

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

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## **CLAIRE'S STORES, INC. REPORTS FISCAL 2008 THIRD QUARTER RESULTS; NET SALES INCREASE THREE PERCENT**

PEMBROKE PINES, Florida, December 13, 2007. Claire's Stores, Inc., a leading specialty retailer offering value-priced jewelry and accessories, today reported its financial results for the third quarter of Fiscal 2008, which ended November 3, 2007.

### **Third Quarter Results**

The Company reported net sales of \$357.4 million for the quarter, a 2.8% increase over the third quarter of Fiscal 2007, which ended October 28, 2006. The increase was primarily attributable to the growth in our new store base, particularly in Europe, and foreign currency translation gains, offset by a slight decrease in same store sales. A 0.5% increase in our average sale per transaction was insufficient to offset a 3.5% decline in the average number of transactions per store.

Third quarter consolidated same store sales declined 0.7%. In North America, same store sales decreased 1.0% versus last year's third fiscal quarter. European same store sales were essentially flat with last year's third fiscal quarter, at negative 0.1%. Please note that we compute same store sales on a local currency basis, and as such they are not impacted by changes in foreign exchange.

Commenting on third quarter results, Chief Executive Officer Gene Kahn said, "This quarter concludes my first full quarter as Claire's CEO. Our third quarter results are reflective of a softening retail environment. In response to consumer demand, we began to shift our product mix from jewelry to accessory classifications in order to capitalize on the strength of handbags, fashion accessories and cosmetics as we completed Back to School and transitioned into Fall. Jewelry sales are currently challenging, except among our younger customers. Our repositioning of Icing is still in its early stages as we work to refine and improve the concept and content. Our merchandise margins improved and through disciplined buying and markdown activity, inventory levels remained low and fresh."

Gross margin, which represents merchandise margin less occupancy and buying expense, declined 170 basis points to 50.7%. A 60 basis point improvement in merchandise margin was more than offset by a loss of operating leverage in rent and rent related items that resulted in a 190 basis point decline, and by higher buying expenses resulting in a 40 basis point decrease.

Selling, general and administrative expenses increased 7.5% to \$127.8 million in the third quarter of Fiscal 2008 compared to \$118.8 million in last year's comparable fiscal quarter. On a constant currency basis, SG&A expenses increased by only 4.3%, due largely to a 2.1% growth in company operated stores.

For the quarter, Adjusted EBITDA was \$60.5 million compared to \$68.5 million in the third 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 November 3, 2007, our \$200 million revolving credit facility was undrawn aside from a \$4.5 million letter of credit. Cash and cash equivalents were \$78.0 million. During the third quarter of Fiscal 2008, cash provided by operating activities was approximately \$24.4 million, compared with cash provided by operating activities of \$56.6 million during the third quarter of Fiscal 2007. The change in cash provided by operating activities was impacted by the interest expense associated with debt incurred to fund the acquisition. Capital expenditures during the third quarter of Fiscal 2008 were \$23.8 million, of which \$19.0 million related to store openings and remodeling projects, with the remainder relating primarily to the enhanced POS rollout. Capital expenditures during the third quarter of Fiscal 2007 were \$30.1 million.

### **Year to Date Results**

Net sales for the first nine months of Fiscal 2008 grew 5.4% to \$1,063.5 million from \$1,008.7 million. Consolidated same store sales decreased 0.4%. For the first nine months of Fiscal 2008, Adjusted EBITDA was \$185.5 million compared to \$196.6 million in the first nine months of Fiscal 2007.

### **Store Count: End of Third Quarter:**

	<u>November 3, 2007</u>	<u>October 28, 2006</u>
Claire's North America	2,151	2,145
Claire's Europe	900	842
Claire's Nippon	<u>202</u>	<u>192</u>
Total	3,253	3,179

### **Conference Call Information**

The Company will host its third quarter conference call on December 14, 2007, at 10:00 a.m. (EST). The call in number is 630-395-0260 and the password is "Claire's." A replay will be available through December 20, 2007. The replay number is 203-369-0434 and the password is 25247. The conference call is also being webcast and archived until December 20<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 December 1, 2007, Claire's Stores, Inc. operated 3,061 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., 202 stores in Japan as a 50:50 joint venture with AEON, Co., Ltd. The Company also franchises 162 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.clairestores.com>.

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**THIRD FISCAL QUARTER**

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

	<b>Three Months Ended November 3, 2007</b>		<b>Three Months Ended October 28, 2006</b>	
	<b>Successor Entity</b>		<b>Predecessor Entity</b>	
Net sales	\$ 357,366	100.0%	\$ 347,593	100.0%
Cost of sales, occupancy and buying expenses	176,215	49.3	165,487	47.6
Gross profit	181,151	50.7	182,106	52.4
Other expenses (income):				
Selling, general and administrative	127,772	35.8	118,843	34.2
Depreciation and amortization	26,428	7.4	14,249	4.1
Transaction-related costs	1,200	0.3	-	0.0
Other income	(1,310)	(0.4)	(754)	(0.2)
	154,090	43.1	132,338	38.1
Operating income	27,061	7.6	49,768	14.3
Interest expense (income), net	56,322	15.8	(3,162)	(0.9)
Income (loss) before income taxes	(29,261)	(8.2)	52,930	15.2
Income taxes	(15,449)	(4.3)	16,303	4.7
Net income (loss)	\$ (13,812)	(3.9%)	\$ 36,627	10.5%

