

# **NEWS BULLETIN** RE: **CLAIRE'S STORES, INC.**

**3 S.W. 129th AVENUE, PEMBROKE PINES, FLORIDA 33027 (954) 433-3900**

## **CLAIRE'S STORES, INC. REPORTS FISCAL 2008 SECOND QUARTER RESULTS: NET SALES INCREASE FIVE PERCENT**

PEMBROKE PINES, Florida, September 17, 2007. Claire's Stores, Inc., a leading specialty retailer offering value-priced jewelry and accessories, today reported its financial results for the second quarter of Fiscal 2008, which ended August 4, 2007.

On May 29, 2007, the Company was acquired by Apollo Management VI, L.P. and certain affiliated co-investment partnerships (the "Acquisition"). The accompanying consolidated statements of operations and related information present the Company's results of operations during the second fiscal quarter for the period preceding the Acquisition (the "Predecessor" period) and the period succeeding the Acquisition (the "Successor" period). The discussion below compares the results of operations of the combined Successor and Predecessor entities for the thirteen weeks ended August 4, 2007 to the results of the Predecessor entity for the thirteen weeks ended July 29, 2006. This discussion does not comply with generally accepted accounting principles; however, the Company believes that it provides a more meaningful method of comparison.

Commenting on second quarter results, Chief Executive Officer Gene Kahn said, "My first three months at Claire's have exceeded my expectations. I have always been aware of Claire's as an excellent retail concept focused on jewelry and accessories, with exceptionally high brand recognition and great strength and popularity with its core customers. Having gained greater insight and first-hand knowledge of the Company, I am confident that we have the vision, ability and operational expertise to become a highly successful global specialty retailer. While second quarter results were not up to expectations, we responded quickly and took the necessary steps to liquidate poorly performing Spring and Summer merchandise in order to keep our stocks clean and the Company focused on the transition for Back to School and the Fall season. I am comfortable that we have been able to focus on the key components of our business strategy, and remain steadfastly committed to our priorities of growing same store sales and EBITDA along with cash generation. We have gained experience across the board, successfully transitioned new management at various levels, and put the distraction of the sale of the Company behind us. We are working hard to ensure we realize better short term results in the Fall and Holiday periods while we simultaneously focus on our longer term growth opportunities."

The Company reported net sales of \$365.5 million for the quarter, a 4.7% increase over the second quarter of Fiscal 2007, which ended July 29, 2006. The increase was primarily attributable to the growth in our new store base, particularly in Europe, and foreign currency translation gains, offset by decreased same store sales. A 2.4% increase in the average number of transactions per store was partially offset by a 3.5% decline in our average sale per transaction.

Second quarter consolidated same store sales were negative 1.7%. In North America, we had a decrease of 1.4%, comprised of Claire's North America at negative 0.4% and Icing at negative 5.8%. Europe had a decrease of 2.2%. Please note that we measure same store sales on a constant local currency basis, as last year's same store sales are adjusted to this year's exchange rates before computing the change in same store sales.

Gross margins, which are computed after the cost of buying and occupancy, declined 200 basis points to 49.9% primarily because of a 60 basis point decrease in merchandise margins and a 140 basis point loss of operating leverage in rent and rent related expenses.

Selling, general and administrative expenses, excluding Acquisition related costs, increased 4.6% to \$123.5 million in the second quarter of Fiscal 2008 compared to \$118.1 million in last year's comparable fiscal quarter. Our SG&A as a percentage of net sales remained flat at 33.8%.

For the quarter, Adjusted EBITDA was \$64.3 million, a 7.3% decrease compared to \$69.4 million in the second quarter of Fiscal 2007. The Company defines Adjusted EBITDA as earnings before interest, income taxes, depreciation and amortization, excluding the impact of transaction related costs incurred in connection with the Acquisition and other non-recurring or non-cash expenses, and normalizing occupancy costs for certain rent-related adjustments.

At August 4, 2007, our \$200 million revolving credit facility was undrawn aside from a \$4.5 million letter of credit, and cash and cash equivalents were \$92.5 million. During the first six months of Fiscal 2008, cash used in operating activities was approximately \$39.2 million compared to cash provided by operating activities of \$50.6 million during the first six months of Fiscal 2007. Cash used in operating activities was impacted by the Acquisition and transaction related costs and other cash outflows. Capital expenditures during the first six months of Fiscal 2008 were \$46.9 million, consistent with the comparable period in Fiscal 2007. In Fiscal 2008, \$40.6 million of the \$46.9 million related to store openings and remodeling projects.

