
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 May 3, 2008

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934**

For the transition period from to

Commission File Number 1-11893

GUESS?, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-3679695
(I.R.S. Employer
Identification No.)

**1444 South Alameda Street
Los Angeles, California, 90021**
(Address of principal executive offices)

(213) 765-3100
(Registrant's telephone number, including area code)

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer
Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of June 5, 2008, the registrant had 94,984,687 shares of Common Stock, \$.01 par value per share, outstanding.

GUESS?, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

- [Item 1.](#) [Financial Statements \(unaudited\)](#)
[Condensed Consolidated Balance Sheets as of May 3, 2008 and February 2, 2008](#)
[Condensed Consolidated Statements of Income — Three Months Ended May 3, 2008 and May 5, 2007](#)
[Condensed Consolidated Statements of Cash Flows — Three Months Ended May 3, 2008 and May 5, 2007](#)
[Notes to Condensed Consolidated Financial Statements](#)
- [Item 2.](#) [Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)
- [Item 3.](#) [Quantitative and Qualitative Disclosures About Market Risk](#)
- [Item 4.](#) [Controls and Procedures](#)

PART II. OTHER INFORMATION

- [Item 1.](#) [Legal Proceedings](#)
- [Item 1A.](#) [Risk Factors](#)
- [Item 2.](#) [Unregistered Sales of Equity Securities and Use of Proceeds](#)
- [Item 3.](#) [Defaults Upon Senior Securities](#)
- [Item 4.](#) [Submission of Matters to a Vote of Security Holders](#)
- [Item 5.](#) [Other Information](#)
- [Item 6.](#) [Exhibits](#)

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements.

GUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>May 3, 2008</u>	<u>Feb. 2, 2008</u>
	<u>(unaudited)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 260,390	\$ 275,595
Accounts receivable, net	315,598	254,400
Inventories	202,804	232,159
Prepaid expenses and other current assets	26,273	31,411
Deferred tax assets	20,494	21,174
Total current assets	<u>825,559</u>	<u>814,739</u>
Property and equipment, net	237,193	229,917
Goodwill	30,534	29,431
Other intangible assets, net	22,519	23,708
Long-term deferred tax assets	56,804	57,726
Other assets	36,962	30,707
	<u>\$ 1,209,571</u>	<u>\$ 1,186,228</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of borrowings and capital lease obligations	\$ 47,562	\$ 35,254
Accounts payable	156,984	210,258
Accrued expenses	146,728	142,779
Total current liabilities	<u>351,274</u>	<u>388,291</u>
Borrowings and capital lease obligations	18,453	18,724
Long-term deferred rent and lease incentives	43,629	40,036
Long-term deferred royalties	24,696	27,062
Other long-term liabilities	51,970	49,152
	<u>490,022</u>	<u>523,265</u>
Minority interests	7,511	5,989
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding	—	—
Common stock, \$.01 par value. Authorized 150,000,000 shares; issued 135,682,422 and 135,051,396 shares, outstanding 94,984,177 and 94,337,674 shares, at May 3, 2008 and February 2, 2008, respectively	950	943
Paid-in capital	263,047	255,486
Retained earnings	583,108	542,856
Accumulated other comprehensive income	16,715	9,529
Treasury stock, 40,698,245 and 40,713,722 shares at May 3, 2008 and February 2, 2008, respectively	<u>(151,782)</u>	<u>(151,840)</u>
Total stockholders' equity	<u>\$ 712,038</u>	<u>\$ 656,974</u>
	<u>\$ 1,209,571</u>	<u>\$ 1,186,228</u>

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended	
	May 3, 2008	May 5, 2007
Net revenue:		
Product sales	\$ 465,735	\$ 357,643
Net royalties	23,485	20,306
	489,220	377,949
Cost of product sales	267,981	210,367
Gross profit	221,239	167,582
Selling, general and administrative expenses	145,314	109,648
Earnings from operations	75,925	57,934
Other (income) expense:		
Interest expense	1,025	924
Interest income	(1,533)	(1,712)
Other, net	908	891
	400	103
Earnings before income tax expense and minority interests	75,525	57,831
Income tax expense	27,189	22,363
Minority interests expense (income)	535	(59)
Net earnings	\$ 47,801	\$ 35,527
Earnings per share:		
Basic	\$ 0.51	\$ 0.39
Diluted	\$ 0.51	\$ 0.38
Dividends declared per share	\$ 0.08	\$ 0.06
Weighted average shares outstanding:		
Basic	92,950	91,886
Diluted	94,039	93,240

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended	
	May 3, 2008	May 5, 2007
Cash flows from operating activities:		
Net earnings	\$ 47,801	\$ 35,527
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization of property and equipment	11,986	11,373
Amortization of intangible assets	1,827	1,329
Share-based compensation expense	5,259	3,975
Net loss on disposition of long-term assets and property and equipment	1,356	405
Other items, net	2,578	4,751
Minority interests	535	(59)
Changes in operating assets and liabilities:		
Accounts receivable	(61,198)	(63,724)
Inventories	29,355	9,168
Prepaid expenses and other assets	1,297	(6,070)
Accounts payable and accrued expenses	(44,149)	(8,549)
Long-term deferred rent and lease incentives	2,002	1,640
Deferred royalties	(2,366)	(2,066)
Other long-term liabilities	3,485	943
Net cash used in operating activities	(232)	(11,357)
Cash flows from investing activities:		
Purchases of property and equipment	(20,327)	(21,454)
Purchases of long-term investments	(3,509)	(3,413)
Net cash used in investing activities	(23,836)	(24,867)
Cash flows from financing activities:		
Certain short-term borrowings, net	13,254	16,856
Proceeds from borrowings	635	895
Repayment of borrowings and capital lease obligation	(1,852)	(548)
Dividends paid	(7,549)	(5,593)
Minority interest capital contributions	648	—
Issuance of common stock net of nonvested award repurchases	(1,303)	1,467
Excess tax benefits from share-based compensation	3,793	3,363
Net cash provided by financing activities	7,626	16,440
Effect of exchange rates on cash and cash equivalents	1,237	1,563
Net decrease in cash and cash equivalents	(15,205)	(18,221)
Cash and cash equivalents at beginning of period	275,595	207,617
Cash and cash equivalents at end of period	\$ 260,390	\$ 189,396
Supplemental cash flow data:		
Interest paid	\$ 909	\$ 382
Income taxes paid	4,341	18,007

See accompanying notes to condensed consolidated financial statements.

GUESS?, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
May 3, 2008
(unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of Guess?, Inc. and its subsidiaries (the "Company") contain all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the condensed consolidated balance sheets as of May 3, 2008 and February 2, 2008, and the condensed consolidated statements of income and condensed consolidated statements of cash flows for the three months ended May 3, 2008 and May 5, 2007. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, they have been condensed and do not include all of the information and footnotes required by GAAP for complete financial statements. The results of operations for the three months ended May 3, 2008 are not necessarily indicative of the results of operations to be expected for the full fiscal year. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended February 2, 2008. The Company has made certain reclassifications to the prior year's consolidated financial statements to conform to classifications in the current year. These reclassifications had no impact on previously reported results of operations.

The three months ended May 3, 2008 had the same number of days as the three months ended May 5, 2007.

(2) Earnings Per Share and Stockholders' Equity

Basic earnings per share represent net earnings divided by the weighted-average number of common shares outstanding for the period. Diluted earnings per share represent net earnings divided by the weighted-average number of shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period using the treasury stock method.

Weighted-average common shares outstanding (in thousands):

	Three Months Ended	
	May 3, 2008	May 5, 2007
Weighted average shares used in basic computations	92,950	91,886
Dilutive equity awards	1,089	1,354
Weighted average shares used in diluted computations	94,039	93,240

For the three months ended May 3, 2008 and May 5, 2007, options for 747,420 and 327,464, respectively, of the Company's shares were outstanding but were excluded from the computation of diluted weighted average common shares and common share equivalents outstanding because their effect would have been anti-dilutive.

The Company also excluded 1,087,000 nonvested stock awards granted to certain employees from the computation of diluted weighted average common shares and common share equivalents outstanding, because they are subject to certain performance-based annual vesting conditions which had not been achieved by the end of the three months ended May 3, 2008. Assuming the current fiscal year's annual performance criteria had been achieved as of the three months ended May 3, 2008, the incremental dilutive impact would have been approximately 47,303 shares.

In March 2008, the Company's Board of Directors terminated the previously authorized 2001 share repurchase program and authorized a new program to repurchase, from time-to-time and as market and business conditions warrant, up to \$200 million of the Company's common stock (the "2008 Share Repurchase Program"). Repurchases may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program and the program may be discontinued at any time, without prior notice. No share repurchases have been made under the 2008 Share Repurchase Program.

(3) Comprehensive Income

Comprehensive income consists of net earnings, Supplemental Executive Retirement Plan ("SERP") related prior service cost and valuation loss amortization, unrealized gains or losses on investments available for sale, foreign currency translation adjustments and the effective portion of the change in the fair value of cash flow hedges.

A reconciliation of comprehensive income for the three months ended May 3, 2008 and May 5, 2007 is as follows (in thousands):

	Three Months Ended	
	May 3, 2008	May 5, 2007
Net earnings	\$ 47,801	\$ 35,527
Foreign currency translation adjustment	5,466	9,131
Unrealized gain (loss) on hedges, net of tax effect	1,329	(560)
Unrealized gain (loss) on investments, net of tax effect	(36)	39
SERP prior service cost and actuarial valuation loss amortization, net of tax effect	427	358
Comprehensive income	<u>\$ 54,987</u>	<u>\$ 44,495</u>

(4) Accounts Receivable

Accounts receivable consists of trade receivables primarily relating to the Company's wholesale businesses in Europe, North America and Asia. The Company provided for allowances relating to these receivables of \$21.7 million and \$20.3 million, at May 3, 2008 and February 2, 2008, respectively. In addition, accounts receivable includes royalty receivables relating to licensing operations, for which the Company recorded an allowance for doubtful accounts of \$0.3 million both at May 3, 2008 and February 2, 2008. The accounts receivable allowance includes allowances for doubtful accounts, wholesale sales returns and wholesale markdowns. Retail sales returns allowances are included in accrued expenses.

