UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

[redacted], [redacted] Individually and on Behalf of All Others Similarly Situated,	**Case No. _____________**
Plaintiffs,	
v.	**JURY TRIAL DEMANDED**
THE TALBOTS, INC., TRUDY F. SULLIVAN, and MICHAEL SCARPA,	
Defendant.	

CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of The Talbots, Inc. ("Talbots" or "the Company") between December 8, 2009 and January 11, 2011, inclusive (the "Class Period"), against Talbots and certain of its officers and/or directors, for violations of the Securities Exchange Act of 1934,15 U.S.C. §§78a *et seq.* These claims are asserted against Talbots and certain of its officers and/or directors who made materially false and misleading statements during the Class Period in press releases, analyst conference calls, and filings with the Securities Exchange Commission ("SEC").

2. Talbots is a specialty retailer and direct marketer of women's apparel, accessories and shoes that operates stores in the United States and Canada. In addition to visiting retail stores, Talbots customers can shop online or via its catalogs. Talbots offers a collection of sportswear, casual wear, dresses, coats, sweaters, accessories and shoes, consisting of its own branded merchandise in misses, petites, woman and woman petite sizes.

3. During the Class Period, Defendants touted the Company's rise to profitability and ability to tightly manage inventory by pointing to supposed growth in Talbots's full-price business and sales trends, as well as a deliberate avoidance of anything but extremely targeted promotional sales. In other words, Defendants told the market their bread and butter was full-price sales and that they did not rely on "promotions" to drive their business.

4. As a result of defendants' false statements, Talbots's stock traded at artificially inflated prices during the Class Period, reaching a high of $16.00 per share on April 19, 2010.

5. Then, on December 7, 2010, Talbots abruptly reported that net sales for the third quarter of 2010 decreased 3.2% while the Company's comparable store sales were down 7.1%. Additionally, the Company reported an 11.3% increase in total inventory.

6. On this news, the price of Talbots's stock dropped ***22.6%***, from a closing price of $11.39 on December 6, 2010 to close at $8.81 on December 7, 2010, on almost five times the stock's average daily trading volume.

7. Thereafter, on January 11, 2011, the Company issued a "Business Update" announcing that quarter-to-date top line sales were down approximately 7% versus the fourth quarter of 2009, and quarter-to-date comparable store sales were down approximately 6%. The Company also lowered its fourth quarter guidance to a loss of $0.15 to $0.19 per share from its previously announced range of an adjusted loss of $0.05 to $0.03 per share, and lowered full year adjusted earnings guidance to a range of $0.56 to $0.60 per share from its previously announced range of $0.70 to $0.78 per share.

8. On this news, the price of Talbots's stock dropped an additional ***17.4%***, from a closing price of $7.57 on January 10, 2011 to close at $6.25 on January 11, 2011, on almost six times the stock's average daily trading volume.

9. The true facts, which were known by defendants but concealed from the investing public during the Class Period, were as follows:

(a) notwithstanding defendants' mantra about the Company being a great turnaround story, demand for the Company's full-price inventory was extremely soft, resulting in the Company becoming saddled with excess inventory that could not be sold at full price;

(b) the Company could not keep pace with its competitors without turning to the dramatic and widespread promotional pricing that defendants stated that the Company did not have to resort to;

(c) as a result, defendants knew that the profit and revenue numbers that they forecast to the market were illusory and unattainable; and

(d) as a result of the foregoing, defendants' statements regarding the Company's financial performance and expected earnings were false and misleading and lacked a reasonable basis when made.

10. As a result of defendants' false statements and omissions, Talbots common stock traded at artificially inflated prices during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down approximately ***60.9%*** from their Class Period high.

PARTIES

11. Plaintiff [redacted] "Plaintiff") purchased Talbots common stock as described in the attached certification and was damaged when the revelations described herein reached the market and the artificial inflation was removed from the price of Talbots stock.

12. As set forth above, Talbots is a specialty retailer and direct marketer of women's apparel, accessories and shoes with stores in the United States and Canada. Talbots is a Delaware corporation with its principal place of business located at One Talbots Drive, Hingham, Massachusetts 02043.