### **Year to Date Results**

Net sales for the first six months of Fiscal 2008 grew 6.8% to \$706.1 million from \$661.1 million. Same store sales decreased 0.3 percent. For the first six months of Fiscal 2008, Adjusted EBITDA was \$125.0 million, a 2.4% decrease compared to \$128.0 million in the first six months of Fiscal 2007.

### **Store Count: End of Second Fiscal Quarter:**

	<u>August 4, 2007</u>	<u>July 29, 2006</u>
Claire's North America	1,685	1,686
Claire's Europe	883	811
Icing	448	438
Claire's Nippon	<u>203</u>	<u>186</u>
Total	3,219	3,121

### **Conference Call Information**

The Company will host its second quarter conference call on September 18, 2007, at 10:00 a.m. (EDT). The call in number is 630-395-0260 and the password is “Claire’s.” A replay will be available through September 28, 2007. The replay number is 203-369-1696 and the password is 25247. The conference call is also being webcast and archived until September 28<sup>th</sup> on the Company’s corporate website at <http://www.clairestores.com>, where it can be accessed by clicking on the “Conference Calls” link located under “Financial Information” for a replay or download as an MP3 file.

### **Company Overview**

Claire’s Stores, Inc. is a leading specialty retailer of value-priced jewelry and accessories for girls and young women through its two store concepts: Claire’s and Icing. While the latter operates only in North America, Claire’s operates internationally. As of September 1, 2007, Claire’s Stores, Inc. operated 3,022 stores in the United States, Canada, Puerto Rico, the Virgin Islands, the United Kingdom, Ireland, France, Switzerland, Austria, Germany, Spain, Portugal, Belgium, and the Netherlands. Claire’s Stores, Inc. operates through its subsidiary, Claire’s Nippon, Co., Ltd., 203 stores in Japan as a 50:50 joint venture with AEON, Co., Ltd. The Company also franchises 153 stores in the Middle East, Turkey, Russia, Poland, and South Africa.

### **Forward-looking Statements**

This press release contains “forward-looking statements” which represent the Company’s expectations or beliefs with respect to future events. Statements that are not historical are considered forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated. Those factors include, without limitation: changes in consumer preferences and consumer spending; competition; general economic conditions such as inflation and increased energy costs; general political and social conditions such as war, political unrest and terrorism; natural disasters or severe weather events; currency fluctuations and exchange rate adjustments; uncertainties generally associated with the specialty retailing business; disruptions in our supply of inventory; inability to increase same store sales at historical rates; significant increases in our merchandise markdowns; inability to design and implement new information systems; delays in anticipated store openings or renovations; uncertainty that definitive financial results may differ from preliminary financial results due to, among other things, final GAAP adjustments; changes in applicable laws, rules and regulations, including changes in federal, state or local regulations governing the sale of our products, particularly regulations relating to the metal content in jewelry, and employment laws relating to overtime pay, tax laws and import laws; loss of key members of management; increases in the cost of labor; labor disputes; increases in the cost of borrowings; unavailability of additional debt or equity capital; and the impact of our substantial indebtedness on our operating income and our ability to grow. These and other applicable risks, cautionary statements and factors that could cause actual results to differ from the Company’s forward-looking statements are included in the Company’s filings with the SEC, specifically as described in the Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2007 and Form 10-Q Equivalent for the quarterly period ended May 5, 2007. The Company undertakes no obligation to update or revise any forward-looking statements to reflect subsequent

events or circumstances. The historical results contained in this press release are not necessarily indicative of the future performance of the Company.

**Additional Information:**

Note: Other Claire's Stores, Inc. press releases, a corporate profile and the most recent Annual Report on Form 10-K and Form 10-Q Equivalent are available on Claire's business website at: <http://www.clairstores.com>.

