three to four years. Our stock-based awards generally begin vesting one year after the grant date and, for stock options, expire in seven to ten years or three months after termination of employment with the Company. For the first half of each of fiscal 2008 and 2007, the fair value of our stock-based compensation awards, which includes stock options, non-vested shares, share appreciation rights and shares purchased under our employee stock purchase plan ("ESPP"), was determined using the following weighted average assumptions:

	First Half			
	2008		2007	
	Stock Awards	ESPP	Stock Awards	ESPP
Expected Life	4 years	0.5 years	4 years	0.5 years
Stock Volatility	40.3% - 41.4%	45.4%	34.7% - 35.6%	31.9%
Risk-free Interest Rates	2.3% - 3.0%	3.2%	4.5% - 4.9%	5.0%
Expected Dividends	None	None	None	None

Stock-based compensation expense for each of the first half of fiscal 2008 and 2007 was included in costs of goods sold for our buying and distribution employees ($1 million in each period) and in selling, general and administrative expense for all other employees ($1 million in each period).

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A summary of stock option activity, including share appreciation rights, under our 2005 Performance Incentive Plan for the first half of fiscal 2008 is presented below:

Stock Options/SARs	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Yrs.)	Aggregate Intrinsic Value ($000s)
Outstanding at February 2, 2008	2,821,794	$19.96		
Granted	484,080	13.19		
Exercised	(98,764)	9.55		
Forfeited or expired	(391,652)	20.98		
Outstanding at May 3, 2008	**2,815,458**	**$19.02**	**4.92**	**$958**
Granted	75,000	9.49		
Exercised	(27,734)	9.29		
Forfeited or expired	(281,168)	20.52		
Outstanding at August 2, 2008	**2,581,556**	**$18.69**	**4.93**	**$57**
Vested and expected to vest at August 2, 2008	**2,062,392**	**$19.40**	**4.62**	**$57**
Exercisable at August 2, 2008	**1,479,741**	**$20.05**	**4.17**	**$57**

The weighted-average grant-date fair value of options granted during the first half of each of fiscal 2008 and 2007 was $4.39 and $6.83 per share, respectively. The total intrinsic value of options exercised during the first half of fiscal 2008 and 2007 was $0.4 million and $1.3 million, respectively.

A summary of the status of our non-vested share awards during the first half of fiscal 2008 is presented below:

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at February 2, 2008	769,075	$ 19.01
Granted	276,120	13.19
Vested	(58,690)	21.00
Forfeited	(169,018)	19.16
Outstanding at May 3, 2008	**817,487**	**$ 16.86**
Granted	21,907	9.49
Vested	(40,225)	20.05
Forfeited	(54,240)	16.66
Outstanding at August 2, 2008	**744,929**	**$ 16.55**

As of August 2, 2008, we had approximately $15 million of compensation cost related to non-vested stock option and non-vested share awards, net of estimated forfeitures, not yet recognized. This compensation expense is expected to be recognized over a weighted average period of approximately 2.9 years.

7. EARNINGS PER SHARE

We report earnings per share in accordance with the provisions of SFAS No. 128, “Earnings Per Share.” Basic earnings per common share is computed using the weighted average number of shares outstanding. Diluted earnings per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock or restricted awards. For purposes of calculating diluted earnings per share, incremental shares were excluded for all periods where there is a net loss or loss from continuing operations presented as their effect would have been anti-dilutive.

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The following table summarizes the computation of earnings per share ("EPS"):

Second Quarter Ended:

	August 2, 2008			August 4, 2007		
	Income (loss) from continuing operations	Shares	Per Share Amount	Income (loss) from continuing operations	Shares	Per Share Amount
Basic EPS:	$ 3,708	66,664,245	$ 0.06	$ 9,258	69,692,827	$ 0.13
Effect of dilutive equivalents	–	39,914	(0.00)	–	371,977	(0.00)
Diluted EPS:	$ 3,708	66,704,159	$ 0.06	$ 9,258	70,064,804	$ 0.13

	Net income (loss)	Shares	Per Share Amount	Net income (loss)	Shares	Per Share Amount
Basic EPS:	$ 2,796	66,664,245	$ 0.04	$ (10,502)	69,692,827	$ (0.15)
Effect of dilutive equivalents	–	39,914	(0.00)	–	–	(0.00)
Diluted EPS:	$ 2,796	66,704,159	$ 0.04	$ (10,502)	69,692,287	$ (0.15)

First Half Ended:

	August 2, 2008			August 4, 2007		
	Income (loss) from continuing operations	Shares	Per Share Amount	Income (loss) from continuing operations	Shares	Per Share Amount
Basic EPS:	$ (8,261)	68,290,024	$ (0.12)	$ 8,290	69,635,543	$ 0.13
Effect of dilutive equivalents	–	–	(0.00)	–	351,230	(0.00)
Diluted EPS:	$ (8,261)	68,290,024	$ (0.12)	$ 8,290	69,986,773	$ 0.13

	Net income (loss)	Shares	Per Share Amount	Net income (loss)	Shares	Per Share Amount
Basic EPS:	$ (34,306)	68,290,024	$ (0.50)	$ (15,560)	69,635,543	$ (0.22)
Effect of dilutive equivalents	–	–	(0.00)	–	–	(0.00)
Diluted EPS:	$ (34,306)	68,290,024	$ (0.50)	$ (15,560)	69,635,543	$ (0.22)

Options to purchase 2,653,826 and 1,874,187 shares of common stock in the second quarter of fiscal 2008 and 2007, respectively, and 2,569,068 and 1,890,074 shares of common stock in the first half of fiscal 2008 and 2007, respectively, were not included in the computation of diluted earnings per share because either the option exercise price or the grant date fair value of the non-vested share is greater than the market price of our common stock.

8. OTHER CURRENT ASSETS

As of the dates presented, other current assets consisted of the following:

	August 2, 2008	February 2, 2008
Income taxes receivable	$45,008	$ 5,200
Prepaid expenses	23,337	25,228
Deferred income taxes	9,547	12,179

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Non-trade accounts receivable	5,396	10,211
Total other current assets	**$83,288**	**$ 52,818**

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9. OTHER CURRENT LIABILITIES

As of the dates presented, other current liabilities consisted of the following:

	August 2, 2008	February 2, 2008
Accrued compensation and benefits	$14,164	$21,619
Accrued gift cards	9,471	15,493
Accrued lease terminations	3,904	3,958
Accrued capital expenditures	9,429	7,444
Sales taxes payable	4,674	3,024
Other	27,201	19,569
Total other current liabilities	**$68,843**	**$71,107**

10. CREDIT FACILITY

On April 29, 2008, we entered into a new, asset-backed credit agreement with a syndicate of lenders (the "New Credit Facility") which expires April 29, 2013. The New Credit Facility provides for a secured revolving line of credit of up to $150 million, which can be increased to up to $225 million subject to lender approval. Extensions of credit under the New Credit Facility are limited to a borrowing base consisting of specified percentages of eligible categories of assets. The New Credit Facility is available for direct borrowing and, subject to borrowing base availability, up to $75 million is available for the issuance of letters of credit and up to $15 million is available for swing-line loans. The New Credit Facility is secured by our cash, cash equivalents, deposit accounts, securities accounts, credit card receivables, and inventory. Direct borrowings under the Credit Facility bear interest at the Administrative Agent' s alternate base rate (as defined, 3.7% at August 2, 2008) or at optional interest rates that are primarily dependent upon LIBOR or the Federal Funds Effective Rate for the time period chosen. We had $11 million outstanding under the Credit Facility at August 2, 2008.

The New Credit Facility replaces a $200 million unsecured credit agreement, dated as of September 14, 2005, by and between us and a syndicate of lenders (the "Prior Credit Facility"). The Prior Credit Facility, which was scheduled to mature on September 14, 2010, was terminated concurrently with the execution of the New Credit Facility.

11. COMMITMENTS AND CONTINGENCIES

Litigation - We are involved from time to time in litigation incidental to our business. In connection with the recent closure of our demo stores, landlords have, in some instances, threatened or initiated actions alleging breach of the underlying store leases and seeking to recover remaining lease payments for the duration of the underlying leases. We have completed lease termination negotiations for substantially all of the closed demo stores to address our underlying lease obligations. We believe that the outcome of current and threatened litigation, including litigation relating to the demo store closures, will not likely have a material adverse effect on our results of operations or financial condition.