13. Defendant Trudy F. Sullivan, ("Sullivan") is, and at all relevant times was, Chief Executive Officer ("CEO"), and President of Talbots.

14. Defendant Michael Scarpa, ("Scarpa") is, and at all relevant times was, Chief Operating Officer ("COO") and Chief Financial Officer ("CFO") of Talbots.

15. Defendants Sullivan and Scarpa (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Talbots's quarterly reports, press releases and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. They were provided with copies of the

Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

JURISDICTION AND VENUE

16. Jurisdiction is conferred by §27 of the Securities Exchange Act of 1934 (the "Exchange Act"). The claims asserted herein arise under §§10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§78j(b) and 78t(a), and SEC Rule 10b-5, 17 C.F.R. §240.10b-5.

17. Venue is proper in this District pursuant to §27 of the Exchange Act. Many of the false and misleading statements were disseminated within this District.

18. In connection with the acts alleged in this Complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

19. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Talbots. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Talbots common stock was a success, as it: (i) deceived the investing public regarding Talbots's prospects and business; (ii) artificially inflated the prices of Talbots common stock; and (iii) caused Plaintiff and other members of the Class to purchase Talbots common stock at inflated prices and suffer economic loss when the revelations set forth herein reached the market.

CLASS ACTION ALLEGATIONS

20. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Talbots common stock during the Class Period (the "Class"). Excluded from the Class are defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns and any entity in which defendants have or had a controlling interest.

21. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Talbots has more than seventy million shares of stock outstanding, owned by hundreds if not thousands of persons.

22. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the Exchange Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Talbots common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

23. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from defendants' wrongful conduct.

24. Plaintiff will adequately protect the interests of the Class and has retained counsel experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

25. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

26. The Class Period begins on December 8, 2009. On that date, Talbots issued a press release reporting third quarter 2009 earnings results. The Company reported adjusted third quarter net income from continuing operations of $17.2 million or $0.31 per diluted share, compared to the prior year's net loss of $12.4 million or $0.23 per share on a comparable basis. The press release quoted Sullivan as stating "***[t]he efforts over the past several quarters – particularly in the areas of strengthening our merchandise offering and tightly managing inventory and expense – have created a much stronger, leaner and profitable organization***."

27. On the Company's third quarter 2009 earnings conference call, Sullivan stated:

> We have made great progress in modernizing our merchandise and we are operating with much leaner inventories, a leaner corporate staff and a dramatically reduced capital spending plan. Further, in just one year we are approaching our two year goal to reduce costs by $150 million on an annualized basis. ***And as I stated earlier, looking at our third quarter results and our outlook for holiday season in Q4, the company has begun to realize a significant benefit from all of these changes for the benefit of all of our shareholders.***

28. In response to defendants' statements, the price of Talbots common stock increased 14%, from a closing price of $7.21 on December 7, 2009 to close at $8.23 on December 8, 2009, on almost three times the stock's average daily trading volume.

29. On February 17, 2010, Talbots issued a "Business Update" touting stronger-than-anticipated operating results for the fiscal fourth quarter ending January 30, 2010. The "Business Update" stated that the Company expected stronger sales than its previous guidance had indicated. The "Business Update" noted that the stronger than expected sales were "***driven by positive full price selling in the quarter.***"

30. On April 13, 2010, Talbots issued a press release reporting fourth quarter and fiscal year 2009 results. The Company reported that adjusted fourth quarter income from continuing operations increased to $7.4 million or $0.13 per diluted share, compared to the prior year's adjusted loss from continuing operations of $123.4 million or $2.30 per share. The press release noted that for the fourth-quarter 2009, "[m]arkdown selling declined 21% and full-price selling increased 10%." On the fourth quarter 2009 earnings conference call, Sullivan proclaimed that the Company was "***increasingly seeing the benefits of our efforts*** and "***we are now more strongly positioned within the women's apparel space.***"

31. The Company's upbeat financial news positively influenced market analysts. Following the Company's fourth quarter earnings release and conference call, Wedbush Securities issued an analyst report noting:

> We continue to recommend investors accumulate TLB shares on any potential weakness as we believe BTE Q1 and F10 guidance signals management's confidence in the company's ability to continue to drive sales given improved merchandise assortment and corresponding margin recovery towards +LTeens to +MTeens range … [w]e are maintaining our OUTPERFORM rating as we believe TLB is well positioned to continue to recapture lapsed customers and acquire new shoppers and anticipate significant earnings power exists beyond our above consensus forecasts.