(5) Inventories

Inventories consist of the following (in thousands):

	May 3, 2008	Feb. 2, 2008
Raw materials	\$ 9,579	\$ 6,506
Work in progress	4,826	5,596
Finished goods — Europe	48,006	87,459
Finished goods — Retail	99,365	92,965
Finished goods — Wholesale	41,028	39,633
	<u>\$ 202,804</u>	<u>\$ 232,159</u>

As of May 3, 2008 and February 2, 2008, inventories had been written down to the lower of cost or market by \$23.2 million and \$21.2 million, respectively.

(6) Income Taxes

Income tax expense for the interim periods was computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management. The Company's effective income tax rate decreased 270 basis points to 36.0% for the quarter ended May 3, 2008 compared to 38.7% in the prior year quarter primarily due to higher earnings in lower tax jurisdictions.

(7) Segment Information

The business segments of the Company are retail, wholesale, European and licensing. Management evaluates segment performance based primarily on revenues and earnings from operations. Corporate overhead, global advertising and marketing expenditures, interest income and interest expense and other income and expense are evaluated on a consolidated basis and are not allocated to the Company's business segments.

Net revenue and earnings from operations are summarized as follows for the three months ended May 3, 2008 and May 5, 2007 (in thousands):

	Three Months Ended	
	May 3, 2008	May 5, 2007
Net revenue:		
Retail operations	\$ 211,937	\$ 179,529
Wholesale operations	75,134	59,195
European operations	178,664	118,919
Licensing operations	23,485	20,306
	<u>\$ 489,220</u>	<u>\$ 377,949</u>
Earnings (loss) from operations:		
Retail operations	\$ 22,844	\$ 19,892
Wholesale operations	12,554	10,701
European operations	39,961	27,717
Licensing operations	20,247	17,357
Corporate overhead	(19,681)	(17,733)
	<u>\$ 75,925</u>	<u>\$ 57,934</u>

Due to the seasonal nature of these business segments, the above net revenue and operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

(8) Borrowings and Capital Lease Obligations

Borrowings and capital lease obligations are summarized as follows (in thousands):

	May 3, 2008	Feb. 2, 2008
Short-term borrowings with European banks	\$ 45,389	\$ 32,742
European capital lease, maturing quarterly through 2016	20,626	20,422
Other loans	—	814
	<u>66,015</u>	<u>53,978</u>
Less current installments	47,562	35,254
Long-term borrowings and capital lease obligations	<u>\$ 18,453</u>	<u>\$ 18,724</u>

On September 19, 2006, the Company and certain of its subsidiaries entered into a credit facility led by Bank of America, N.A., as administrative agent for the lenders (the "Credit Facility"). The Credit Facility provides for an \$85 million revolving multicurrency line of credit and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. The Credit Facility is scheduled to mature on September 30, 2011. At May 3, 2008, the Company had \$12.2 million in outstanding standby letters of credit, \$24.2 million in outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Company, through its European subsidiaries, maintains short-term borrowing agreements, primarily for working capital purposes, with various banks in Europe. Under these agreements, which are generally secured by specific accounts receivable balances, the Company can borrow up to \$237.4 million, limited primarily by accounts receivable balances at the time of borrowing, except for one borrowing agreement which is partially secured by a \$15.0 million standby letter of credit issued under the Company's Credit Facility. Based on the applicable accounts receivable balances at May 3, 2008, the Company could have borrowed up to approximately \$219.0 million under these agreements. However, the Company's ability to borrow through foreign subsidiaries is generally limited to \$185.0 million under the terms of the Credit Facility. At May 3, 2008, the Company had \$45.4 million of outstanding borrowings and \$4.5 million in outstanding documentary letters of credit under these agreements. The agreements are denominated in Euros, have no financial ratio covenants and provide for annual interest rates ranging from 4.3% to 6.1%. The maturities of the short-term borrowings are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings.

The Company entered into a capital lease of approximately \$16.0 million in December 2005 for a new building in Florence, Italy, with subsequent build-outs which were completed in 2006. At May 3, 2008, the capital lease obligation was \$20.6 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument resulting in a fixed rate of 3.55%. This interest rate swap agreement matures in 2016 and converts the nature of the capital lease obligation from Euribor floating rate debt to fixed rate debt. The fair value of the interest rate swap asset as of May 3, 2008 was approximately \$0.7 million.

From time-to-time the Company will obtain other short term financing in foreign countries for working capital to finance its local operations.

(9) Share-Based Compensation

The following table summarizes the share-based compensation expense recognized under all of the Company's stock plans during the three months ended May 3, 2008 and May 5, 2007 (in thousands):

	Three Months Ended	
	May 3, 2008	May 5, 2007
Stock options	\$ 1,266	\$ 1,314
Nonvested stock awards/units	3,829	2,580
Employee Stock Purchase Plan	164	81
Total share-based compensation expense	\$ 5,259	\$ 3,975

Unrecognized compensation cost related to nonvested stock options and nonvested stock awards/units totaled approximately \$12.2 million and \$56.5 million, respectively, as of May 3, 2008. This cost is expected to be recognized over a weighted-average period of 2.3 years. The weighted average fair values of stock options at their grant date during the three months ended May 3, 2008 and May 5, 2007 were \$16.49 and \$19.85, respectively.

On April 3, 2008, the Company made an annual grant of 337,080 stock options and 300,080 nonvested stock awards/units to its employees. On May 1, 2008, the Company granted 167,000 nonvested stock awards to certain employees which are subject to certain annual performance-based vesting conditions over a five year period.

(10) Related Party Transactions

The Company and its subsidiaries periodically enter into transactions with other entities or individuals that are considered related parties, including certain transactions with entities affiliated with trusts for the respective benefit of Maurice and Paul Marciano, who are executives of the Company, Armand Marciano, their brother and former executive of the Company, and certain of their children (the "Marciano Trusts").

Leases

The Company leases manufacturing, warehouse and administrative facilities from partnerships affiliated with the Marciano Trusts and certain of their affiliates. There were three of these leases in effect at May 3, 2008, with expiration dates in July 2008, February 2009 and December 2014. The lease which was scheduled to expire in July 2008 has been subsequently amended to provide, among other changes, for an additional ten year term through July 2018. See Note 16, Subsequent Events.

Aggregate rent expense under these related party leases was \$0.9 million for both the three months ended May 3, 2008 and May 5, 2007. The Company believes the related party lease terms have not been significantly affected by the fact that the Company and the lessors are related.

Aircraft Arrangements

The Company periodically charters aircraft owned by MPM Financial, LLC ("MPM Financial"), an entity affiliated with the Marciano Trusts, through an independent third party management company contracted by MPM Financial to manage its aircraft. Under an informal arrangement with MPM Financial and the third party management company, the Company has chartered and may from time-to-time continue to charter aircraft owned by MPM Financial at a discount from the third party management company's preferred customer hourly charter rates. The total fees paid under these arrangements for the three months ended May 3, 2008 and May 5, 2007 were approximately \$0.2 million and \$0.1 million, respectively.

These related party disclosures should be read in conjunction with the disclosure concerning related party transactions in the Company's Form 10-K for the year ended February 2, 2008.

(11) Commitments and Contingencies

Leases

The Company leases its showrooms and retail store locations under operating lease agreements expiring on various dates through January 2022. Some of these leases require the Company to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 3% to 6%, when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis. The Company also leases some of its equipment under operating lease agreements expiring at various dates through November, 2012.

Incentive Bonuses

Certain officers and key employees of the Company are entitled to annual incentive bonuses, primarily based on net earnings of the Company or earnings of the particular operations impacted by these key employees. In addition to such annual incentive opportunities, Paul Marciano, Chief Executive Officer and Vice Chairman of the Company, shall be entitled to receive a \$3.5 million special cash bonus in the event that a pre-established licensing performance target is achieved in calendar year 2008 and the Company receives a fixed cash rights payment of \$35.0 million due in January 2012 from one of its licensees. The Company will accrue through January 2012 an expense of \$3.5 million with respect to this special bonus, plus applicable payroll taxes.

Litigation

In 2006, the Officers of the Florence Customs Authorities (“Customs Authorities”) began an import customs audit with respect to the Company’s Italian subsidiary, Maco Apparel S.p.A. (“Maco”), in Florence, Italy, acquired on January 3, 2005. Maco was the Italian licensee of GUESS? jeanswear for men and women in Europe. As part of the audit, the Customs Authorities considered whether the Italian subsidiary should have included the royalty expense payable to Guess?, Inc., the parent company, as part of the cost of the product subject to customs duties. The Customs Authorities have subsequently reviewed specific transactions which occurred in 2003, 2004 and 2005 and provided a preliminary assessment that the royalty expenses are subject to customs duties and related penalties. The Company is disputing the Customs Authorities assessment and intends to vigorously defend its position. In addition, under the terms of the Maco purchase agreement, the seller is required to indemnify the Company for 90% of any loss with respect to Maco for periods prior to the acquisition. The Custom Authorities have filed several claims which are heard independently within various sections of the Florence Provincial Tax Commission. Each claim represents a portion of the period under review. The first hearings with the Florence Provincial Tax Commission commenced on October 29, 2007. Judgments for a number of the claims have been received that were favorable to the Company on certain aspects of the claims and unfavorable on other aspects of the claims. The Company will appeal the unfavorable aspects of the judgments. The Company has concluded that the amount of any possible loss would not be material to the Company’s consolidated earnings before income taxes and that the likelihood of incurring a loss is less than probable. Accordingly, no liability related to this matter has been accrued.