Letters of Credit - We have issued guarantees in the form of commercial letters of credit, of which there were approximately $38 million outstanding at August 2, 2008, as security for merchandise shipments from overseas. All in-transit merchandise covered by letters of credit is accrued for in accounts payable.

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12. COMMON STOCK REPURCHASE AND RETIREMENT

During fiscal 2008, we have repurchased shares as follows:

Period	# of Shares Purchased	Average Price Paid Per Share	# of Shares Purchased as Part of Publicly Announced Plan	Value of Shares Purchased ($000s)	Maximum Value of Shares that May Yet be Purchased Under the Plan ($000s)
					$ 50,508
April 2008	799,010	$12.83	799,010	$ 10,248	$ 40,260
May 2008	1,280,000	9.26	1,280,000	11,853	$ 28,407
June 2008(1)	2,944,900	9.64	2,944,900	28,384	$ 23
July 2008 (2)	323,634	7.50	323,634	2,427	$ **47,597**
Total	**5,347,544**	**$9.89**	**5,347,544**	**$ 52,912**	

(1) In June 2008, we completed the remainder of our $100 million stock repurchase program announced in May 2006, having repurchased 5,023,910 shares at an average price of $10.05 per share, for approximately $51 million. This repurchase authorization expired when the funds were fully expended.

(2) As announced in July 2008, the Board of Directors has authorized us to repurchase up to $50 million of our common stock. This repurchase authorization does not expire until all authorized funds have been expended.

13. FAIR VALUE MEASUREMENTS

Effective February 3, 2008, we adopted SFAS 157 for financial assets and liabilities. This standard defines fair value, provides guidance for measuring fair value and requires certain disclosures. This standard does not require any new fair value measurements, but rather applies under other accounting pronouncements that require or permit fair value measurements.

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

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity' s own assumptions.

As of August 2, 2008, we held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These included cash equivalents and deferred compensation assets and liabilities associated with our Executive Deferred Compensation Plan (the "Executive Plan"). Our investments associated with cash equivalents consist of money market funds for which market prices are readily available. Our Executive Plan covers Company officers and is funded by participant contributions and periodic Company discretionary contributions. The investments held by us are included in other assets and are intended to cover the vested participant balances in the Executive Plan. These deferred compensation asset investments are classified as trading securities and are stated at fair market value in accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." Fair value is determined by the most recent publicly quoted market price of the securities at the balance sheet date. Vested participant balances are included in other long-term liabilities.

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The following table represents our fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of August 2, 2008:

	Fair Value Measurements at August 2, 2008			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents	$ –	$ –	–	–
Deferred compensation assets	7,051	7,051	–	–
Total Assets	$ 7,051	$ 7,051	–	–
Liabilities:				
Deferred compensation liabilities	$ 4,280	$ 4,280	–	–
Total Liabilities	$ 4,280	$ 4,280	–	–

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ITEM 2 – MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF CONSOLIDATED OPERATIONS

The following management' s discussion and analysis of financial condition and results of consolidated operations ("MD&A") should be read in conjunction with our condensed consolidated financial statements and notes thereto included elsewhere in this Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

This report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and we intend that such forward-looking statements be subject to the safe harbors created thereby. We are hereby providing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in the forward-looking statements contained herein. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions, future events or performance (often, but not always identifiable by the use of words or phrases such as "will result," "expects to," "will continue," "anticipates," "plans," "intends," "estimated," "projects" and "outlook") are not historical facts and may be forward-looking and, accordingly, such statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in the forward-looking statements. Examples of forward-looking statements in this report include, but are not limited to, the following categories of expectations about:

- forecasts of future store closures, including planned fiscal 2008 closures
- the sufficiency of working capital, operating cash flows and available credit to meet our operating and capital expenditure requirements
- expectations regarding our capital expenditure plans for fiscal 2008
- expectations regarding future borrowings and repayments under our credit facility and cash holdings at fiscal year-end
- the outcome of current and threatened litigation including litigation relating to the demo store closures
- expectations regarding future increases in CAM expenses

All forward-looking statements included in this report are based on information available to us as of the date hereof, and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. See Item 1A, Risk Factors, in this report for a discussion of these risks and uncertainties. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made.

Executive Overview

We consider the following items to be key performance indicators in evaluating our performance:

Comparable (or "same store") sales – Stores are deemed comparable stores on the first day of the month following the one-year anniversary of their opening or expansion/relocation. We consider same store sales to be an important indicator of our current performance. Same store sales results are important in achieving operating leverage of certain expenses such as store payroll, store occupancy, depreciation, general and administrative expenses, and other costs that are somewhat fixed. Positive same store sales results generate greater operating leverage of expenses while negative same store sales results negatively impact operating leverage. Same store sales results also have a direct impact on our total net sales, cash, and working capital.

Net merchandise margins – We analyze the components of net merchandise margins, specifically initial markups and markdowns as a percentage of net sales. Any inability to obtain acceptable levels of initial markups or any significant increase in our use of markdowns could have an adverse impact on our gross margin results and results of operations.

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Operating margin – We view operating margin as a key indicator of our success. The key drivers of operating margins are comparable store net sales, net merchandise margins, and our ability to control operating expenses. For a discussion of the changes in the components comprising operating margins during fiscal 2008 and 2007, see "Results of Operations" in this section.

Store sales trends – We evaluate store sales trends in assessing the operational performance of our store expansion strategies. Important store sales trends include average net sales per store and average net sales per square foot. Average net sales per store for fiscal 2007 were $1.3 million. Average net sales per square foot for fiscal 2007 were approximately $350.

Cash flow and liquidity (working capital) – We evaluate cash flow from operations, liquidity and working capital to determine our short-term operational financing needs. As a result of lease termination payments associated with the discontinued demo concept, share repurchases made during the first half of fiscal 2008 and losses from continuing operations, we anticipate having short-term borrowings under our credit facility at the end of the third quarter of fiscal 2008. We expect to repay these temporary borrowings during the fourth quarter from cash flows from operations and end fiscal 2008 with approximately $50-$60 million in cash.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reported period. Actual results could differ from these estimates. The accounting policies that we believe are the most critical to aid in fully understanding and evaluating reported financial results include the following:

Recognition of Revenue – Sales are recognized upon purchase by customers at our retail store locations or upon delivery to and acceptance by the customer for orders placed through our website. We accrue for estimated sales returns by customers based on historical sales return results. Actual return rates have historically been within our expectations and the reserves established. However, in the event that the actual rate of sales returns by customers increased significantly, our operational results could be adversely affected. We record the sale of gift cards as a current liability and recognize a sale when a customer redeems a gift card. The amount of the gift card liability is determined taking into account our estimate of the portion of gift cards that will not be redeemed or recovered ("gift card breakage"). Gift card breakage is recognized as revenue after 24 months, at which time the likelihood of redemption is considered remote based on our historical redemption data.

Valuation of Inventories – Merchandise inventories are stated at the lower of average cost or market utilizing the retail method. At any given time, inventories include items that have been marked down to management' s best estimate of their fair market value. We base the decision to mark down merchandise primarily upon its current rate of sale and the age of the item, among other factors. To the extent that our estimates differ from actual results, additional markdowns may have to be recorded, which could reduce our gross margins and operating results.

Determination of Stock-Based Compensation Expense – Stock-based compensation expense is determined according to the fair value recognition provisions of SFAS 123(R), "Share Based Payment," using the modified prospective transition method. Under this method, we recognize compensation expense for all stock-based compensation awards granted after January 28, 2006 and prior to, but not yet vested as of, January 28, 2006, in accordance with SFAS 123(R). Under the fair value recognition provisions of SFAS 123(R), we recognize stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest using the graded vesting method over the requisite service period of the award.

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Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards require the input of highly subjective assumptions, including the expected life of the stock-based compensation awards and stock price volatility. We use the Black-Scholes option-pricing model to determine compensation expense. The assumptions used in calculating the fair value of stock-based compensation awards represent management' s best estimates, but the estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. See "Stock-Based Compensation" within Note 6 to the condensed consolidated financial statements for a further discussion on stock-based compensation.