**Contact Information:** Marisa F. Jacobs, Vice President of Corporate Communications and Investor Relations

Phone: (212) 594-3127, Fax: (212) 244-4237 or Email at [marisa.jacobs@claires.com](mailto:marisa.jacobs@claires.com)

**SECOND FISCAL QUARTER**

**CLAIRE'S STORES, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS  
OF OPERATIONS  
(In thousands)**

	<b>Successor Entity</b>	<b>Predecessor Entity</b>	
	<b>May 29, 2007 Through August 4, 2007</b>	<b>May 6, 2007 Through May 28, 2007</b>	<b>Three Months Ended July 29, 2006</b>
Net sales	\$ 281,190	\$ 84,328	\$ 349,160
Cost of sales, occupancy and buying expenses	138,276	44,846	167,879
Gross profit	<u>142,914</u>	<u>39,482</u>	<u>181,281</u>
Other expenses (income):			
Selling, general and administrative	92,746	30,798	118,106
Depreciation and amortization	13,165	4,417	13,912
Transaction-related costs	2,061	69,186	-
Other income	(396)	(135)	(830)
	<u>107,576</u>	<u>104,266</u>	<u>131,188</u>
Operating income (loss)	35,338	(64,784)	50,093
Interest expense (income), net	<u>35,928</u>	<u>(1,123)</u>	<u>(3,848)</u>
Income (loss) before income taxes	(590)	(63,661)	53,941
Income taxes	217	8,890	17,979
Net income (loss)	<u>\$ (807)</u>	<u>\$ (72,551)</u>	<u>\$ 35,962</u>

**YEAR TO DATE**

**CLAIRE'S STORES, INC. AND SUBSIDIARIES  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS  
OF OPERATIONS  
(In thousands)**

	<b>Successor Entity</b>	<b>Predecessor Entity</b>	
	<b>May 29, 2007 Through August 4, 2007</b>	<b>Feb. 4, 2007 Through May 28, 2007</b>	<b>Six Months Ended July 29, 2006</b>
Net sales	\$ 281,190	\$ 424,899	\$ 661,087
Cost of sales, occupancy and buying expenses	138,276	206,438	315,053
Gross profit	142,914	218,461	346,034
Other expenses (income):			
Selling, general and administrative	92,746	154,482	229,727
Depreciation and amortization	13,165	19,652	27,070
Transaction-related costs	2,061	72,672	-
Other income	(396)	(1,476)	(1,160)
	107,576	245,330	255,637
Operating income (loss)	35,338	(26,869)	90,397
Interest expense (income), net	35,928	(4,876)	(8,030)
Income (loss) before income taxes	(590)	(21,993)	98,427
Income taxes	217	21,779	32,764
Net income (loss)	\$ (807)	\$ (43,772)	\$ 65,663

**CLAIRE'S STORES, INC. AND SUBSIDIARIES**  
**UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>Successor Entity</u> <u>August 4, 2007</u>	<u>Predecessor Entity</u> <u>February 3, 2007</u>
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 92,542	\$ 340,877
Inventories	123,159	121,119
Prepaid expenses	46,411	35,565
Other current assets	25,203	41,081
Total current assets	<u>287,315</u>	<u>538,642</u>
Property and equipment:		
Land and building	21,868	17,350
Furniture, fixtures and equipment	106,718	283,556
Leasehold improvements	195,472	288,499
	<u>324,058</u>	<u>589,405</u>
Less accumulated depreciation and amortization	(8,547)	(324,080)
	<u>315,511</u>	<u>265,325</u>
Intangible assets, net of accumulated amortization of \$1,106 and \$7,176, respectively	814,860	51,582
Deferred debt issuance costs, net	75,681	-
Other assets	68,414	34,775
Goodwill	1,802,246	200,942
	<u>2,761,201</u>	<u>287,299</u>
Total assets	<u>\$3,364,027</u>	<u>\$1,091,266</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$ 76,737	\$ 56,323
Current portion of long-term debt	14,500	-
Income taxes payable	7,761	35,102
Accrued interest payable	24,866	-
Accrued expenses and other liabilities	92,374	104,026
Total current liabilities	<u>216,238</u>	<u>195,451</u>
Long-term debt	2,370,500	
Deferred tax liability	162,729	19,424
Deferred rent expense	5,669	26,125
Other liabilities	9,390	2,604
	<u>2,548,288</u>	<u>48,153</u>
Commitments and contingencies	-	-
Stockholders' equity:		
Preferred stock par value \$1.00 per share; authorized 1,000,000 shares, issued and outstanding 0 shares (predecessor entity)	-	-
Class A common stock par value \$0.05 per share; authorized 40,000,000 shares, issued and outstanding 4,869,041 shares (predecessor entity)	-	243
Common stock par value \$0.05 per share; authorized 300,000,000 shares, issued and outstanding 88,202,733 shares (predecessor entity); par value \$0.001 per share; authorized 1,000 shares; issued and outstanding 100 shares (successor entity)	-	4,410
Additional paid-in capital	596,563	75,486
Accumulated other comprehensive income, net of tax	3,745	33,956
Retained earnings (accumulated deficit)	(807)	733,567
	<u>599,501</u>	<u>847,662</u>
Total liabilities and stockholders' equity	<u>\$3,364,027</u>	<u>\$1,091,266</u>