The Company is also involved in various employment-related claims and other matters incidental to the Company’s business, the resolution of which is not expected to have a material adverse effect on the Company’s consolidated results of operations or financial position. No material amounts were accrued as of May 3, 2008 related to any of the Company’s legal proceedings.

(12) Supplemental Executive Retirement Plan

The components of net periodic pension cost for the three months ended May 3, 2008 and May 5, 2007 were as follows (in thousands):

	Three Months Ended	
	May 3, 2008	May 5, 2007
Service cost	\$ 61	\$ 53
Interest cost	579	431
Net amortization of unrecognized prior service cost	436	436
Net amortization of actuarial losses	232	145
Net periodic defined benefit pension cost	\$ 1,308	\$ 1,065

As a non-qualified pension plan, no funding of the SERP is required. However, the Company expects to make annual payments into an insurance policy held in a rabbi trust to fund the expected obligations arising under the non-qualified SERP. The cash surrender value of the insurance policy was \$13.6 million as of May 3, 2008 and is included in other assets. The amount of future payments may vary, depending on the future years of service, future annual compensation of the participants and investment performance of the trust.

(13) Fair Value Measurements

The Company adopted SFAS No. 157 (“SFAS 157”), “Fair Value Measurement,” as of February 3, 2008, with the exception of the application of the statement to non-recurring, nonfinancial assets and liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material impact on the Company’s fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company’s own data.

SFAS 157 requires the use of observable market data if such data is available without undue cost and effort.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of May 3, 2008 (in thousands):

Recurring Fair Value Measures	Fair Value Measurements at May 3, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Foreign exchange currency contracts	\$ —	\$ 1,022	\$ —	\$ 1,022
Interest rate swap	—	742	—	742
Securities available for sale	846	—	—	846
Total	\$ 846	\$ 1,764	\$ —	\$ 2,610
Liabilities:				
Foreign exchange currency contracts	\$ —	\$ 4,374	\$ —	\$ 4,374
Deferred compensation obligations	—	10,806	—	10,806
Total	\$ —	\$ 15,180	\$ —	\$ 15,180

The fair values of the Company’s available-for-sale securities are based on quoted prices. Fair value of the interest rate swap is based upon inputs corroborated by observable market data. The foreign exchange forward contracts are entered into by the Company principally to hedge the future payment of inventory transactions by non-U.S. subsidiaries. The fair values of the Company’s foreign exchange forward contracts are based on quoted forward foreign exchange prices at the reporting date. Deferred compensation obligations to employees are adjusted based on changes in the fair value of the underlying employee-directed investments. Fair value of these obligations is based upon inputs corroborated by observable market data.

(14) Foreign Currency Derivative Financial Instruments

The Company operates in foreign countries, which exposes it to market risk associated with foreign currency exchange rate fluctuations. The Company has entered into certain forward contracts and swaps to hedge the risk of foreign currency rate fluctuations. The Company has elected to apply the hedge accounting rules as required by SFAS 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities,” for certain of these hedges. The Company’s objective is to hedge the variability in forecasted cash flow due to the foreign currency risk (USD/Canadian exchange rate or USD/European exchange rate) associated with certain anticipated inventory purchases on a first dollar basis for specific months.

Forward Contracts Designated as Cash Flow Hedges

During the three months ended May 3, 2008, the Company purchased U.S. dollar forward contracts in Europe totaling US\$5.0 million to hedge forecasted merchandise purchases that were designated as cash-flow hedges at May 3, 2008. As of May 3, 2008, the Company had forward contracts outstanding for its European and Canadian operations of US\$5.0 million and US\$19.0 million, respectively, that are expected to mature over the next nine months. The Company's derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. These forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of forward contracts designated as cash-flow hedges are recorded as a component of accumulated other comprehensive earnings within stockholders' equity, and are recognized in cost of goods sold in the period which approximates the time the hedged merchandise inventory is sold.

As of May 3, 2008, accumulated other comprehensive income included an unrealized loss of approximately US\$0.1 million, net of tax, that will be recognized as a charge to cost of goods sold over the following thirteen months at the then current values on a pre-tax basis, which can be different than the current quarter-end values. At May 3, 2008, the unrealized net gain of the remaining open forward contracts recorded on the balance sheet was approximately US\$0.4 million. The ineffectiveness was immaterial during the three months ended May 3, 2008 and was recorded in net earnings.

At February 2, 2008, the Company had Canadian dollar forward contracts designated as cash flow hedges to purchase US\$27.0 million with an unrealized gain recorded on the balance sheet of approximately US\$0.1 million.

The following table summarizes net after-tax derivative activity recorded in accumulated other comprehensive income (in thousands):

	Three Months Ended May 3, 2008
Beginning balance (loss)	\$ (1,475)
Net gains from changes in cash flow hedges	192
Losses reclassified to income	1,137
Ending balance (loss)	<u>\$ (146)</u>

Foreign Currency Contracts Not Designated as Cash Flow Hedges

The Company also has foreign currency contracts that are not designated as hedges for accounting purposes. Changes in fair value of foreign currency contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense. For the three months ended May 3, 2008, the Company recorded a loss of US\$3.1 million for the Canadian and Euro foreign currency contracts, which has been included in other income and expense. At May 3, 2008, the Company had Canadian dollar foreign currency contracts to purchase US\$29.5 million expected to mature over the next eight months and Euro foreign currency contracts to purchase US\$56.5 million expected to mature over the next seven months. At May 3, 2008, the net unrealized losses of these Canadian and Euro forward contracts recorded on the balance sheet were approximately US\$3.7 million, primarily relating to the Euro forward contracts.

At February 2, 2008, the Company had Canadian dollar currency exchange contracts not designated as cash flow hedges to purchase US\$26.0 million and Euro currency exchange contracts to purchase US\$87.6 million. At February 2, 2008, the unrealized losses of these Canadian and Euro forward contracts were approximately US\$3.3 million, primarily relating to the Euro forward contracts.

(15) New Accounting Standards

In September 2006, the FASB issued SFAS 157 which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP SFAS 157-1 and FSP SFAS 157-2. FSP SFAS 157-1 amends SFAS 157 to exclude SFAS No. 13, "Accounting for Leases", and its related interpretive accounting pronouncements that address leasing transactions. FSP SFAS 157-2 will delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP SFAS 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP SFAS 157-2. The Company adopted SFAS 157 effective February 3, 2008 for all financial assets and liabilities as required. Refer to Note 13, Fair Value Measurements, for additional information. The adoption did not have a material impact on the Company's financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities,” which permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value. SFAS 159 provides entities an opportunity to mitigate volatility in reported earnings that is caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and was effective for the Company beginning on February 3, 2008. SFAS 159 allows the Company to elect the fair value option on an instrument by instrument basis. SFAS 159 did not have an impact on the Company’s consolidated results of operations or financial condition as the Company did not elect to adopt the fair value option for any of its financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (“SFAS 141R”), “Business Combinations,” which replaces FASB Statement 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141(R) amends SFAS No. 109, “Accounting for Income Taxes,” to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on the Company’s consolidated financial statements relating to potential future acquisitions.

In December 2007, the FASB issued SFAS No. 160 (“SFAS 160”), “Accounting for Noncontrolling Interests,” which clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. SFAS 160 will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 160 on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities,” which amends SFAS 133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company’s strategies and objectives for using derivatives. SFAS 161 is effective for fiscal periods beginning on or after November 15, 2008. The Company is currently evaluating the potential impact of the adoption of SFAS 161 on its disclosures in the Company’s consolidated financial statements.

(16) Subsequent Events

On June 3, 2008, the Company announced a regular quarterly cash dividend of \$0.08 per share on the Company’s common stock. The cash dividend will be payable on July 3, 2008 to shareholders of record at the close of business on June 18, 2008.

On June 10, 2008, the Company entered into a First Amendment to Lease with respect to the Company’s corporate headquarters in Los Angeles, California (the “First Amendment”) with 1444 Partners, Ltd. (“1444 Partners”), an entity owned by trusts and other affiliates for the benefit of Maurice Marciano, the Company’s Chairman of the Board, Paul Marciano, the Company’s Chief Executive Officer and Vice Chairman, and certain of their family members. The corporate headquarters consist of approximately 355,000 square feet and serve primarily as the Company’s principal executive and administrative offices, design facilities, sales offices and warehouse facilities.