Store Operating Lease Accounting – Rent expense from store operating leases represents one of the largest expenses incurred in operating our stores. We account for store rent expense in accordance with SFAS 13, "Accounting for Leases," and FASB Technical Bulletin 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." Accordingly, rent expense under our store operating leases is recognized on a straight-line basis over the original term of each store' s lease, inclusive of rent holiday periods during store construction and exclusive of any lease renewal options. Pre-opening rent is expensed in accordance with FASB Staff Position 13-1, "Accounting for Rental Costs Incurred during a Construction Period." We account for landlord allowances received in connection with store operating leases in accordance with SFAS 13, "Accounting for Leases," and FASB Technical Bulletin 88-1, "Issues Relating to Accounting for Leases." Accordingly, all amounts received from landlords to fund tenant improvements are recorded as a deferred lease incentive liability, which is then amortized as a credit to rent expense over the related store' s lease term.

Evaluation of Long-Lived Assets – In the normal course of business, we acquire tangible and intangible assets. We periodically evaluate the recoverability of the carrying amount of our long-lived assets (including property, plant and equipment, and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. Impairment is assessed when the undiscounted expected future cash flows derived from an asset or asset group are less than its carrying amount. The amount of impairment loss recognized is equal to the difference between the carrying value and the estimated fair value of the asset, with such estimated fair values determined using the best information available, generally the discounted future cash flows of the assets using a rate that approximates our weighted average cost of capital. Impairments are recognized in operating earnings. We use our best judgment based on the most current facts and circumstances surrounding our business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on our assessment of recoverability. Numerous factors, including changes in our business, industry segment, and the global economy, could significantly impact our decision to retain, dispose of, or idle certain of our long-lived assets.

The estimation of future cash flows from operating activities requires significant estimates of factors that include future sales growth and gross margin performance. If our sales growth, gross margin performance or other estimated operating results are not achieved at or above our forecasted level, the carrying value of certain of our retail stores may prove unrecoverable and we may incur additional impairment charges in the future.

Evaluation of Insurance Reserves – We are responsible for workers' compensation and medical insurance claims up to a specified aggregate stop loss amount. We maintain reserves for estimated claims, both reported and incurred but not reported, based on historical claims experience and other estimated assumptions. Actual claims activity has historically been within our expectations and the reserves established. To the extent claims experience or our estimates change, additional charges may be recorded in the future up to the aggregate stop loss amount for each policy year.

Evaluation of Income Taxes – Current income tax expense is the amount of income taxes expected to be payable for the current reporting period. The combined federal and state income tax expense was calculated using estimated effective annual tax rates. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of

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assets and liabilities. We consider future taxable income and ongoing prudent and feasible tax planning in assessing the value of our deferred tax assets. Evaluating the value of these assets is necessarily based on our judgment. If we determined that it was more likely than not that the carrying value of these assets would not be realized, we would reduce the value of these assets to their expected realizable value through a valuation allowance, thereby decreasing net income. If we subsequently determined that the carrying value of these assets, which had been written down, would be realized in the future, the value of the deferred tax assets would be increased, thereby increasing net income in the period when that determination was made.

Evaluation of Litigation Matters – We are involved from time to time in litigation incidental to our business. We believe that the outcome of current litigation will not likely have a material adverse effect on our results of operations or financial condition and, from time to time, we may make provisions for probable litigation losses. Depending on the actual outcome of pending litigation, charges in excess of any provisions could be recorded in the future, which may have an adverse effect on our operating results.

Results of Operations

The following table sets forth selected income statement data from continuing operations expressed as a percentage of net sales for the periods indicated. The table and discussion that follows excludes the operations of our demo concept which was discontinued during the first quarter of fiscal 2008 and our One Thousand Steps concept which was discontinued during fiscal 2007. The discussion that follows should be read in conjunction with the following table:

	Second Quarter Ended		First Half Ended	
	Aug. 2, 2008	Aug. 4, 2007	Aug. 2, 2008	Aug. 4, 2007
Net sales	100.0 %	100.0%	100.0%	100.0%
Cost of goods sold, including buying, distribution and occupancy costs	69.5	67.3	70.5	69.5
Gross margin	30.5	32.7	29.5	30.5
Selling, general and administrative expenses	28.8	27.9	32.1	28.2
Operating income (loss) from continuing operations	1.6	4.8	(2.6)	2.3
Interest income, net	0.0	0.2	0.1	0.3
Income (loss) from continuing operations before income taxes	1.6	5.0	(2.5)	2.6
Income tax expense (benefit)	0.4	2.0	(1.1)	1.0
Income (loss) from continuing operations	1.2 %	3.0 %	(1.4)%	1.5 %

The following table sets forth the number of stores and total square footage as of the dates indicated for PacSun and PacSun Outlet only:

	August 2, 2008	August 4, 2007
PacSun stores	815	840
Outlet stores	123	117
Total stores	938	957
Square footage (in 000' s)	3,596	3,653

During the first quarter of fiscal 2008, we closed our remaining 153 demo stores which comprised a total of approximately 438,000 square feet. During fiscal 2007, we closed 74 demo stores and all nine of our One Thousand Steps stores.

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The second quarter (thirteen weeks) ended August 2, 2008 as compared to the second quarter (thirteen weeks) ended August 4, 2007

Net Sales

Net sales increased to $313 million for the second quarter of fiscal 2008 from $312 million for the second quarter of fiscal 2007. The components of this increase in net sales are as follows:

$ millions	Attributable to
$ 9	Non-comparable sales from new, expanded or relocated stores not yet included in the comparable store base and internet net sales
(5)	Decrease in sales due to store closures
(3)	(1.0)% decrease in comparable store net sales in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007. In percentage terms, the average sale transaction in a comparable store was down 4% partially offset by a 3% increase in total transactions
$ 1	**Total**

Within PacSun and PacSun Outlet, comparable store net sales of Juniors and Young Mens apparel were up 26% and 2%, respectively. Juniors comparable store net sales results were characterized by strength in Bullhead denim, tops and dresses partially offset by weakness in shorts. Young Mens comparable store net sales results were characterized by strength in Bullhead denim and knits offset by weakness in swim and wovens. Comparable store net sales of non-apparel was down 35% from last year primarily due to our shift in strategy to become more apparel focused.

Gross Margin

Gross margin, including buying, distribution and occupancy costs, was $95 million for the second quarter of fiscal 2008 versus $102 million for the second quarter of fiscal 2007. As a percentage of net sales, gross margin was 30.5% for the second quarter of fiscal 2008 compared to 32.7% for the second quarter of fiscal 2007. The components of this decrease in gross margin as a percentage of net sales were as follows:

%	Attributable to
(1.9)	Decline in merchandise margin due to increased markdowns associated with sales promotions
(0.8)	Deleverage of occupancy costs as a result of the negative one percent same-store sales result for the second quarter of fiscal 2008
0.3	Decrease in distribution expenses of $1 million due to the consolidation of our distribution function in the first quarter of fiscal 2008
0.2	Decrease in buying costs
(2.2)	**Total**

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased to $90 million for the second quarter of fiscal 2008, up from $87 million for the second quarter of fiscal 2007, an increase of $3 million, or 3%. These expenses increased to 28.8% as a percentage of net sales in the second quarter of fiscal 2008 from 27.9% in the second quarter of fiscal 2007. The components of this increase in SG&A expenses as a percentage of net sales were as follows:

%	Attributable to
0.8	$3 million increase in depreciation expense, primarily due to the impact of accelerated depreciation associated with store closures and relocations, and new depreciation on existing stores from our refresh program
0.7	$2 million increase in store impairment charges
(0.6)	$2 million decrease in other SG&A expenses, primarily in payroll and payroll-related expenses
0.9	**Total**

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Net Interest Income

Net interest income was de minimis for the second quarter of fiscal 2008 compared to approximately $0.5 million for the second quarter of fiscal 2007. The decrease in fiscal 2008 was primarily the result of lower average cash balances in the second quarter of fiscal 2008 as compared to the second quarter of fiscal 2007 due to stock repurchases and the payment of demo lease terminations during fiscal 2008.