32. In response to defendants' statements, the price of Talbots common stock increased 4.9%, from a closing price of $14.39 on April 12, 2010 to close at $15.20 on April 13, 2010, on almost three times the stock's average daily trading volume.

33. On May 5, 2010, Jesup & Lamont issued an analyst report in which it initiated coverage on the shares of Talbots with a buy rating and $21 price target. The analyst report further noted "[w]e see TLB as a bona fide turnaround spearheaded by a talented management team who is looking not only to reenergize a sleepy brand, but position it for future growth, restore margins and productivity in a crowded field of women's apparel retailers."

34. On June 8, 2010, Talbots issued a press release reporting first quarter 2010 results. The company reported a first quarter loss from continuing operations of $7.1 million or $0.12 per share, compared to the prior year's loss from continuing operations of $18.8 million or $0.35 per share. The press release noted that for the first quarter, 2010, "full-price selling increased 21% and markdown selling declined 31%." Sullivan was quoted in the press release as stating "***[o]ur performance in the quarter, which exceeded our expectations, was driven by top-line sales growth, significant gross margin expansion and continued strong inventory and expense management.***"

35. Analysts continued to buy into the turnaround story that defendants were selling. Jesup & Lamont issued an analyst report stating "[w]e believe that TLB is a strong turnaround story that will continue to play out for the next few years." Wedbush Securities issued an analyst report recommending that investors buy Talbots's shares and noting:

> Q2 guidance gives us increased confidence in management's ongoing execution of restoring sales and margins towards +LTeens to +MTeens longer-term. Further, we believe Investors should focus on high-quality EPS upside from gross margin expansion opportunity ahead and believe TLB is well positioned to produce earnings power above our raised estimates (and management guidance) …

36. On September 8, 2010, Talbots issued a press release reporting first quarter 2010 results. The Company reported second quarter income from continuing operations of $0.5 million or $0.01 per share, compared to the prior year's loss from continuing operations of $20.5 million, or $0.38 per share. The company also updated its earnings guidance, noting that full year adjusted earnings per share from continuing operations were anticipated to be in the range of approximately

$0.84 to $0.92 per share, compared to an adjusted loss per share from continuing operations of $0.10 reported the prior year ***and an increase from its previously announced outlook*** of $0.75 to $0.83 per share.

37. The Company's upbeat financial news continued to positively influence the market and analysts. Jeffries & Company issued an analyst report noting "[w]e see further upside from potential top line acceleration in time, which can drastically boost earnings and TLB shares." Wedbush Securities maintained its "Outperform" rating on shares of the Company's common stock and noted:

> … we are impressed the company generated +14% increase in full price selling and continues to experience solid product acceptance (as exemplified by BTE denim program QTD) and believe the delivery of Fall products this week along with more cooperative weather could drive strengthened sales in the balance of Q3.

38. Then, on December 7, 2010, Talbots issued a press release reporting third quarter 2010 earnings. Third quarter income from continuing operations was $17.0 million or $0.24 per share, compared to the prior year's income from continuing operations of $15.5 million, or $0.28 per share. Same store sales were down 7%. Additionally, the Company reported an 11.3% increase in total inventory. The Company also revealed for the first time that it had been relying on limited time promotional events to increase its direct marketing sales and that the Company needed to enhance its promotional activity going forward in order to try and stay competitive.