The First Amendment amends the original lease agreement dated July 29, 1992 between the Company and 1444 Partners which provided for a 16 year term expiring July 29, 2008 (the “Original Lease”). The First Amendment provides for a ten year lease renewal term, ending July 31, 2018, with an additional five year renewal option to July 31, 2023 at the Company’s sole discretion. The First Amendment provides for a triple net lease with annual rent in the amount of \$2,852,664 for the first lease year of the renewal term (which amount is approximately 5.6% lower than the most recent annual rent under the terms of the Original Lease), subject to an increase each year equal to the lesser of the increase of a specified consumer price index or four percent (which amount is lower than the five percent maximum annual adjustment provided for under the Original Lease). In the event the renewal option is exercised by the Company, the annual rent will reset in year eleven at the then-prevailing market rate. All other material terms of the Original Lease remain in full force and effect.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

IMPORTANT NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including documents incorporated by reference herein, contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be contained in the Company's other reports filed under the Securities Exchange Act of 1934, as amended, in its press releases and in other documents. In addition, from time-to-time, the Company through its management may make oral forward-looking statements. These statements relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our future prospects and proposed new products, services, developments or business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "continue", and other similar terms and phrases, including references to assumptions.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed. These forward-looking statements may include, among other things, statements relating to the Company's expected results of operations, the accuracy of data relating to, and anticipated levels of, future inventory and gross margins, anticipated cash requirements and sources, cost containment efforts, estimated charges, plans regarding store openings and closings, plans regarding business growth, e-commerce, business seasonality, industry trends, consumer demands and preferences, competition and general economic conditions. We do not intend, and undertake no obligation, to update our forward-looking statements to reflect future events or circumstances. Such statements involve risks and uncertainties, which may cause actual results to differ materially from those set forth in these statements. Important factors that could cause or contribute to such difference include those discussed under "Item 1A. Risk Factors" contained in the Company's most recent Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

Summary

The business segments of the Company are retail, wholesale, European and licensing operations. Information relating to these segments is summarized in Note 7 to the Condensed Consolidated Financial Statements. The Company believes this segment reporting reflects how its four business segments are managed and each segment's performance is evaluated. The retail segment includes the Company's retail operations in North America. The wholesale segment includes the wholesale operations in North America and our Asian operations. The European segment includes both wholesale and retail operations in Europe. The licensing segment includes the worldwide licensing operations of the Company. The business segments operating results exclude corporate overhead costs, which consist of shared costs of the organization. These costs are presented separately and generally include, among other things, the following unallocated corporate costs: information technology, human resources, global advertising and marketing, accounting and finance, executive compensation, facilities and legal.

We derive our net revenue from the sale of GUESS? men's and women's apparel, MARCIANO women's apparel, G by GUESS men's and women's apparel, GUESS by MARCIANO men's and women's apparel, and our licensees' products through our worldwide network of retail stores, wholesale customers and distributors, as well as our on-line stores. We also derive royalty revenues from worldwide licensing activities.

We acquired Focus Europe S.r.l. ("Focus"), our former licensee for GUESS by MARCIANO products in Europe, the Middle East and Asia, in December 2006, and BARN S.r.l. ("Barn"), our former kids licensee in Europe, in January 2008. Both entities are reported in our European segment. G by GUESS is a new retail brand concept that was launched in early fiscal 2008 and is included in our retail segment. Our South Korea business, which we have operated directly since January 2007, and our Greater China business are also relatively new businesses for us and are reported in our wholesale segment.

Unless the context indicates otherwise, when we refer to "we," "us" or the "Company" in this Form 10-Q, we are referring to Guess?, Inc. and its subsidiaries on a consolidated basis.

The three months ended May 3, 2008 had the same number of days as the three months ended May 5, 2007.

We report NRF calendar comparable store sales on a quarterly basis for our full-price retail and factory outlet stores in the U.S. and Canada. A store is considered comparable after it has been open for 13 full months. If a store remodel results in a square footage change of more than 15%, or involves a relocation or a change in store concept, the store is removed from the comparable store base until it has been opened at its new size, in its new location or under its new concept for 13 full months.

Executive Summary

The Company

The Company generated net earnings of \$47.8 million, or diluted earnings of \$0.51 per share, for the quarter ended May 3, 2008, compared to net earnings of \$35.5 million, or diluted earnings of \$0.38 per share, for the quarter ended May 5, 2007.

Total net revenues increased 29.4% to \$489.2 million for the quarter ended May 3, 2008, from \$377.9 million for the quarter ended May 5, 2007. All of our business segments contributed to this growth. The European segment was the largest contributor to the revenue growth, delivering 54% of the increase to consolidated revenue. Our retail segment contributed 29% of the revenue increase, resulting from a 7.0% increase in comparable store sales and retail store expansion with the opening of 19 new stores. Our wholesale segment contributed about 14% of the consolidated increase in revenues, as our Asia business continues to develop. Our licensing business contributed the remaining 3% of the Company's revenue growth.

Gross profit increased 32.0% to \$221.2 million for the quarter ended May 3, 2008, compared to \$167.6 million for the same period a year ago and gross margin increased 90 basis points to 45.2%. This gross margin expansion was attributable to higher product margins in our European segment, an overall sales mix shift toward our higher margin European business and occupancy leverage in our retail segment partially offset by lower product margins in our retail segment.

Selling, general and administrative ("SG&A") expenses increased 32.5% to \$145.3 million for the quarter ended May 3, 2008 compared to \$109.6 million for the quarter ended May 5, 2007. The majority of the increase in SG&A expenses supported the higher sales volumes in the quarter. The balance of the additional spending was driven by our investments in new businesses and new infrastructure to support our growth opportunities. As a percentage of revenues, SG&A expense increased 70 basis points to 29.7% for the quarter ended May 3, 2008, compared to the prior-year quarter.

Overall, operating profit increased 31.1% to \$75.9 million for the quarter ended May 3, 2008, compared to \$57.9 million for the same period a year ago and operating margin increased by 20 basis points to 15.5%, driven by the higher gross margin partially offset by the increase in SG&A spending as a percentage of net revenues.

Other expense, net was \$0.9 million for both the quarter ended May 3, 2008 and the comparable prior year quarter. This expense relates primarily to net revaluation losses on foreign currency forward contracts as well as other currency related revaluations.

Our effective income tax rate decreased 270 basis points to 36.0% for the quarter ended May 3, 2008 compared to 38.7% in the prior year quarter primarily due to higher earnings in lower tax jurisdictions.

The Company had \$260.4 million in cash and cash equivalents as of May 3, 2008, compared to \$189.4 million as of May 5, 2007. Total debt, including capital lease obligations, as of May 3, 2008, was \$66.0 million, up \$10.7 million from \$55.3 million as of May 5, 2007. The increase in debt was driven primarily by the currency translation impact of changes in foreign exchange rates. Accounts receivable increased by \$109.2 million, or 52.9%, to \$315.6 million at May 3, 2008, compared to \$206.4 million at May 5, 2007. The increase in accounts receivable primarily supported the Company's international growth, primarily in Europe as well as in South Korea and Greater China. Currency translation fluctuations accounted for \$28.4 million of the increase in accounts receivable. Inventory increased by \$38.3 million, or 23.3%, to \$202.8 million as of May 3, 2008, compared to \$164.5 million as of May 5, 2007. Approximately \$19.2 million of this increase was attributable to new businesses including Barn, our South Korea and Greater China operations, Mexico, and our new G by GUESS store concept. The remaining inventory increase was related to anticipated sales growth in our other European and North American operations. Currency fluctuations resulted in a higher translation impact on the current quarter's ending inventory of approximately \$8.4 million compared to the prior year quarter amount.

Retail

Our retail segment, comprising North American full-priced retail and factory outlet stores and e-commerce, generated net sales of \$211.9 million during the quarter ended May 3, 2008, an increase of \$32.4 million, or 18.1%, from \$179.5 million in the prior year period. This growth was driven by a comparable store sales increase of 7.0% and a larger store base, which represented a net 11.4% increase in average square footage compared to the quarter ended May 5, 2007. All of our product categories contributed to the revenue growth. Retail earnings from operations increased by \$2.9 million to \$22.8 million for the quarter ended May 3, 2008, compared to \$19.9 million for the quarter ended May 5, 2007. This increase was primarily driven by higher sales volume and resulting gross profit, which included the impact of lower product margins and increased occupancy costs to support the larger store base. This growth was partially offset by higher selling and administrative expenses to support such higher sales, as well as investments in infrastructure for our G by GUESS and MARCIANO brand concepts, net of lower retail advertising and marketing costs. Operating margin decreased 30 basis points to 10.8% in the quarter ended May 3, 2008, compared to 11.1% in the quarter ended May 5, 2007.

In the quarter, we opened 19 new stores and closed 1 underperforming store in the U.S. and Canada. At May 3, 2008, we operated 391 stores in the U.S. and Canada, comprised of 187 full-priced retail stores, 98 factory outlet stores, 47 Marciano stores, 21 GUESS? Accessories stores, 37 G by GUESS stores and one footwear store. This compares to 336 stores as of May 5, 2007. We have continued to develop our new store concepts, which includes our MARCIANO branded stores and our G by GUESS stores, and we believe that over time these concepts can grow to become significant chains in North America.

Wholesale

Wholesale segment revenues increased by \$15.9 million, or 26.9%, to \$75.1 million for the quarter ended May 3, 2008, from \$59.2 million for the quarter ended May 5, 2007. The increase in net revenues was primarily due to expansion of our Asian operations. Earnings from operations for the wholesale segment improved by \$1.9 million, or 17.3%, to \$12.6 million for the quarter ended May 3, 2008, from \$10.7 million for the prior year period, driven by increased sales and resulting gross profit, partially offset by increased spending on occupancy and infrastructure costs. Operating margin decreased 140 basis points to 16.7% in the quarter ended May 3, 2008, compared to 18.1% for the quarter ended May 5, 2007. The relative growth of our Asia business, where operating margins are lower than our North American wholesale business, was the main driver of the operating margin decrease.