Income Taxes

We recognized income tax expense of $1 million for the second quarter of fiscal 2008 compared to $6 million for the second quarter of fiscal 2007. The effective income tax rate was 27.2% in the second quarter of fiscal 2008 versus 40.1% in the second quarter of fiscal 2007. The effective income tax rate in the second quarter of fiscal 2008 reflects the tax impact of an increase in the overall effective tax rate for fiscal 2008 from 38.9% to 43.0% based on lower projected annual income. Our weighted average effective state income tax rate will vary over time depending on a number of factors, such as differing average income tax rates and net incomes in the respective states.

The first half (26 weeks) ended August 2, 2008 as compared to the first half (26 weeks) ended August 4, 2007

Net Sales

Net sales were $580 million for the first half of each of fiscal 2008 and fiscal 2007. The components resulting in net sales remaining flat are as follows:

$ millions	Attributable to
$ 17	Non-comparable sales from new, expanded or relocated stores not yet included in the comparable store base and internet net sales
(12)	Decrease in sales due to store closures
(5)	(1.0)% decrease in comparable store net sales in the first half of fiscal 2008 compared to the first half of fiscal 2007. In percentage terms, the average sale transaction in a comparable store was down 2% partially offset by a 1% increase in total transactions
$–	**Total**

Within PacSun and PacSun Outlet, comparable store net sales of Juniors and Young Mens apparel were up in the first half of fiscal 2008 by 25% and 3%, respectively. Juniors comparable store net sales results were characterized by strength in Bullhead denim, tops and dresses partially offset by weakness in shorts. Young Mens comparable store net sales results were characterized by strength in Bullhead denim, fleece jackets and tees offset by weakness in swim and wovens. Comparable store net sales of non-apparel was down 33% from last year primarily due to our shift in strategy to become more apparel focused.

Gross Margin

Gross margin, after buying, distribution and occupancy costs, decreased to $171 million for the first half of fiscal 2008 from $177 million for the first half of fiscal 2007, a decrease of $6 million, or 4%. As a percentage of net sales, gross margin was 29.5% for the first half of fiscal 2008 compared to 30.5% for the first half of fiscal 2007. The decrease in gross margin as a percentage of net sales was primarily attributable to the following:

%	Attributable to
(1.0)	Deleverage of occupancy costs as a result of the negative one percent same-store sales result for the first half of fiscal 2008
0.2	Increase in merchandise margins primarily due to increased higher initial markups
(0.2)	Increase in buying costs
(1.0)	**Total**

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Selling, General and Administrative Expenses

Selling, general and administrative expenses (“SG&A”) increased to $186 million for the first half of fiscal 2008 from $164 million for the first half of fiscal 2007, an increase of $22 million, or 12.9%. These expenses increased to 32.1% as a percentage of net sales in the first half of fiscal 2008 from 28.2% in the first half of fiscal 2007. The components of this net increase in SG&A as a percentage of net sales were as follows:

%	Attributable to
1.8	$11 million increase in asset impairment charges including $8 million from the materials handling equipment in our closed Anaheim distribution center and $3 million from store impairments
0.9	$5 million increase in depreciation expense, primarily due to the impact of accelerated depreciation associated with store closures and relocations and new depreciation on existing stores from our refresh program
0.8	$4 million increase in payroll due to a $2 million increase in our home office due to the carryover impact of prior year hires and a $2 million increase in store payroll primarily due to the impact of minimum wage increases enacted during fiscal 2007
0.2	$1 million net increase in legal and related dispute settlement expenses
0.2	$1 million net increase in other SG&A expenses
3.9	**Total**

Net Interest Income

Net interest income was $0.8 million in the first half of fiscal 2008 compared to $1.5 million in the first half of fiscal 2007. Interest income was lower in the first half of fiscal 2008 due to the Company having lower average cash and short-term investment balances compared to the prior year due to stock repurchases and the payment of demo lease terminations.

Income Taxes

The Company had a net income tax benefit of approximately $6 million for the first half of fiscal 2008 compared to income tax expense of $6 million for the first half of fiscal 2007 due to the net loss sustained by the Company during the first half of fiscal 2008. The effective income tax rate was 43% in the first half of fiscal 2008 as compared to 40.2% in the first half of fiscal 2007. The increase in the effective income tax rate was primarily attributable to lower projected annual income for fiscal 2008. Our weighted average effective state income tax rate will vary over time depending on a number of factors, such as differing average income tax rates and net incomes in the respective states.

Liquidity and Capital Resources

We have historically financed our operations primarily from internally generated cash flow, with occasional short-term and long-term borrowings and equity financing in past years. Our primary capital requirements have been for the construction of newly opened, refreshed, expanded or relocated stores, the financing of inventories and, in the past, construction of corporate facilities. As a result of lease termination payments associated with the discontinued demo concept, share repurchases in the first half of fiscal 2008 and losses from continuing operations, we anticipate having short-term borrowings under our credit facility at the end of the third quarter of fiscal 2008. We expect to repay these temporary borrowings during the remainder of fiscal 2008 from cash flows from operations and end fiscal 2008 with approximately $50-$60 million in cash. We believe that our working capital, cash flows from operations and available credit will be sufficient to meet our operating and capital expenditure requirements for at least the next twelve months.

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Operating Cash Flows

Net cash used in operating activities was $7 million for the first half of fiscal 2008 compared to cash provided by operating activities of $19 million for the first half of fiscal 2007. The $26 million decrease in operating cash flows in the first half of fiscal 2008 as compared to the first half of fiscal 2007 was largely attributable to the impact of the discontinued demo concept (see Note 4 to the condensed consolidated financial statements). Additional details regarding the decrease in cash from operating activities are as follows:

$ millions	Attributable to
$ (20)	Decrease in cash flows related to other current assets, primarily due to increased income tax receivables attributable to the losses from continuing operations and discontinued demo concept
(19)	Higher net loss due to losses from continuing operations and the discontinued demo concept
19	Increase in cash flows related to other assets, primarily due to a decrease in deferred tax assets associated with the discontinued demo concept
13	Increase in cash flows from accounts payable, net of inventory, due to timing of payments and reductions in overall inventory levels versus the second quarter of last year primarily due to the closing of the demo concept
(8)	Decrease in cash flows from deferred lease incentives primarily due to repayments of unamortized lease incentive balances to landlords in conjunction with lease terminations associated with our discontinued demo concept
(11)	Decrease in cash flows from other changes in working capital items
$ (26)	**Total**

Working Capital

Working capital at August 2, 2008 was $103 million compared to $187 million at February 2, 2008, a decrease of $84 million. The changes in working capital were as follows:

$ millions	Description
$ 187	**Working capital at February 2, 2008**
(96)	Decrease in cash and cash equivalents, primarily due to the payment of demo lease terminations, stock repurchases and the net losses incurred in the first half of fiscal 2008, among other items (see cash flows statement)
(10)	Increase in accounts payable, net of inventories, due to timing of payments and reduced inventory levels primarily due to the closing of the demo concept
(11)	Increase in short-term borrowings under credit facility
33	Net increase in working capital attributable to other current assets and liabilities
$ 103	**Working capital at August 2, 2008**

Investing Cash Flows

Net cash used in investing activities in the first half of fiscal 2008 was $49 million compared to $71 million for the first half of fiscal 2007, a decrease in cash used of $22 million. Investing cash flows for the first half of fiscal 2008 were comprised entirely of capital expenditures of $49 million. In the first half of fiscal 2007, capital expenditures were $63 million offset by net maturities of marketable securities of $8 million. Capital expenditures were predominantly for the opening of refreshed, relocated and expanded stores. We expect total capital expenditures for fiscal 2008 to range from $80 to $85 million.

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Financing Cash Flows

Net cash used in financing activities in the first half of fiscal 2008 was $41 million compared to cash provided of $25 million in the first half of fiscal 2007. In the first half of fiscal 2008, we repurchased and retired $53 million of common stock, offset by net borrowings under our credit facility of $11 million and $2 million of proceeds from employee exercises of stock options. In the first half of 2007, we completed an industrial revenue bond transaction associated with our Olathe, Kansas distribution center which resulted in a cash inflow of $23 million and we received $2 million in proceeds from employee exercises of stock options.