### **Net income (loss) reconciliation to EBITDA and Adjusted EBITDA**

EBITDA represents net income (loss) before provision for income taxes, interest income and expense, and depreciation and amortization. Adjusted EBITDA represents EBITDA further adjusted to exclude non-cash and unusual items. Management uses Adjusted EBITDA as an important tool to assess our operating performance. Management considers Adjusted EBITDA to be a useful measure in highlighting trends in our business and in analyzing the profitability of similar enterprises. Management believes that Adjusted EBITDA is effective, when used in conjunction with net income (loss), in evaluating asset performance, and differentiating efficient operators in the industry. Furthermore, management believes that Adjusted EBITDA provides useful information to potential investors and analysts because it provides insight into management's evaluation of our results of operations. In addition, our calculation of Adjusted EBITDA is consistent with the equivalent measurement in the covenants for the indentures governing the senior notes.

EBITDA and Adjusted EBITDA are not measures of financial performance under GAAP, are not intended to represent cash flow from operations under GAAP and should not be used as an alternative to net income (loss) as an indicator of operating performance or to cash flow from operating, investing or financing activities as a measure of liquidity. Management compensates for the limitations of using EBITDA and Adjusted EBITDA by using it only to supplement our GAAP results to provide a more complete understanding of the factors and trends affecting our business. Each of EBITDA and Adjusted EBITDA has its limitations as an analytical tool, and you should not consider them in isolation or as a substitute for analysis of our results as reported under GAAP.

Some of the limitations of EBITDA and Adjusted EBITDA are:

- EBITDA and Adjusted EBITDA do not reflect our cash used for capital expenditures;
- Although depreciation and amortization are non-cash charges, the assets being depreciated or amortized often will have to be replaced and EBITDA and Adjusted EBITDA do not reflect the cash requirements for such replacements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not reflect the cash necessary to make payments of interest or principal on our indebtedness; and
- EBITDA and Adjusted EBITDA do not reflect non-recurring expenses which qualify as extraordinary items such as one-time write-offs to inventory and reserve accruals.

While EBITDA and Adjusted EBITDA are frequently used as a measure of operations and the ability to meet indebtedness service requirements, they are not necessarily comparable to other

similarly titled captions of other companies due to potential inconsistencies in the method of calculation.

While management believes that these measures provide useful information to investors, the SEC may require that EBITDA and Adjusted EBITDA be presented differently or not at all in filings will we make with the SEC.

For the thirteen and twenty six week periods ended August 4, 2007 and July 29, 2006, a reconciliation of net income (loss) to EBITDA, EBITDA after rent related adjustments and Adjusted EBITDA is set forth in the following tables:

**CLAIRE'S STORES, INC. AND SUBSIDIARIES**  
**(UNAUDITED) (IN THOUSANDS)**

	May 6, 2007 Through May 28, 2007	May 29, 2007 Through August 4, 2007	Thirteen Weeks ended August 4, 2007	Thirteen Weeks ended July 29, 2006
	(Predecessor)	(Successor)	(Combined)	(Predecessor)
Net income (loss)	\$ (72,551)	\$ (807)	\$ (73,358)	\$ 35,962
Income tax	8,890	217	9,107	17,979
Interest expense	19	36,840	36,859	3
Interest income	(1,142)	(912)	(2,054)	(3,851)
Depreciation and amortization	4,417	13,165	17,582	13,912
<b>Reported EBITDA</b>	<b>(60,367)</b>	<b>48,503</b>	<b>(11,864)</b>	<b>64,005</b>
Book to cash rent adjustment (a)	177	1,328	1,505	486
<b>EBITDA after rent related adjustment</b>	<b>(60,190)</b>	<b>49,831</b>	<b>(10,359)</b>	<b>64,491</b>
Amortization of intangible assets(b)	119	248	367	355
Equity income (c)	(17)	33	16	(323)
Loss on retirement of property and equipment (d)	270	461	731	717
Stock compensation expense (e)	-	889	889	1,375
Legal settlement & related costs (f)	100	-	100	1,250
Consulting expenses (g)	90	194	284	58
Fixture leases (h)	103	262	365	770
Cost savings (i)	150	33	183	712
Management fee (j)	-	500	500	-
Transaction related costs (k)	69,186	2,061	71,247	-
<b>Adjusted EBITDA</b>	<b>\$ 9,811</b>	<b>\$ 54,512</b>	<b>\$ 64,323</b>	<b>\$ 69,405</b>

See Page 10 for related footnotes.

**CLAIRE'S STORES, INC. AND SUBSIDIARIES**  
**(UNAUDITED) (In thousands)**

	February 4, 2007 Through May 28, 2007	May 29, 2007 Through August 4, 2007	Twenty Six Weeks ended August 4, 2007	Twenty Six Weeks ended July 29, 2006
	(Predecessor)	(Successor)	(Combined)	(Predecessor)
Net income (loss)	\$ (43,772)	\$ (807)	\$ (44,579)	\$ 65,663
Income tax	21,779	217	21,996	32,764
Interest expense	86	36,840	36,926	58
Interest income	(4,962)	(912)	(5,874)	(8,088)
Depreciation and amortization	19,652	13,165	32,817	27,070
<b>Reported EBITDA</b>	<b>(7,217)</b>	<b>48,503</b>	<b>41,286</b>	<b>117,467</b>
Book to cash rent adjustment (a)	677	1,328	2,005	1,006
<b>EBITDA after rent related adjustment</b>	<b>(6,540)</b>	<b>49,831</b>	<b>43,291</b>	<b>118,473</b>
Amortization of intangible assets(b)	622	248	870	703
Equity income (c)	(665)	33	(632)	(345)
Loss on retirement of property and equipment (d)	1,201	461	1,662	570
Stock compensation expense (e)	1,275	889	2,164	3,810
Legal settlement & related costs (f)	200	-	200	1,250
Consulting expenses (g)	341	194	535	518
Fixture leases (h)	479	262	741	1,669
Cost savings (i)	897	33	930	1,394
Management fee (j)	-	500	500	-
Transaction related costs (k)	72,672	2,061	74,733	-
<b>Adjusted EBITDA</b>	<b>\$ 70,482</b>	<b>\$ 54,512</b>	<b>\$ 124,994</b>	<b>\$ 128,042</b>

The following footnotes relate to the charts on pages 9 and 10.

- (a) Represents the elimination of non-cash straight-line rent expense, amortization of rent free periods and the inclusion of cash landlord allowances.
- (b) Represents the elimination of non-cash amortization of lease rights.
- (c) Represents the elimination of non-cash equity income or loss related to our 50:50 joint venture with AEON Co. Ltd.
- (d) Represents the elimination of non-cash losses on store related property and equipment primarily associated with remodels, relocations and closures.

- (e) Represents the elimination of non-cash stock compensation expense.
- (f) Represents the elimination of a legal settlement and fees in connection with wage and hour class action litigation currently pending in California.
- (g) Represents the elimination of consulting expenses related to our European distribution center. We began to centralize our distribution operations in continental Europe by transitioning to a third party distribution center in the Netherlands.
- (h) Represents the elimination of non-cash amortization expenses associated with synthetic leases of store fixtures. The Company has not entered into any new synthetic leases after 2001.
- (i) Reflects the adjustment of executive air travel and other costs to the Company's estimate for such costs on a normalized basis and the estimated savings on directors' and officers' insurance reflective of the Company no longer being a public company. For purposes of estimating these savings, we have assumed an annual air travel budget of \$250 for our senior executive officers.
- (j) Represents the management fee paid to Apollo Management.
- (k) Transaction costs represent legal, financial advisory, compensation, and other Acquisition related expenses.