Europe

In Europe, revenues increased by \$59.8 million, or 50.2%, to \$178.7 million for the quarter ended May 3, 2008, compared to \$118.9 million for the quarter ended May 5, 2007. The majority of the revenue growth was generated by the European wholesale business, driven by continued growth in both our existing accessories and apparel businesses. The current quarter also benefited from growth in Focus and the recent acquisition of Barn. In addition, at May 3, 2008, we directly operated 40 stores in Europe compared to 25 stores in the prior year quarter. Earnings from operations from our European segment increased by \$12.3 million, or 44.2%, to \$40.0 million for the quarter ended May 3, 2008, from \$27.7 million for the quarter ended May 5, 2007. This operating earnings increase was driven by the higher sales and resulting increase to gross profit. This was partially offset by higher operating costs to support the sales growth, new businesses and new infrastructure; and higher advertising and marketing costs. The increase in earnings from operations also benefited from favorable currency translation. Operating margin decreased 90 basis points to 22.4% in the quarter ended May 3, 2008, compared to 23.3% for the quarter ended May 5, 2007 due to the impact of our investment in our new European headquarters as well as the impact of our newer businesses partially offset by the higher gross margins.

Licensing

Our licensing business revenues increased by \$3.2 million, or 15.7%, to \$23.5 million for the quarter ended May 3, 2008, from \$20.3 million for the quarter ended May 5, 2007. This increase was driven by our licensees' revenue growth in several product categories, especially watches and footwear. The increase in net royalties was partially offset by the loss of royalty revenue from Barn, which we now operate directly and is reported in our European segment. Licensing segment earnings from operations increased \$2.9 million, or 16.7%, to \$20.2 million for the quarter ended May 3, 2008, from \$17.4 million for the quarter ended May 5, 2007. Operating margin increased 70 basis points to 86.2% in the quarter ended May 3, 2008 compared to 85.5% for the quarter ended May 5, 2007.

Outside of the U.S. and Canada, in the quarter ended May 3, 2008, together with our partners, we opened 34 new stores, including ten stores in Europe, 16 stores in Asia and one store in Central America. We ended the first quarter of fiscal 2009 with 607 stores outside of the U.S. and Canada, of which 440 were GUESS? stores, 40 were GUESS by MARCIANO stores and 127 were GUESS? Accessories stores. Of the 607 stores, 63 were operated by the Company and 544 were operated by licensees or distributors. This store count does not include 97 concessions located in South Korea and China because of their smaller store size in relation to our standard international store size.

Corporate Overhead

Corporate overhead increased by \$2.0 million, or 11.0%, to \$19.7 million in the quarter ended May 3, 2008, from \$17.7 million for the quarter ended May 5, 2007. This increase was primarily due to global advertising and marketing spending and performance-based compensation costs.

RESULTS OF OPERATIONS

Three months ended May 3, 2008 and May 5, 2007.

NET REVENUE. Net revenue for the quarter ended May 3, 2008 increased by \$111.3 million, or 29.4%, to \$489.2 million, from \$377.9 million for the quarter ended May 5, 2007. All segments contributed to this revenue growth with double-digit percentage increases.

Net revenue from retail operations increased by \$32.4 million, or 18.1%, to \$211.9 million for the quarter ended May 3, 2008, from \$179.5 million for the quarter ended May 5, 2007. The increase was driven by a comparable store sales growth of 7.0% and an average of 47 net additional stores during the quarter ended May 3, 2008 resulting in a net 11.4% increase in average square footage compared to the prior year period. Currency translation fluctuations accounted for \$5.6 million of the increase in net revenue relating to our Canadian retail stores.

Net revenue from wholesale operations increased by \$15.9 million, or 26.9%, to \$75.1 million for the quarter ended May 3, 2008, from \$59.2 million for the quarter ended May 5, 2007. Most of this revenue growth was generated from our expanding Asia operations, primarily in South Korea as well as in Greater China, while revenue from our North American wholesale business remained essentially flat this quarter versus the comparable prior-year period. Our products were sold in the U.S. in approximately 1,045 doors at the end of the quarter compared to 953 doors at the end of the prior year quarter. Currency translation fluctuations accounted for \$1.1 million of the increase in net revenue relating to our Canadian wholesale business.

Net revenue from European operations increased by \$59.8 million, or 50.2%, to \$178.7 million for the quarter ended May 3, 2008, from \$118.9 million for the quarter ended May 5, 2007. All of our existing businesses in Europe contributed to this growth, including Bam, which we acquired in January 2008. As of May 3, 2008, the Company directly operated 40 stores in Europe compared to 25 stores as of May 5, 2007. Currency translation fluctuations accounted for \$22.6 million of the increase in net revenue relating to our European operations.

Net royalty revenue from licensing operations increased by \$3.2 million, or 15.7%, to \$23.5 million for the quarter ended May 3, 2008, from \$20.3 million for the quarter ended May 5, 2007. Our accessories and footwear lines of business continue to drive the royalty revenue growth of our licensing segment which was partially offset by the loss of royalties from Bam, which we now operate directly and report as part of our European operations.

GROSS PROFIT. Gross profit increased by \$53.6 million, or 32.0%, to \$221.2 million for the quarter ended May 3, 2008, from \$167.6 million for the quarter ended May 5, 2007. The increase in gross profit primarily resulted from the following:

- Gross profit for the retail segment increased by \$10.7 million, or 16.4%, to \$75.4 million for the quarter ended May 3, 2008, from \$64.7 million in the prior year period, primarily due to higher sales volume and higher average selling prices, partially offset by higher product and occupancy costs.
- Gross profit for the wholesale segment increased by \$2.9 million, or 12.1%, to \$26.5 million for the quarter ended May 3, 2008, from \$23.6 million in the prior year period, primarily due to our Asian businesses, partially offset by the impact of higher occupancy costs in Asia to support such growth.
- Gross profit for the European segment increased by \$37.0 million, or 62.8%, to \$95.9 million for the quarter ended May 3, 2008, from \$58.9 million in the prior year period. The increase in our European gross profit was primarily attributable to higher sales volume in the existing European operations combined with a higher product gross margin and the acquisition of Bam in January 2008.
- Gross profit for the licensing segment increased by \$3.2 million, or 15.7%, to \$23.5 million for the quarter ended May 3, 2008, from \$20.3 million in the prior year period. The licensing gross profit improvement resulted from higher sales of accessory products, especially watches, and footwear by our licensees.

Gross margin (gross profit as a percentage of total net revenues) increased 90 basis points to 45.2% for the quarter ended May 3, 2008, from 44.3% for the quarter ended May 5, 2007. The increase in gross margin was driven by the higher product margins in our European segment, an overall sales mix shift toward our higher margin European business and occupancy leverage in the retail segment partially offset by lower retail product margins in our retail segment.

The Company's gross margin may not be comparable to other entities since some entities include all of the costs related to their distribution in cost of product sales and others, like the Company, exclude the wholesale related distribution costs from gross margin, including them instead in selling, general and administrative expenses.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. SG&A expenses increased by \$35.7 million, or 32.5%, to \$145.3 million for the quarter ended May 3, 2008, from \$109.6 million for the quarter ended May 5, 2007. About \$19.6 million of the increase was attributable to higher store selling, merchandising and distribution costs due to the higher sales volumes. Approximately \$12.1 million of the increase was attributable to spending to support new businesses, including Barn, our G by GUESS brand, and Greater China, as well as spending to support our new European headquarters in Lugano, Switzerland.

As a percentage of net revenue, SG&A expense increased to 29.7% for the quarter ended May 3, 2008, compared to 29.0% for the quarter ended May 5, 2007, driven by infrastructure investments and new businesses in Europe, partially offset by corporate overhead leverage, and spending leverage in Asia.

EARNINGS FROM OPERATIONS. Earnings from operations increased by \$18.0 million, or 31.1%, to \$75.9 million for the quarter ended May 3, 2008, compared with earnings from operations of \$57.9 million for the quarter ended May 5, 2007.

- Earnings from operations for the retail segment were \$22.8 million for the quarter ended May 3, 2008, compared to \$19.9 million for the quarter ended May 5, 2007. The increase was driven by the higher sales and resulting gross profit which included the impact of lower product margins and increased occupancy costs to support the larger store base. This growth was partially offset by higher selling and administrative expenses to support such higher sales, as well as investments in infrastructure for our G by GUESS and MARCIANO brand concepts, net of lower advertising and marketing costs. Currency translation accounted for \$0.9 million of the increase in earnings from operations for our Canadian retail stores.
- Earnings from operations for the wholesale segment were \$12.6 million for the quarter ended May 3, 2008, compared to \$10.7 million for the quarter ended May 5, 2007. This increase was driven by higher sales in our Asian businesses, and the resulting gross profit, partially offset by additional occupancy and SG&A expenses in Asia due to new retail stores and to build infrastructure in this region and support the increased sales. Currency translation fluctuations accounted for \$0.3 million of the increase in earnings from operations for our Canadian wholesale business.
- Earnings from operations for the European segment were \$40.0 million for the quarter ended May 3, 2008, compared to \$27.7 million for the quarter ended May 5, 2007. The increase was primarily due to the higher sales and gross profit resulting from growth in our existing European wholesale businesses and our Company-owned retail business, and our acquisition of Barn, partially offset by higher volume related operating costs and infrastructure investments; and higher advertising and marketing costs in the current quarter. Currency translation fluctuations accounted for \$4.7 million of the increase in earnings from operations for our European operations.
- Earnings from operations for the licensing segment were \$20.2 million for the quarter ended May 3, 2008, compared to \$17.4 million for the quarter ended May 5, 2007. The improvement was the result of higher revenues generated by our licensees as a result of increased sales of accessories and footwear products. This increase was partially offset by the loss of royalty revenue from Barn, the former kids licensee, in the period compared to the prior year period.
- Unallocated corporate overhead increased to \$19.7 million for the quarter ended May 3, 2008, compared to \$17.7 million for the quarter ended May 5, 2007. This increase was primarily due to global advertising and marketing spending and performance-based compensation costs.

The increase in gross margin partially offset by higher SG&A spending as a percentage of net revenues resulted in an increase in operating margin of 20 basis points to 15.5% for the quarter ended May 3, 2008 from 15.3% for the prior year quarter.