Credit Facility

On April 29, 2008, we entered into a new, asset-backed credit agreement with a syndicate of lenders (the “New Credit Facility”) which expires April 29, 2013. The New Credit Facility provides for a secured revolving line of credit of up to $150 million, which can be increased to up to $225 million subject to lender approval. Extensions of credit under the New Credit Facility are limited to a borrowing base consisting of specified percentages of eligible categories of assets. The New Credit Facility is available for direct borrowing and, subject to borrowing base availability, up to $75 million is available for the issuance of letters of credit and up to $15 million is available for swing-line loans. The New Credit Facility is secured by our cash, cash equivalents, deposit accounts, securities accounts, credit card receivables, and inventory. Direct borrowings under the New Credit Facility bear interest at the Administrative Agent’ s alternate base rate (as defined, 3.7% at August 2, 2008) or at optional interest rates that are primarily dependent upon LIBOR or the Federal Funds Effective Rate for the time period chosen. We had $11 million outstanding under the New Credit Facility at August 2, 2008.

The New Credit Facility replaces a $200 million unsecured credit agreement, dated as of September 14, 2005, by and between the Company and a syndicate of lenders (the “Prior Credit Facility”). The Prior Credit Facility, which was scheduled to mature on September 14, 2010, was terminated concurrently with the execution of the New Credit Facility.

Contractual Obligations

We have minimum annual rental commitments under existing store leases as well as a minor amount of capital leases for computer equipment. We lease all of our retail store locations under operating leases. We lease equipment, from time to time, under both capital and operating leases. In addition, at any time, we are contingently liable for commercial letters of credit with foreign suppliers of merchandise. At August 2, 2008, our future financial commitments under all existing contractual obligations related to our PacSun and PacSun Outlet businesses were as follows:

	Payments Due by Period (in $ millions)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations	$ 572	$ 94	$ 178	$ 134	$ 166
Capital lease obligations	<0.1	<0.1	–	–	–
FIN 48 obligations including interest and penalties	2	–	2	–	–
Letters of credit	38	38	–	–	–
Total	**$ 612**	**$ 132**	**$ 180**	**$ 134**	**$ 166**

In addition to the commitments in the table above, minimum future rental commitments under demo operating leases that have not yet been terminated were $15 million as of August 2, 2008. In lieu of paying these rental commitments, we currently expect to make cash payments of approximately $4 million during

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fiscal 2008 to terminate the remaining demo store leases. We have completed lease termination negotiations for substantially all of the closed demo stores. The actual amount and timing of payments to be made by us in connection with the closing of the demo stores may be different than the estimated amounts as we cannot predict with certainty the actual costs or timing of terminating the leases.

We expect a significant number of store operating leases (90-150 per year) to reach the end of their original lease term in each of the next 5 years. These leases will need to be renewed, extended or allowed to expire. As a result, actual future rental commitments may be significantly higher than that shown in the table above due to newly adjusted lease rates for renewals or extensions that are more expensive than current lease rates on expiring leases.

The contractual obligations table above does not include common area maintenance (CAM) charges, which are also a required contractual obligation under our store operating leases. In many of our leases, CAM charges are not fixed and can fluctuate significantly from year to year for any particular store. Total PacSun and PacSun Outlet store rental expenses, including CAM, were $158 million for fiscal 2007. We expect total CAM expenses to continue to increase due to annual inflationary adjustments and as long-term leases come up for renewal at current market rates in excess of original lease terms.

Operating Leases − We lease our retail stores and certain equipment under operating lease agreements expiring at various dates through January 2020. Substantially all of our retail store leases require us to pay CAM charges, insurance, property taxes and percentage rent ranging from 5% to 7% based on sales volumes exceeding certain minimum sales levels. The initial terms of such leases are typically 8 to 10 years, many of which contain renewal options exercisable at our discretion. Most leases also contain rent escalation clauses that come into effect at various times throughout the lease term. Rent expense is recorded under the straight-line method over the life of the lease. Other rent escalation clauses can take effect based on changes in primary mall tenants throughout the term of a given lease. Most leases also contain cancellation or kick-out clauses in our favor that relieve us of any future obligation under a lease if specified sales levels are not achieved by a specified date. None of our retail store leases contain purchase options.

We review the operating performance of our stores on an ongoing basis to determine which stores, if any, to refresh, expand, relocate or close. We closed 25 PacSun stores in fiscal 2007 and currently anticipate closing approximately 35-40 PacSun stores in fiscal 2008.

Indemnifications

In the ordinary course of business, we may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of our breach of agreements, services to be provided by us, or intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain of our officers that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and officers in certain circumstances.

It is not possible to determine our maximum potential liability under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, we have not incurred material costs as a result of obligations under these agreements.

New Accounting Pronouncements

Information regarding new accounting pronouncements is contained in Note 3 to the condensed consolidated financial statements for the quarter ended August 2, 2008, which note is incorporated herein by this reference.

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Inflation

We do not believe that inflation has had a material effect on our results of operations in the recent past. There can be no assurance that our business will not be affected by inflation in the future.

Seasonality and Quarterly Results

Our business is seasonal by nature. Our first quarter historically accounts for the smallest percentage of annual net sales with each successive quarter contributing a greater percentage than the last. In recent years, excluding sales generated by new and relocated/expanded stores, approximately 44% of our net sales have occurred in the first half of the fiscal year and approximately 56% have occurred in the second half, with the Christmas and back-to-school selling periods together accounting for approximately 30% of our annual net sales and a higher percentage of our operating income. Our quarterly results of operations may also fluctuate significantly as a result of a variety of factors, including the timing of store openings; the amount of revenue contributed by new stores; the timing and level of markdowns; the timing of store closings, refreshes, expansions and relocations; competitive factors; calendar shifts that impact holiday and back to school selling periods; weather conditions; and general economic conditions.

ITEM 3 − QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are susceptible to market value fluctuations with regard to our short-term investments. However, due to the relatively short maturity period of those investments and our intention and ability to hold those investments until maturity, the risk of material market value fluctuations is not expected to be significant.

To the extent we borrow under our credit facility, we are exposed to market risk related to changes in interest rates. At August 2, 2008, there were $11 million in borrowings outstanding under our credit facility. We did not borrow under the credit facility at any time during fiscal 2007. Based on the interest rate of 3.7% on our credit facility at August 2, 2008, if interest rates on the credit facility were to increase by 10%, for every $1 million outstanding on our credit facility, net income would be reduced by approximately $2 thousand per year. We are not a party with respect to derivative financial instruments.

ITEM 4 − CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). These disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our periodic reports filed with the Commission is recorded, processed, summarized and reported within the time periods specified by the Commission’ s rules and forms. Our disclosure controls and procedures are also designed to provide reasonable assurance that information required to be disclosed in the periodic reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, in order to allow timely decisions regarding required disclosures. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of August 2, 2008.

No change in our internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II − OTHER INFORMATION

Item 1 − Legal Proceedings

For information on legal proceedings, see “Litigation” within Note 11 to the condensed consolidated financial statements for the quarter ended August 2, 2008, which is incorporated by reference in response to this Item 1.

Item 1A − Risk Factors

We have updated the risk factors discussed in Item 1A of our Annual Report on Form 10-K for the year ended February 2, 2008. We do not believe any of the updates constitute material changes from the risk factors previously disclosed in that report. For convenience, our risk factors, as updated, are included below in this Item 1A.

Our comparable store net sales results will fluctuate significantly, which can cause volatility in our operating performance and stock price. Our comparable store net sales results have fluctuated significantly on a monthly, quarterly, and annual basis, and are expected to continue to fluctuate in the future. For example, over the past five years, monthly comparable store net sales results for our PacSun and PacSun Outlet stores have varied from a low of minus 16% to a high of plus 18%. A variety of factors affect our comparable store net sales results, including changes in fashion trends and customer preferences, changes in our merchandise mix, calendar shifts of holiday periods, actions by competitors, weather conditions and general economic conditions. Our comparable store net sales results for any particular fiscal month, quarter or year may decrease. As a result of these or other factors, our comparable store net sales results, both past and future, are likely to have a significant effect on the market price of our common stock and our operating performance, including our use of markdowns and our ability to leverage operating and other expenses that are somewhat fixed.

Our failure to identify and respond appropriately to changing consumer preferences and fashion trends in a timely manner could have a material adverse impact on our business and profitability. Our success is largely dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise at competitive prices and in adequate quantities that satisfies customer demand in a timely manner. Our failure to anticipate, identify or react appropriately in a timely manner to changes in fashion trends could have a material adverse effect on our same store sales results, gross margins, operating margins, financial condition and results of operations. Misjudgments or unanticipated fashion changes could also have a material adverse effect on our image with our customers. Some of our vendors have limited resources, production capacities and operating histories and some have intentionally limited the distribution of their merchandise. The inability or unwillingness on the part of key vendors to expand their operations to keep pace with the anticipated growth of our store concepts, or the loss of one or more key vendors or proprietary brand sources for any reason, could have a material adverse effect on our business.