39. Also, for the first time, the Company disclosed that it was lowering its earnings guidance for the 2010 fiscal year from earnings per share in the range of $0.84 to $0.92 to earnings per share in the range of $0.70 to $0.78 per share. The Company attributed the downward revision in guidance to expected top-line sales of approximately flat to down 1% compared to the prior fiscal year, and to the Company's previously announced outlook for an approximate 1% increase.

40. In response to this partial revelation of Talbots's true financial condition and future business prospects, the price of Talbots common stock dropped ***22.6%*** from a closing price of

$11.39 on December 6, 2010 to close at $8.81 on December 7, 2010, on almost six times the stock's average daily trading volume.

41. Then, on January 11, 2011, Talbots provided a Business Update which further shocked the market. The Company reported that quarter-to-date top line sales were down approximately 7% versus the fourth quarter of the prior year, and the Company's previously announced expectation for fourth quarter top-line sales in the range of flat to down low-single digits. Additionally, quarter-to-date comparable store sales were down approximately 6%.

42. The Company also lowered its earnings guidance, expecting fourth quarter adjusted ***loss per share*** to be in the range of $0.15 to $0.19 per share, compared to the prior year's adjusted earnings per share of $0.13, and a decrease from the Company's previously announced range of an adjusted loss of $0.05 per share to adjusted earnings from continuing operations of $0.03 per share. Further, the Company announced that full year adjusted earnings per share were now expected to be in the range of $0.56 to $0.60 per share, compared to the prior year's adjusted loss per share of $0.10, and a substantial departure from its previously announced range of $0.70 to $0.78 per share.

43. Following this news, equities research analysts at Nomura and Janney Montgomery Scott both downgraded shares of Talbots from "buy" ratings to a "neutral" ratings.

44. As a result of the additional partial revelation in the January 11, 2011 press release which further revealed Talbot's true financial condition and future business prospects, the price of Talbots common stock dropped another 17.4%, from a closing price $7.57 on January 10, 2011 to close at $6.25 on January 11, 2011, on almost six times the stock's average daily trading volume.

45. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) notwithstanding defendants' mantra about the Company being a great turnaround story, demand for the Company's full-price inventory was extremely soft, resulting in the Company becoming saddled with excess inventory that could not be sold at full price;

(b) the Company could not keep pace with its competitors without turning to the dramatic and widespread promotional pricing that defendants stated that the Company did not have to resort to;

(c) as a result, defendants knew that the profit and revenue numbers that they forecast to the market were illusory and unattainable; and

(d) as a result of the foregoing, defendants' statements regarding the Company's financial performance and expected earnings were false and misleading and lacked a reasonable basis when made.

46. As a result of defendants' false statements and omissions, Talbots common stock traded at artificially inflated prices during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down approximately ***60.9%*** from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

47. During the Class Period, as detailed herein, the defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Talbots common stock and operated as a fraud or deceit on Class Period purchasers of Talbots common stock by misrepresenting the Company's business and prospects. Later, when the defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of Talbots common stock fell precipitously, as the prior artificial inflation came out of the price over time. As a result of their purchases of Talbots common stock during the Class Period, Plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the

federal securities laws when the above-described revelations reached the market and the artificial inflation was removed.

NO SAFE HARBOR

48. Talbots's common stock verbal "Safe Harbor" warnings accompanying its oral forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability.

49. The defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Talbots who knew that the FLS was false. None of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

COUNT I

For Violation of §10(b) of the Exchange Act and Rule 10b-5 Against All Defendants

50. Plaintiff incorporates ¶¶1-49 by reference.

51. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

52. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of Talbots common stock during the Class Period.

53. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Talbots common stock. Plaintiff and the Class would not have purchased Talbots common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the Exchange Act Against All Defendants

54. Plaintiff incorporates ¶¶1-49 by reference.

55. The Individual Defendants acted as controlling persons of Talbots within the meaning of §20(a) of the Exchange Act. By reason of their positions with the Company, and their ownership of Talbots common stock, the Individual Defendants had the power and authority to cause Talbots to engage in the wrongful conduct complained of herein. Talbots controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding Plaintiff and the members of the Class damages, including interest;

C. Awarding Plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: February 3, 2011