INTEREST EXPENSE AND INTEREST INCOME. Interest expense increased slightly to \$1.0 million for the quarter ended May 3, 2008, compared to \$0.9 million for the quarter ended May 5, 2007. Total debt at May 3, 2008 was \$66.0 million, and was comprised of \$45.4 million of short-term bank debt from our European operations and \$20.6 million of capital lease obligations relating to one of our Italian facilities. The average debt balance for the quarter ended May 3, 2008 was \$61.7 million, versus an average debt balance of \$54.1 million for the quarter ended May 5, 2007. Almost all of the increase was due to currency translation. Interest income decreased to \$1.5 million for the quarter ended May 3, 2008, compared to \$1.7 million for the quarter ended May 5, 2007, due to lower interest rates on the invested cash, partially offset by higher average invested cash balances.

OTHER EXPENSE, NET. Other expense was \$0.9 million for both the quarter ended May 3, 2008 and the quarter ended May 5, 2007. Other expense in both the quarters ended May 3, 2008 and May 5, 2007 consisted of losses related to changes in foreign exchange rates on forward contracts and other foreign currency transactions, partially offset by favorable changes in value of insurance policy investments.

INCOME TAXES. Income tax expense for the quarter ended May 3, 2008 was \$27.2 million, or a 36.0% effective tax rate, compared to income tax expense of \$22.4 million, or a 38.7% effective tax rate, for the quarter ended May 5, 2007. Generally, income taxes for the interim periods are computed using the effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management. The lower tax rate in the current quarter was due to higher earnings in lower tax jurisdictions.

MINORITY INTERESTS. The minority interest expense of \$0.5 million, net of taxes, compared to a minority interest income of \$0.1 million in the prior year quarter primarily represents the stronger performance of Focus and our Mexican joint venture, which were profitable during the period.

NET EARNINGS. Net earnings increased by \$12.3 million, or 34.5%, to \$47.8 million for the quarter ended May 3, 2008, from \$35.5 million for the quarter ended May 5, 2007. Diluted earnings per share increased to \$0.51 per share for the quarter ended May 3, 2008 compared to \$0.38 per share for the quarter ended May 5, 2007.

LIQUIDITY AND CAPITAL RESOURCES

We need liquidity primarily to fund our working capital in Europe, the expansion and remodeling of our retail stores, shop-in-shop programs, systems, infrastructure, other existing operations, international growth, potential acquisitions, potential share repurchases and payment of dividends to our shareholders. During the three months ended May 3, 2008, we relied on trade credit, available cash, short-term borrowings from our European bank facilities, real estate leases, and internally generated funds to finance our operations and expansion. We anticipate that we will be able to satisfy our ongoing cash requirements during the next twelve months for working capital, capital expenditures, interest and principal payments on our debt, potential acquisitions, potential share repurchases and dividend payments to shareholders, primarily with cash flow from operations supplemented by borrowings, if necessary, under the Credit Facility and bank facilities in Europe. Excess cash and cash equivalents, which represent the majority of our outstanding cash and cash equivalents balance, are held primarily in two diversified municipal money market funds. The funds, which are both AAA rated, are comprised of high-quality, liquid investments. As of May 3, 2008, we do not have any exposure to auction-rate security investments in these funds. Please see "Important Notice Regarding Forward-Looking Statements" for a discussion of risk factors which could reasonably be likely to result in a decrease of internally generated funds available to finance capital expenditures and working capital requirements.

Operating Activities

Net cash used in operating activities was \$0.2 million for the three months ended May 3, 2008, compared to \$11.4 million for the three months ended May 5, 2007, or an improvement of \$11.2 million. The change was driven by a \$12.3 million growth in net income for the three months ended May 3, 2008 versus the prior year period. The growth in accounts receivable for the quarter ended May 3, 2008, primarily to support growth in Europe, was comparable with the growth in the prior year quarter. Additional investments in inventory were more than offset by growth in accounts payable.

At May 3, 2008, the Company had working capital (including cash and cash equivalents) of \$474.3 million compared to \$426.4 million at February 2, 2008 and \$308.9 million at May 5, 2007. The Company's primary working capital needs are for inventory and accounts receivable. Accounts receivable at May 3, 2008 amounted to \$315.6 million, up \$109.2 million, compared to \$206.4 million at May 5, 2007. Approximately \$56.3 million of the increase resulted from the growth in accounts receivable related to our existing European business, which totaled \$183.0 million at May 3, 2008, versus \$126.7 million at May 5, 2007. Our Focus, Barn, South Korea, Greater China and Mexico operations accounted for approximately \$34.4 million of the remaining growth in receivables. Approximately \$141.3 million of the \$315.6 million in accounts receivable at May 3, 2008 were insured for collection purposes or subject to certain bank guarantees. Currency translation fluctuations accounted for \$28.4 million of the increase in accounts receivable. Inventory at May 3, 2008 amounted to \$202.8 million, up \$38.3 million compared to \$164.5 million at May 5, 2007. Approximately \$19.2 million of this increase was attributed to the Company's newer businesses, including Barn, South Korea, Greater China, Mexico, and our G by GUESS store concept, with the remaining increase driven by our existing North American retail and European operations to support anticipated sales in these businesses.

Investing Activities

Net cash used in investing activities decreased to \$23.8 million for the three months ended May 3, 2008, compared to \$24.9 million for the three months ended May 5, 2007. Cash used in investing activities relates to capital expenditures incurred on new store openings and existing store remodeling programs in the U.S. and Canada, expansion in Europe and Asia, investments in information systems and other enhancements. During the first quarter this year, the Company opened 19 new stores in the U.S. and Canada compared to eight new stores that were opened and 15 existing stores that were converted to the G by GUESS concept in the comparable prior year period.

Financing Activities

Net cash provided by financing activities decreased to \$7.6 million for the three months ended May 3, 2008, compared to \$16.4 million for the three months ended May 5, 2007. The decrease in net cash provided by financing activities was primarily due to a lower level of borrowings growth in the current period compared to the growth in the prior year period.

Dividend Policy

On March 19, 2008, the Company announced a quarterly cash dividend of \$0.08 per share on the Company's common stock. The cash dividend was paid on April 18, 2008 to shareholders of record as of the close of business on April 2, 2008.

On June 3, 2008, the Company announced a quarterly cash dividend of \$0.08 per share on the Company's common stock. The cash dividend will be payable on July 3, 2008 to shareholders of record at the close of business on June 18, 2008.

Capital Expenditures

Gross capital expenditures totaled \$20.3 million, before deducting lease incentives of \$2.0 million, for the three months ended May 3, 2008. This compares to gross capital expenditures of \$21.5 million, before deducting lease incentives of \$2.8 million, for the three months ended May 5, 2007. The Company's capital expenditures for the full fiscal year 2009 are planned at approximately \$134.4 million (before deducting estimated lease incentives of approximately \$7.3 million) primarily for retail store expansion of approximately 60 stores in the U.S. and Canada, store remodeling programs, expansion in Europe and Asia, investments in information systems and other infrastructure upgrades. In addition, we periodically evaluate strategic acquisitions and alliances and pursue those that we believe will support and contribute to our overall growth initiatives.

Credit Facilities

On September 19, 2006, the Company and certain of its subsidiaries entered into a credit facility led by Bank of America, N.A., as administrative agent for the lenders (the "Credit Facility"). The Credit Facility provides for an \$85 million revolving multicurrency line of credit and is available for direct borrowings and the issuance of letters of credit, subject to certain letters of credit sublimits. The Credit Facility is scheduled to mature on September 30, 2011. At May 3, 2008, the Company had \$12.2 million in outstanding standby letters of credit, \$24.2 million in outstanding documentary letters of credit and no outstanding borrowings under the Credit Facility.

The Company, through its European subsidiaries, maintains short-term borrowing agreements, primarily for working capital purposes, with various banks in Europe. Under these agreements, which are generally secured by specific accounts receivable balances, the Company can borrow up to \$237.4 million, limited primarily by accounts receivable balances at the time of borrowing, except for one borrowing agreement which is partially secured by a \$15.0 million standby letter of credit issued under the Company's Credit Facility. Based on the applicable accounts receivable balances at May 3, 2008, the Company could have borrowed up to approximately \$219.0 million under these agreements. However, the Company's ability to borrow through foreign subsidiaries is generally limited to \$185.0 million under the terms of the Credit Facility. At May 3, 2008, the Company had \$45.4 million of outstanding borrowings and \$4.5 million in outstanding documentary letters of credit under these agreements. The agreements are denominated in Euros, have no financial ratio covenants and provide for annual interest rates ranging from 4.3% to 6.1%. The maturities of the short-term borrowings are generally linked to the credit terms of the underlying accounts receivable that secure the borrowings.

The Company entered into a capital lease of approximately \$16.0 million in December 2005 for a new building in Florence, Italy, with subsequent build-outs which were completed in 2006. At May 3, 2008, the capital lease obligation was \$20.6 million. The Company entered into a separate interest rate swap agreement designated as a non-hedging instrument resulting in a fixed rate of 3.55%. This interest rate swap agreement matures in 2016 and converts the nature of the capital lease obligation from Euribor floating rate debt to fixed rate debt. The fair value of the interest rate swap asset as of May 3, 2008 was approximately \$0.7 million.

From time-to-time the Company will obtain other short term financing in foreign countries for working capital to finance its local operations.

Share Repurchases

In March 2008, the Company's Board of Directors terminated the previously authorized 2001 share repurchase program and authorized the new 2008 Share Repurchase Program to repurchase, from time-to-time and as market and business conditions warrant, up to \$200 million of the Company's common stock. Repurchases may be made on the open market or in privately negotiated transactions, pursuant to Rule 10b5-1 trading plans or other available means. There is no minimum or maximum number of shares to be repurchased under the program and the program may be discontinued at any time, without prior notice. No share repurchases have been made under the 2008 Share Repurchase Program.