We have stated our intention to place a greater emphasis on apparel, juniors merchandise, and the proprietary brand penetration within the juniors category in our merchandising assortments than we have in the past, which may not be successful in improving our store productivity or profitability. Our goal is to improve the productivity of our stores in terms of sales per square foot and the profitability of our business as a whole by placing a greater emphasis on apparel, juniors merchandise, and the proprietary brand penetration within the juniors category in our merchandising assortments than we have in the past. It is uncertain that this shift in merchandising strategy will result in higher sales per square foot in our stores or improved operating margins for our business as a whole. The failure of these strategies to improve sales per square foot and profitability could have a material adverse impact on our business, financial condition, results of operations and stock price.

We continue to reinvest in our existing store fleet, which may not result in improved operating performance. We believe that store design is an important element in the customer shopping experience. Many of our stores have been in operation for many years and have not been updated or renovated since opening. Some of our competitors are in the process of updating, or have updated, their store designs, which may make our stores appear less attractive in comparison. We have been reinvesting in our stores in an attempt to update the look of our stores and improve their productivity. This process carries additional

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risks such as higher than anticipated construction costs, lack of customer acceptance, and lower store productivity than planned or anticipated, among others. There can be no assurance that this process will prove successful in improving operational results or that we can achieve meaningful results in an adequate timeframe. Any inability on our part to successfully implement new store designs in a timely manner could have a material adverse effect on our business, financial condition and results of operations.

Our continued growth depends, in part, on our ability to develop new store concepts and/or open and operate new/existing stores that achieve acceptable levels of profitability. Any failure to do so may negatively impact our stock price and operational performance. Our store concepts are located principally in enclosed regional shopping malls. Our PacSun concept is a relatively mature concept with limited domestic opportunities to open new stores in such malls. There can be no assurance that we will be able to successfully develop new store concepts that will enable us to continue to grow profitably. Any new store concept could divert significant management attention from our core PacSun business. Any inability to sustain future long-term growth opportunities could have a material adverse impact on our business, stock price, financial condition and results of operations.

Any deterioration in consumer spending due to macro-economic issues that are beyond our control can have a material adverse impact on our results of operations, liquidity and stock price. Recently, the macro-economic environment has been highly volatile due to negative news regarding a variety of factors, including but not limited to, the deterioration of the housing market, lack of credit availability, rising fuel prices, inflation fears, and significant stock market volatility. A quarter of our store base is concentrated in the California, Florida and the Desert Southwest regions which have recently experienced significant economic deterioration. Any or all of these factors, as well as other unforeseen factors, could have a significant negative impact on consumer spending, including specialty retail, at any time. Any significant or prolonged decrease in consumer spending could have a material adverse impact on our results of operations, liquidity, financial condition and stock price.

We face significant competition from both vertically-integrated and brand-based competitors that are growing rapidly, which could have a material adverse effect on our business. The retail apparel business is highly competitive. All of our stores compete on a national level with a diverse group of retailers, including vertically-integrated and brand-based national, regional and local specialty retail stores, and certain leading department stores and off-price retailers that offer the same or similar brands and styles of merchandise as we do. Many of our competitors are larger and have significantly greater resources than we do. We believe the principal competitive factors in our industry are fashion, merchandise assortment, quality, price, store location, environment and customer service.

Our customers may not prefer our proprietary brand merchandise, which may negatively impact our profitability. For our PacSun and PacSun Outlet stores, sales from proprietary brand merchandise accounted for approximately 30% of net sales in fiscal 2007. There can be no assurance that we will be able to achieve increases in proprietary brand merchandise sales as a percentage of net sales. Because our proprietary brand merchandise generally carries higher merchandise margins than our other merchandise, our failure to anticipate, identify and react in a timely manner to fashion trends with our proprietary brand merchandise, particularly if the percentage of net sales derived from proprietary brand merchandise changes significantly (up or down), may have a material adverse effect on our same store sales results, operating margins, financial condition and results of operations.

Our current or prospective vendors may be unable or unwilling to supply us with adequate quantities of their merchandise in a timely manner or at acceptable prices, which could have a material adverse impact on our business. The success of our business is dependent upon developing and maintaining good relationships with our vendors. We work very closely with our vendors to develop and acquire appropriate merchandise at acceptable prices for our stores. We do not, however, have any contractual relationships with our vendors. In addition, some of our vendors are relatively unsophisticated or underdeveloped and may have difficulty in providing adequate quantities or quality of merchandise to us in a timely manner. Also, certain of our vendors sell their merchandise directly to retail customers in direct competition with us. Our vendors could discontinue their relationship with us or raise prices on their merchandise at any time. There can be no assurance that we will be able to acquire sufficient quantities of

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quality merchandise at acceptable prices in a timely manner in the future. Any inability to do so, or the loss of one or more of our key vendors, could have a material adverse impact on our business, results of operations and financial condition.

Our foreign sources of production may not always be reliable, which may result in a disruption in the flow of new merchandise to our stores. We purchase merchandise directly in foreign markets for our proprietary brands. In addition, we purchase merchandise from domestic vendors, some of which is manufactured overseas. We do not have any long-term merchandise supply contracts and our imports are subject to existing or potential duties, tariffs and quotas. We face competition from other companies for production facilities and import quota capacity. We also face a variety of other risks generally associated with doing business in foreign markets and importing merchandise from abroad, such as: (i) political instability; (ii) enhanced security measures at United States ports, which could delay delivery of imports; (iii) imposition of new legislation relating to import quotas that may limit the quantity of goods which may be imported into the United States from countries in a region within which we do business; (iv) imposition of duties, taxes, and other charges on imports; (v) delayed receipt or non-delivery of goods due to the failure of foreign-source suppliers to comply with applicable import regulations; (vi) delayed receipt or non-delivery of goods due to organized labor strikes or unexpected or significant port congestion at United States ports; and (vii) local business practice and political issues, including issues relating to compliance with domestic or international labor standards which may result in adverse publicity. New initiatives may be proposed that may have an impact on the trading status of certain countries and may include retaliatory duties or other trade sanctions that, if enacted, would increase the cost of products purchased from suppliers in countries that we do business with. Any inability on our part to rely on our foreign sources of production due to any of the factors listed above could have a material adverse effect on our business, financial condition and results of operations.

The loss of key personnel could have a material adverse effect on our business at any time. Our continued success is dependent to a significant degree upon the services of our key personnel, particularly our executive officers. The loss of the services of any member of our senior management team could have a material adverse effect on our business, financial condition and results of operations. Our success in the future will also be dependent upon our ability to attract and retain qualified personnel. Our inability to attract and retain qualified personnel in the future could have a material adverse effect on our business, financial condition and results of operations.

Our information systems may not be adequate to support future growth, which could disrupt business operations. We have experienced periods of rapid growth in the past. While we regularly evaluate our information systems capabilities and requirements, there can be no assurance that our existing information systems will be adequate to support future growth or will remain adequate to support the existing needs of our business. In order to support future growth, we may have to undertake significant information system implementations, modifications and/or upgrades in the future at significant cost to us. Such projects involve inherent risks associated with replacing and/or changing existing systems, such as system disruptions and the failure to accurately capture data, among others. Information system disruptions, if not anticipated and appropriately mitigated, could have a material adverse effect on our business, results of operations and financial condition.

Adverse outcomes of litigation matters could significantly affect our operational results. We are involved from time to time in litigation incidental to our business. We believe that the outcome of current litigation will not have a material adverse effect upon our results of operations or financial condition. However, our assessment of current litigation could change in light of the discovery of facts with respect to legal actions pending against us not presently known to us or determinations by judges, juries or other finders of fact which do not accord with our evaluation of the possible liability or outcome of such litigation.

Our dependence on a single distribution facility exposes us to significant operational risks. All of our current distribution functions reside within a single facility in Olathe, Kansas. Any significant interruption in the operation of our distribution facility due to natural disasters, accidents, system failures or other unforeseen causes would have a material adverse effect on our business, financial condition and results of

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operations. There can be no assurance that our distribution center will be adequate to support our future growth.