**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 November 3, 2007</b>	<b>February 4, 2007 through May 28, 2007</b>	<b>Nine Months Ended October 28, 2006</b>
Net sales	\$ 638,556	\$ 424,899	\$ 1,008,680
Cost of sales, occupancy and buying expenses	314,490	206,438	480,540
Gross profit	324,066	218,461	528,140
Other expenses (income):			
Selling, general and administrative	220,513	154,482	348,569
Depreciation and amortization	39,598	19,652	41,319
Transaction-related costs	3,261	72,672	-
Other income	(1,706)	(1,476)	(1,914)
	261,666	245,330	387,974
Operating income (loss)	62,400	(26,869)	140,166
Interest expense (income), net	92,250	(4,876)	(11,191)
Income (loss) before income taxes	(29,850)	(21,993)	151,357
Income taxes	(15,231)	21,779	49,067
Net income (loss)	\$ (14,619)	\$ (43,772)	\$ 102,290

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

	<u>Successor Entity</u>	<u>Predecessor Entity</u>
	<u>November 3, 2007</u>	<u>February 3, 2007</u>
	(In thousands, except share and per share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$78,038	\$340,877
Inventories	156,538	121,119
Prepaid expenses	41,275	35,565
Other current assets	25,498	41,081
Total current assets	<u>301,349</u>	<u>538,642</u>
Property and equipment:		
Land and building	22,288	17,350
Furniture, fixtures and equipment	118,730	283,556
Leasehold improvements	214,223	288,499
	<u>355,241</u>	<u>589,405</u>
Less accumulated depreciation and amortization	<u>(36,532)</u>	<u>(324,080)</u>
	<u>318,709</u>	<u>265,325</u>
Intangible assets, net	816,212	51,582
Deferred debt issuance costs, net of accumulated amortization of \$4,421	73,140	-
Other assets	71,949	34,775
Goodwill	1,807,052	200,942
	<u>2,768,353</u>	<u>287,299</u>
Total assets	<u>\$3,388,411</u>	<u>\$1,091,266</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade accounts payable	\$83,960	\$56,323
Current portion of long-term debt	14,500	-
Income taxes payable	7,941	35,102
Accrued interest payable	49,321	-
Accrued expenses and other liabilities	105,379	104,026
Total current liabilities	<u>261,101</u>	<u>195,451</u>
Long-term debt	2,366,875	-
Deferred tax liability	142,254	19,424
Deferred rent expense	8,623	26,125
Other liabilities	12,683	2,604
	<u>2,530,435</u>	<u>48,153</u>
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	598,507	75,486
Accumulated other comprehensive income, net of tax	12,987	33,956
Retained earnings (accumulated deficit)	<u>(14,619)</u>	<u>733,567</u>
	<u>596,875</u>	<u>847,662</u>
Total liabilities and stockholders' equity	<u>\$3,388,411</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 three and nine month periods ended November 3, 2007 and October 28, 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)

	<b>Three Months Ended November 3, 2007</b>	<b>Three Months Ended October 28, 2006</b>
Net income (loss)	\$ (13,812)	\$ 36,627
Income tax	(15,449)	16,303
Interest expense	57,169	17
Interest income	(847)	(3,179)
Depreciation and amortization	26,428	14,249
<b>Reported EBITDA</b>	<b>53,489</b>	<b>64,017</b>
Book to cash rent adjustment (a)	2,736	552
<b>EBITDA after rent related adjustment</b>	<b>56,225</b>	<b>64,569</b>
Amortization of intangible assets (b)	540	438
Equity income (c)	(531)	(130)
Loss on retirement of property and equipment, net (d)	(62)	570
Stock compensation expense (e)	1,944	2,171
Consulting expenses (g)	77	182
Fixture leases (h)	360	406
Cost savings (i)	-	337
Management fee (j)	750	-
Transaction related costs (k)	1,200	-
<b>Adjusted EBITDA</b>	<b>\$ 60,503</b>	<b>\$ 68,543</b>

See Page 9 for related footnotes.

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

	<b>Nine Months Ended November 3, 2007</b>	<b>Nine Months Ended October 28, 2006</b>
Net income (loss)	\$ (58,391)	\$ 102,290
Income tax	6,548	49,067
Interest expense	94,095	75
Interest income	(6,721)	(11,266)
Depreciation and amortization	59,250	41,319
<b>Reported EBITDA</b>	<b>94,781</b>	<b>181,485</b>
Book to cash rent adjustment (a)	4,741	1,558
<b>EBITDA after rent related adjustment</b>	<b>99,522</b>	<b>183,043</b>
Amortization of intangible assets (b)	1,410	1,141
Equity income (c)	(1,163)	(475)
Loss on retirement of property and Equipment, net (d)	1,600	1,140
Stock compensation expense (e)	4,108	5,981
Legal settlement & related costs (f)	200	1,250
Consulting expenses (g)	612	700
Fixture leases (h)	1,101	2,075
Cost savings (i)	930	1,731
Management fee (j)	1,250	-
Transaction related costs (k)	75,933	-
<b>Adjusted EBITDA</b>	<b>\$ 185,503</b>	<b>\$ 196,586</b>

The following footnotes relate to the tables on pages 8 and 9.

- (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 related to our 50:50 joint venture with AEON Co. Ltd.
- (d) Represents the elimination of non-cash losses or gains 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 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 \$250,000 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.