SEASONALITY

The Company's business is impacted by the general seasonal trends characteristic of the apparel and retail industries. U.S. retail operations are generally stronger from July through December, and U.S. wholesale operations generally experience stronger performance from July through November. The European operations are largely wholesale driven and operate with two primary selling seasons. Spring/Summer primarily ships in January, February and March and Fall/Winter primarily ships in July, August and September. The remaining months of the year are relatively smaller shipping months in Europe. Due to the seasonality of the business, the results for any particular quarter may not be indicative of results for the full year.

INFLATION

The Company does not believe that the relatively moderate rates of inflation experienced in the U.S. and Europe over the last three years have had a significant effect on net revenue or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which the Company's products are manufactured and sold, management does not believe that foreign rates of inflation have had a material adverse effect on the Company's net revenue or profitability.

WHOLESALE BACKLOG

The backlog of wholesale orders at any given time is affected by various factors, including seasonality, cancellations, the scheduling of market weeks and manufacturing and shipment of products. Accordingly, a comparison of backlogs of wholesale orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

U.S. Backlog

The Company maintains a model stock program in its basic denim products which generally allows replenishment of a customer's inventory within 72 hours. The Company generally receives orders for fashion apparel 90 to 120 days prior to the time the products are delivered to our customers' stores. Regarding our U.S. wholesale backlog, the scheduling of market weeks or the discontinuance of a product line can affect the amount of orders booked in the backlog compared to the same date in the prior year. We estimate that if we were to normalize the orders for last year's backlog to make the comparison consistent with the current year, then the current backlog at May 24, 2008 would be up about 0.3% from the prior year's backlog at May 26, 2007. Not taking into account the normalization of backlog, our U.S. wholesale backlog as of May 24, 2008, consisting primarily of orders for fashion apparel, was approximately \$66.0 million, compared to \$66.9 million for such orders at May 26, 2007, or down 1.3%.

Europe Backlog

Our European business operates with two primary wholesale selling seasons. The Spring/Summer season, which ships mostly in January, February and March and the Fall/Winter season, which ships mostly in July, August and September. Generally, the other months are relatively smaller shipping months. However, customers have the ability to request early shipment of backlog orders or delay shipment of orders depending on their needs. Accordingly, a certain amount of orders in the backlog may be shipped outside of the traditional shipping months. As of May 27, 2008, the European operations backlog was approximately €206.4 million, compared to €173.4 million at May 31, 2007, or up 19.0%. The backlog as of May 27, 2008 comprises sales orders primarily for our Fall/Winter 2008 season including our new Bam operation which was acquired at the end of the prior fiscal year. As discussed above, these orders are subject to cancellation and may not be indicative of eventual actual shipments. In addition, the timing of receipt of orders may impact the amount of orders booked in the backlog at a particular point in time.

Application of Critical Accounting Policies

Our critical accounting policies reflecting our estimates and judgments are described in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, in our Annual Report on Form 10-K for the year ended February 2, 2008, filed with the SEC on April 1, 2008. There have been no significant changes to our critical accounting policies during the quarter ended May 3, 2008.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurement," which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP SFAS 157-1 and FSP SFAS 157-2. FSP SFAS 157-1 amends SFAS 157 to exclude SFAS No. 13, "Accounting for Leases", and its related interpretive accounting pronouncements that address leasing transactions. FSP SFAS 157-2 will delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP SFAS 157-2 partially defers the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of FSP SFAS 157-2. Effective for fiscal 2009, the Company adopted SFAS 157 except as it applies to those nonfinancial assets and nonfinancial liabilities as noted in FSP SFAS 157-2. The adoption did not have a material impact on the Company's financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which permits entities to voluntarily choose to measure many financial instruments and certain other items at fair value. SFAS 159 provides entities an opportunity to mitigate volatility in reported earnings that is caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and was effective for the Company beginning on February 3, 2008. SFAS 159 allows the Company to elect the fair value option on an instrument by instrument basis. SFAS 159 did not have an impact on the Company's consolidated results of operations or financial condition as the Company did not elect to adopt the fair value option for any of its financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (“SFAS 141R”), “Business Combinations,” which replaces FASB Statement 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. SFAS 141(R) also modifies the recognition for preacquisition contingencies, such as environmental or legal issues, restructuring plans and acquired research and development value in purchase accounting. SFAS 141(R) amends SFAS No. 109, “Accounting for Income Taxes,” to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. SFAS 141R also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on the Company’s consolidated financial statements relating to potential future acquisitions.

In December 2007, the FASB issued SFAS No. 160 (“SFAS 160”), “Accounting for Noncontrolling Interests,” which clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. SFAS 160 will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 160 on the Company’s consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities,” which amends SFAS 133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company’s strategies and objectives for using derivatives. SFAS 161 is effective for fiscal periods beginning on or after November 15, 2008. The Company is currently evaluating the potential impact of the adoption of SFAS 161 on its disclosures in the Company’s consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

EXCHANGE RATE RISK

Approximately half of the product sales and licensing revenue recorded for the three months ended May 3, 2008 were denominated in United States dollars. The Company's primary exchange rate risk relates to operations in Canada and Europe. The Company enters into derivative financial instruments, including forward exchange contracts and currency swaps, to manage exchange risk on foreign currency transactions. The Company does not hedge all transactions denominated in foreign currency.

Forward Contracts Designated as Cash Flow Hedges

During the three months ended May 3, 2008, the Company purchased U.S. dollar forward contracts in Europe totaling US\$5.0 million to hedge forecasted merchandise purchases that were designated as cash-flow hedges at May 3, 2008. As of May 3, 2008, the Company had forward contracts outstanding for its European and Canadian operations of US\$5.0 million and US\$19.0 million, respectively, that are expected to mature over the next nine months. The Company's derivative financial instruments are recorded on the consolidated balance sheet at fair value based on quoted market rates. These forward contracts are used to hedge forecasted merchandise purchases over specific months. Changes in the fair value of forward contracts designated as cash-flow hedges are recorded as a component of accumulated other comprehensive earnings within stockholders' equity, and are recognized in cost of goods sold in the period which approximates the time the hedged merchandise inventory is sold.

As of May 3, 2008, accumulated other comprehensive income included an unrealized loss of approximately US\$0.1 million, net of tax, that will be recognized as a charge to cost of goods sold over the following thirteen months at the then current values on a pre-tax basis, which can be different than the current quarter-end values. At May 3, 2008, the unrealized net gain of the remaining open forward contracts recorded on the balance sheet was approximately US\$0.4 million. The ineffectiveness was immaterial during the three months ended May 3, 2008 and was recorded in net earnings.

At February 2, 2008, the Company had Canadian dollar forward contracts designated as cash flow hedges to purchase US\$27.0 million with an unrealized gain recorded on the balance sheet of approximately US\$0.1 million.

Foreign Currency Contracts Not Designated as Cash Flow Hedges

The Company also has foreign currency contracts that are not designated as hedges for accounting purposes. Changes in fair value of foreign currency contracts not qualifying as cash flow hedges are reported in net earnings as part of other income and expense. For the three months ended May 3, 2008, the Company recorded a loss of US\$3.1 million for the Canadian and Euro foreign currency contracts, which has been included in other income and expense. At May 3, 2008, the Company had Canadian dollar foreign currency contracts to purchase US\$29.5 million expected to mature over the next eight months and Euro foreign currency contracts to purchase US\$56.5 million expected to mature over the next seven months. At May 3, 2008, the net unrealized losses of these Canadian and Euro forward contracts recorded on the balance sheet were approximately US\$3.7 million, primarily relating to Euro forward contracts.

At February 2, 2008, the Company had Canadian dollar currency exchange contracts not designated as cash flow hedges to purchase US\$26.0 million and Euro currency exchange contracts to purchase US\$87.6 million. At February 2, 2008, the unrealized losses of these Canadian and Euro forward contracts were approximately US\$3.3 million, primarily relating to the Euro forward contracts.

Sensitivity Analysis

At May 3, 2008, a sensitivity analysis to changes in the foreign currencies when measured against the U.S. dollar indicates that, if the U.S. dollar had uniformly weakened by 10% against all of the foreign exchange derivatives, the fair value of the instruments would have decreased by US\$12.6 million. Conversely, if the U.S. dollar uniformly strengthened by 10% against all of the foreign exchange derivatives, the fair value of these instruments would have increased by US\$10.3 million. Any resulting changes in the fair value of the hedged instruments would have been partially offset by changes in the fair value of certain balance sheet positions impacted by the change in the foreign currency rate.

INTEREST RATE RISK

At May 3, 2008, approximately 31.2% of the Company's indebtedness related to a capital lease obligation which is covered by an interest rate swap agreement resulting in a fixed interest rate of 3.55% over the life of the lease obligation. Changes in the related interest rate that result in an unrealized gain or loss on the fair value of the swap are reported in other income or expenses. The change in the unrealized fair value of the interest rate swap had an immaterial impact during the three months ended May 3, 2008. Substantially all of the Company's remaining indebtedness, principally consisting of short-term borrowings under the short-term European borrowing agreements, is at variable rates of interest. Accordingly, changes in interest rates would impact the Company's results of operations in future periods. A 100 basis point increase in interest rates would have increased interest expense for the quarter ended May 3, 2008 by approximately \$0.2 million.

At May 3, 2008, the carrying value of all financial instruments was not materially different from fair value, as the interest rate on the Company's debt approximates rates currently available to the Company.