Selling merchandise over the internet carries particular risks that can have a negative impact on our business. Our internet operations are subject to numerous risks that could have a material adverse effect on our operational results, including unanticipated operating problems, reliance on third party computer hardware and software providers, system failures and the need to invest in additional computer systems. Specific risks include: (i) diversion of sales from our stores; (ii) rapid technological change; (iii) liability for online content; and (iv) risks related to the failure of the computer systems that operate the website and its related support systems, including computer viruses, telecommunication failures and electronic break-ins and similar disruptions. In addition, internet operations involve risks which are beyond our control that could have a material adverse effect on our operational results, including: (i) price competition involving the items we intend to sell; (ii) the entry of our vendors into the internet business, in direct competition with us; (iii) the level of merchandise returns experienced by us; (iv) governmental regulation; (v) online security breaches involving unauthorized access to Company and/or customer information; (vi) credit card fraud; and (vii) competition and general economic conditions specific to the internet, online commerce and the apparel industry.

The effects of terrorism or war could significantly impact consumer spending and our operational performance. The majority of our stores are located in regional shopping malls. Any threat or actual act of terrorism, particularly in public areas, could lead to lower customer traffic in regional shopping malls. In addition, local authorities or mall management could close regional shopping malls in response to any immediate security concern. Mall closures, as well as lower customer traffic due to security concerns, could result in decreased sales. Additionally, war or the threat of war could significantly diminish consumer spending, resulting in decreased sales. Decreased sales would have a material adverse effect on our business, financial condition and results of operations.

Our stock price can fluctuate significantly due to a variety of factors, which can negatively impact our total market value. The market price of our common stock has fluctuated substantially and there can be no assurance that the market price of the common stock will not continue to fluctuate significantly. Future announcements or management discussions concerning us or our competitors, net sales and profitability results, quarterly variations in operating results or comparable store net sales, changes in earnings estimates made by management or analysts, or changes in accounting policies, among other factors, could cause the market price of the common stock to fluctuate substantially. In addition, stock markets have experienced extreme price and volume volatility in the past. This volatility has had a substantial effect on the market prices of securities of many public companies for reasons frequently unrelated to the operating performance of the specific companies.

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We caution that the risk factors described above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on behalf of the Company. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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

For information on common stock repurchases, see Note 12 to the condensed consolidated financial statements for the quarter ended August 2, 2008, which is incorporated by reference in this Item 2.

Item 3 − Defaults upon Senior Securities

None.

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

a) The 2008 Annual Meeting of Shareholders of the Company was held on May 28, 2008.

b) At the 2008 Annual Meeting, George R. Mrkonic was elected as a Class I Director of the Company for a one-year term ending in 2009. Sally Frame Kasaks, Thomas M. Murnane, Grace Nichols and Peter Starrett were elected as Class II Directors of the Company for a two-year term ending in 2010. Additionally, Pearson C. Cummin III, Michael Goldstein and Julius Jensen III continued in office after the meeting. Subsequently, on July 14, 2008, Mr. Jensen retired from the Board.

c) In addition to the election of directors, the shareholders voted on and ratified the appointment of Deloitte & Touche LLP as the Company' s independent registered public accounting firm for the fiscal year ending January 31, 2009.

Voting at the 2008 Annual Meeting for the election of directors is set forth below.

DIRECTOR NAME	DIRECTOR CLASS	VOTES CAST FOR	VOTES WITHHELD
George R. Mrkonic	I	65,298,012	1,957,060
Sally Frame Kasaks	II	64,873,083	2,381,989
Thomas M. Murnane	II	59,932,690	7,322,382
Grace Nichols	II	65,186,355	2,068,717
Peter Starrett	II	63,059,016	4,196,056

With respect to the ratification of the appointment of Deloitte & Touche LLP as the Company' s independent registered public accounting firm for the year ending January 31, 2009, 64,102,157 votes were cast for the proposal, 3,080,342 votes were cast against the proposal, 72,573 votes abstained and there were no broker non-votes.

Item 5 − Other Information

None.

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Item 6 − Exhibits

Exhibit 3.1	Third Amended and Restated Articles of Incorporation of the Company (1)
Exhibit 3.2	Certificate of Determination of Preferences of Series A Junior Participating Preferred Stock of the Company (2)
Exhibit 3.3	Third Amended and Restated Bylaws of the Company, as amended (3)
Exhibit 10.1	First Amendment to Credit Facility, dated as of August 1, 2008, with JPMorgan Chase Bank, N.A., as Administrative Agent, and a syndicate of other lenders
Exhibit 31.1	Written statement of Sally Frame Kasaks pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Written statement of Michael L. Henry pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Written statements of Sally Frame Kasaks and Michael L. Henry pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Note Reference:

(1) Incorporated by reference from the Company' s Quarterly Report on Form 10-Q, as filed with the Securities and Exchange Commission on August 31, 2004

(2) Incorporated by reference from the Company' s Current Report on Form 8-K, as filed with the Securities and Exchange Commission on December 24, 1998

(3) Incorporated by reference from the Company' s Quarterly Report on Form 10-Q, as filed with the Securities and Exchange Commission on December 3, 2007

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SIGNATURES

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

	PACIFIC SUNWEAR OF CALIFORNIA, INC. (Registrant)
Date: August 29, 2008	/s/ SALLY FRAME KASAKS
	Sally Frame Kasaks Chairman and Chief Executive Officer (Principal Executive Officer)
Date: August 29, 2008	/s/ MICHAEL L. HENRY
	Michael L. Henry Senior Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)

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Exhibit Index

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EXHIBIT 10.1

FIRST AMENDMENT TO CREDIT AGREEMENT AND WAIVER

This FIRST AMENDMENT TO CREDIT AGREEMENT AND WAIVER dated as of August 1, 2008 (this "Amendment"), is by and among PACIFIC SUNWEAR OF CALIFORNIA, INC., a California corporation (the "Borrower"), JPMORGAN CHASE BANK, N.A. as administrative agent for the Lenders under the Credit Agreement described below (in such capacity, the "Administrative Agent") and the Lenders party hereto.

WHEREAS the Borrower is party to a Credit Agreement dated as of April 29, 2008, with the Lenders and the Administrative Agent (as amended and as the same shall be further amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lenders agreed, subject to the terms and conditions set forth therein, to make certain Loans to the Borrower;

WHEREAS, the Borrower has informed the Administrative Agent that in the course of reviewing several of the Loan Parties' retail store leases, the Borrower has discovered that certain leases include provisions which grant Liens (collectively, "Landlord Lease Liens") in favor of the applicable landlords on assets of the Loan Parties to secure the Loan Parties' obligations under the leases;

WHEREAS, the existence of the Landlord Lease Liens constitutes an Event of Default under subsections (c) and (d) of Article VII of the Credit Agreement (such Event of Default, the "Specified Event of Default"); and

WHEREAS, the Borrower has requested and the Administrative Agent and the Lenders have agreed, on the terms set forth herein, to waive the Specified Event of Default and to amend the Credit Agreement as set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the agreements contained herein, the parties hereby agree as follows:

1. Capitalized Terms. Capitalized terms used herein which are defined in the Credit Agreement have the same meanings herein as therein, except to the extent that such meanings are amended hereby.

2. Waiver of Specified Event of Default. Subject to the satisfaction of the terms and conditions set forth in Section 5 hereof, the Administrative Agent and the Lenders hereby waive the Specified Event of Default. The parties hereby acknowledge and agree that the waiver set forth in this Section 2 is limited solely to the Specified Event of Default, solely for the periods through and ending on the effective date of this Amendment, and that such waiver does not constitute a waiver of any other presently existing or future Event of Default or a modification or waiver of any provision of the Credit Agreement.

3. Amendments to Credit Agreement. Subject to the satisfaction of the terms and conditions set forth in Section 5 hereof, the Borrower, the Lenders and the Administrative Agent agree that the Credit Agreement shall be amended as follows:

(a) *Amendment to Definition of "Permitted Encumbrances"*. The definition of "Permitted Encumbrances" set forth in Section 1.01 of the Credit Agreement is hereby amended by deleting clause (b) of such definition in its entirety and replacing such clause with the following:

"(b) (i) landlords' , carriers' , warehousemen' s, mechanics' , materialmen' s, repairmen' s and other like Liens imposed by law, Liens of collecting banks under the Uniform Commercial Code

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on items in the course of collection, Liens and rights of set-off of banks, in each case arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 5.04, (ii) landlord' s Liens arising by operation of law which are subordinated to the Liens in favor of the Administrative Agent, (iii) landlord' s Liens in Landlord Lien States arising by operation of law and (iv) any Lien in favor of a landlord on the assets of any Loan Party arising under the terms of the lease relating to any retail store to secure such Loan Party' s obligations under such lease (provided that the Administrative Agent' s Liens are senior in priority to such landlord' s Lien);"

(b) *Amendment to definition of "Reserves"*. The definition of "Reserves" set forth in Section 1.01 of the Credit Agreement is hereby amended and restated in its entirety and replaced with the following:

"Reserves" means any and all reserves which the Administrative Agent deems necessary, in its Permitted Discretion, to maintain (including, without limitation, Banking Services Reserves, reserves for rent at any retail store location leased by any Loan Party in any Landlord Lien State for which the applicable landlord has not executed and delivered a Collateral Access Agreement (it being agreed that the maximum amount of any Reserve for any retail store in any Landlord Lien State shall not exceed two month' s rent for such location), reserves for rent with respect to any Leased Distribution Center (other than the Kansas Distribution Facility) for which the applicable landlord has not executed and delivered a Collateral Access Agreement (it being agreed that the maximum amount of any Reserve for any Leased Distribution Center shall not exceed two month' s rent for such location) and for consignee' s, warehousemen' s and bailee' s charges, reserves for rent at any retail store leased by any Loan Party pursuant to a lease which contains provisions granting in favor of the applicable landlord a Lien on certain assets of such Loan Party and with respect to which the applicable landlord has not executed and delivered a Collateral Access Agreement reasonably satisfactory to the Administrative Agent acknowledging that the Liens granted by the applicable Loan Party to the Administrative Agent under the Loan Documents are senior in priority to the Liens granted by such Loan Party to such landlord under such lease (it being understood that (i) the amount of such rent reserve shall be determined from time to time by the Administrative Agent in its Permitted Discretion, (ii) the amount of such reserve shall be $5,000,000 as of the effective date of the First Amendment to this Credit Agreement, which amount may be increased or decreased in the Administrative Agent' s Permitted Discretion (including decreases in the event the Borrower delivers any Collateral Access Agreements or amendments to leases eliminating the Liens granted to landlords), and (iii) the maximum amount of such reserves for rent for all such leases shall not exceed the greater of (x) $5,000,000 or (y) two months' rent under all such leases), reserves for gift cards, reserves for Inventory shrinkage, reserves for customs charges and shipping charges related to any Inventory in transit, reserves for Swap Obligations, reserves for uninsured losses of any Loan Party, reserves for uninsured, underinsured, un-indemnified or under-indemnified liabilities or potential liabilities with respect to any litigation and reserves for taxes, fees, assessments, and other governmental charges) with respect to the Collateral or any Loan Party. The Administrative Agent may, in its Permitted Discretion, implement additional reserves or adjust existing reserves from time to time upon two (2) Business Days' prior notice to the Borrower.

4. No Default; Representations and Warranties, etc. The Borrower represents and warrants to the Lenders and the Administrative Agent that as of the date hereof, after giving effect to the amendments set forth herein (a) the representations of the Borrower contained in Article III of the Credit Agreement are true and correct in all material respects as of the date hereof as if made on such date (except to extent that such representations and warranties expressly relate to an earlier date, in which case they shall be true and correct in all material respects as of such date); (b) no Default or Event of Default is continuing; and (c) the execution, delivery and performance by the Borrower of this Amendment (i) have been duly

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authorized by all necessary corporate and, if required, shareholder action on the part of the Borrower, (ii) will not violate any applicable material law or regulation or the organizational documents of the Borrower, and (iii) will not violate or result in a default under any material indenture, agreement or other instrument binding on the Borrower or any of its assets.

5. Conditions Precedent. The effectiveness of this Amendment shall be conditioned upon the Administrative Agent' s receipt from the Borrower and the Required Lenders of either (a) a counterpart of this Amendment signed on behalf of such party or (b) written evidence reasonably satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Amendment) that such party has signed a counterpart of this Amendment.

6. Miscellaneous.

(a) The Borrower, the Lenders and the Administrative Agent hereby ratify and confirm the terms and provisions of the Credit Agreement and the other Loan Documents and agree that, except to the extent specifically amended hereby, the Credit Agreement, the other Loan Documents and all related documents shall remain in full force and effect. Nothing contained herein shall constitute a waiver of any provision of the Loan Documents, except such waivers or consents as are expressly set forth herein.

(b) The Borrower agrees to pay all reasonable out-of-pocket costs and expenses incurred by JPMorgan Chase Bank, N.A. and its respective Affiliates (including the reasonable fees, charges and disbursements of counsel for the Administrative Agent), in connection with the preparation and administration of this Amendment or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated).

(c) This Amendment may be executed in any number of counterparts (including by way of facsimile transmission), each of which, when executed and delivered, shall be an original, but all counterparts shall together constitute one instrument.

(d) This Amendment shall be governed by the laws of the State of New York and shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

[*Signature Pages Follow*]

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IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to Credit Agreement and Waiver to be duly executed by their respective authorized officers as of the day and year first above written.

BORROWER:

PACIFIC SUNWEAR OF CALIFORNIA, INC.

By: /s/ Michael Henry
Name: Michael Henry
Title: Sr. Vice President and Chief Financial Officer

By: /s/ Sally Frame Kasaks
Name: Sally Frame Kasaks
Title: Chief Executive Officer and Chairman of the Board

Signature Page to First Amendment to Credit Agreement and Waiver

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ADMINISTRATIVE AGENT AND LENDER:

JPMORGAN CHASE BANK, N.A., individually, as Administrative Agent, Issuing Bank, Swingline Lender and a Lender

By: /s/ Mark Cuccinello
Name: Mark Cuccinello
Title: Vice President

Signature Page to First Amendment to Credit Agreement and Waiver

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LENDER

BANK OF AMERICA, N.A.

By: /s/ Stephen J. Garvin
Name: Stephen J. Garvin
Title: Managing Director

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LENDER

BRANCH BANKING AND TRUST COMPANY

By: /s/ Roberts A. Bass
Name: Roberts A. Bass
Title: Senior Vice President

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LENDER

U.S. BANK NATIONAL ASSOCIATION

By: /s/ Conan Schleicher
Name: Conan Schleicher
Title: Vice President

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LENDER

WELLS FARGO RETAIL FINANCE, LLC

By: /s/ Adam B. Davis
Name: Adam B. Davis
Title: Assistant Vice President

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LENDER

PNC BANK, N.A.

By: /s/ Sandra Sha Kenyon
Name: Sandra Sha Kenyon
Title: Vice President

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LENDER

UPS CAPITAL CORPORATION

By: /s/ John P. Holloway
Name: John P. Holloway
Title: Director, Portfolio Management

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EXHIBIT 31.1

CERTIFICATIONS

I, Sally Frame Kasaks, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacific Sunwear of California, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 29, 2008

/s/ SALLY FRAME KASAKS
Sally Frame Kasaks
Chief Executive Officer

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EXHIBIT 31.2

CERTIFICATIONS

I, Michael L. Henry, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacific Sunwear of California, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of the registrant' s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal control over financial reporting.

Date: August 29, 2008

/s/ MICHAEL L. HENRY
Michael L. Henry
Chief Financial Officer

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pacific Sunwear of California, Inc. (the "Company") on Form 10-Q for the quarter ended August 2, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sally Frame Kasaks, the Chief Executive Officer of the Company, and Michael L. Henry, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(i) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 29, 2008

/s/ SALLY FRAME KASAKS
Sally Frame Kasaks
Chief Executive Officer
Pacific Sunwear of California, Inc.
(Principal Executive Officer)

Dated: August 29, 2008

/s/ MICHAEL L. HENRY
Michael L. Henry
Chief Financial Officer
Pacific Sunwear of California, Inc.
(Principal Financial and Accounting Officer)

This certification accompanies this Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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