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). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the quarterly period covered by this report.

There was no change in our internal control over financial reporting during the first quarter of the fiscal year ending January 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

In 2006, the Officers of the Florence Customs Authorities ("Customs Authorities") began an import customs audit with respect to the Company's Italian subsidiary, Maco Apparel S.p.A. ("Maco"), in Florence, Italy, acquired on January 3, 2005. Maco was the Italian licensee of GUESS? jeanswear for men and women in Europe. As part of the audit, the Customs Authorities considered whether the Italian subsidiary should have included the royalty expense payable to Guess?, Inc., the parent company, as part of the cost of the product subject to customs duties. The Customs Authorities have subsequently reviewed specific transactions which occurred in 2003, 2004 and 2005 and provided a preliminary assessment that the royalty expenses are subject to customs duties and related penalties. The Company is disputing the Customs Authorities assessment and intends to vigorously defend its position. In addition, under the terms of the Maco purchase agreement, the seller is required to indemnify the Company for 90% of any loss with respect to Maco for periods prior to the acquisition. The Custom Authorities have filed several claims which are heard independently within various sections of the Florence Provincial Tax Commission. Each claim represents a portion of the period under review. The first hearings with the Florence Provincial Tax Commission commenced on October 29, 2007. Judgments for a number of the claims have been received that were favorable to the Company on certain aspects of the claims and unfavorable on other aspects of the claims. The Company will appeal the unfavorable aspects of the judgments. The Company has concluded that the amount of any possible loss would not be material to the Company's consolidated earnings before income taxes and that the likelihood of incurring a loss is less than probable. Accordingly, no liability related to this matter has been accrued.

The Company is also involved in various employment-related claims and other matters incidental to the Company's business, the resolution of which is not expected to have a material adverse effect on the Company's consolidated results of operations or financial position. No material amounts were accrued as of May 3, 2008 related to any of the Company's legal proceedings.

ITEM 1A. Risk Factors.

There have not been any material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended February 2, 2008, filed with the SEC on April 1, 2008.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Submission of Matters to a Vote of Security Holders.

None.

ITEM 5. Other Information.

Entry Into a Material Definitive Agreement

On June 10, 2008, the Company entered into a First Amendment to Lease with respect to the Company's corporate headquarters in Los Angeles, California (the "First Amendment") with 1444 Partners, Ltd. ("1444 Partners"), an entity owned by trusts and other affiliates for the benefit of Maurice Marciano, the Company's Chairman of the Board, Paul Marciano, the Company's Chief Executive Officer and Vice Chairman, and certain of their family members. The corporate headquarters consist of approximately 355,000 square feet and serve primarily as the Company's principal executive and administrative offices, design facilities, sales offices and warehouse facilities.

The First Amendment amends the original lease agreement dated July 29, 1992 between the Company and 1444 Partners which provided for a 16 year term expiring July 29, 2008 (the "Original Lease"). The First Amendment provides for a ten year lease renewal term, ending July 31, 2018, with an additional five year renewal option to July 31, 2023 at the Company's sole discretion. The First Amendment provides for a triple net lease with annual rent in the amount of \$2,852,664 for the first lease year of the renewal term (which amount is approximately 5.6% lower than the most recent annual rent under the terms of the Original Lease), subject to an increase each year equal to the lesser of the increase of a specified consumer price index or four percent (which amount is lower than the five percent maximum annual adjustment provided for under the Original Lease). In the event the renewal option is exercised by the Company, the annual rent will reset in year eleven at the then-prevailing market rate.

All other material terms of the Original Lease remain in full force and effect. The description of the First Amendment and the Original Lease contained herein are qualified in their entirety by reference to the copies of the underlying agreements which are filed herewith as Exhibit 10.3 to this Quarterly Report on Form 10-Q.

ITEM 6. Exhibits.

Exhibit Number	Description
3.1.	Restated Certificate of Incorporation of the Registrant (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed on July 30, 1996).
3.2.	Second Amended and Restated Bylaws of the Registrant (incorporated by reference from the Registrant's Current Report on Form 8-K filed December 4, 2007).
4.1.	Specimen Stock Certificate (incorporated by reference from Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-4419) filed on July 30, 1996).
†* 10.1.	Written Description of Performance-Based Cash and Equity Award Criteria for Named Executive Officers with Respect to the Registrant's Fiscal Year Ending January 31, 2009 and Certain Other Periods.
†* 10.2.	Form of Restricted Stock Award Agreement for Awards with Performance-Based Vesting.
† 10.3.	First Amendment to Lease Agreement between the Registrant and 1444 Partners, Ltd. with respect to the Registrant's Corporate Headquarters (including original Lease Agreement).
†31.1.	Certification of Chief Executive Officer and Vice Chairman of the Board pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.2.	Certification of President and Chief Operating Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†31.3.	Certification of Senior Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
†32.1.	Certification of Chief Executive Officer and Vice Chairman of the Board pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.2.	Certification of President and Chief Operating Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
†32.3.	Certification of Senior Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management Contract or Compensatory Plan

† Filed herewith

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.

Guess?, Inc.

Date: June 11, 2008

By: /s/ CARLOS ALBERINI
Carlos Alberini
President and Chief Operating Officer

Date: June 11, 2008

By: /s/ DENNIS R. SECOR
Dennis R. Secor
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

GUESS?, INC.

**WRITTEN DESCRIPTION OF PERFORMANCE-BASED CASH AND EQUITY
AWARD CRITERIA FOR NAMED EXECUTIVE OFFICERS
WITH RESPECT TO THE FISCAL YEAR ENDING JANUARY 31, 2009
AND CERTAIN OTHER PERIODS**

Guess?, Inc. (the "Company") maintains an annual executive compensation program, pursuant to which certain employees of the Company are eligible to receive cash bonuses and equity incentive awards, including stock options, restricted stock, restricted stock units and/or performance shares ("Equity Incentives"), upon achievement of pre-established performance goals. Any Equity Incentives awarded under the executive compensation program will be granted pursuant to the terms of the existing Guess?, Inc. 2004 Equity Incentive Plan, previously approved by the shareholders of the Company on May 10, 2004 and filed April 14, 2004 as Exhibit A to the Company's 2004 Definitive Proxy Statement, as amended (the "2004 Plan"). Any cash bonuses awarded under the executive compensation program will be granted pursuant to the terms of the 2004 Plan or the existing Guess?, Inc. Annual Incentive Bonus Plan (As Amended and Restated January 18, 2007), previously approved by the shareholders of the Company on May 10, 2005 and filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

On May 1, 2008, the Compensation Committee of the Board of Directors of the Company (the "Committee") established the performance goals under the annual executive compensation program for the current fiscal year ending January 31, 2009 for its executive officers and the incentive opportunities payable under the program at "threshold," "target" and "stretch" levels of performance against those goals. The performance goals vary by individual and are based on earnings per share of the Company or particular segments thereof, operating earnings by segment or, in certain cases, gross margins by segment. The performance goals with respect to the individuals designated as Named Executive Officers in the Company's 2007 Proxy Statement are based on (i) for Paul Marciano, Chief Executive Officer and Vice Chairman, total Company earnings per share and licensing operating earnings, (ii) for Maurice Marciano, Chairman of the Board, Carlos Alberini, President and Chief Operating Officer, Dennis Secor, Senior Vice President and Chief Financial Officer, and Michael Relich, Senior Vice President and Chief Information Officer, total Company earnings per share, and (iii) for Nancy Shachtman, President of Wholesale, earnings per share for North American operations and wholesale segment operating profit for the United States, Canada and Mexico.

Depending on the performance against the pre-established performance goals for fiscal 2009, the Named Executive Officers will be eligible to receive cash incentive opportunities of between 20% and 100% of base salary at threshold performance, between 40% and 200% of base salary at target performance and between 60% and 300%

of base salary at stretch performance plus, for Paul Marciano, an additional cash incentive opportunity based on licensing operating earnings. In addition, depending on the performance against the pre-established performance goals for fiscal 2009, the Named Executive Officers will be eligible to receive equity incentive opportunities made up of a pre-determined combination of stock options and restricted stock at a value of between 20% and 55% of base salary at threshold performance, between 60% and 220% of base salary at target performance and between 80% and 350% of base salary at stretch performance. For these purposes, stock options are valued using the Black Scholes Model and restricted stock is valued at the same price as our unrestricted common stock, in each case on a predetermined measurement date with respect to the grant date.

Also on May 1, 2008, the Committee approved a special performance-based award of 10,000 shares of restricted stock to Nancy Shachtman, President of Wholesale. The shares are eligible to become vested at a rate of 20% over each of five fiscal years beginning with the current fiscal 2009, based on the achievement of targeted wholesale segment operating profit for the United States, Canada and Mexico during each performance period or, in the event that the targeted earnings amount is not achieved for any such fiscal year, if the cumulative targeted wholesale earnings amount exceeds the cumulative targeted wholesale earnings amount for any subsequent fiscal year during the performance period.

FORM OF RESTRICTED STOCK AGREEMENT
(for awards with performance-based vesting)

This **RESTRICTED STOCK AGREEMENT** (the "Agreement"), dated as of «**GRANT_DATE**» (the "Date of Grant"), is entered into by and between GUESS?, INC., a Delaware corporation (the "Company"), and «**Name**» (the "Grantee").

RECITALS

WHEREAS, the Company maintains the Guess?, Inc. 2004 Equity Incentive Plan, as it may be amended from time to time (the "Plan").

WHEREAS, the Compensation Committee of the Company's Board of Directors (the "Committee") has determined to grant a restricted stock award (the "Award") to the Grantee under the Plan in order to increase Grantee's participation in the success of the Company;

NOW, THEREFORE, the parties hereto agree as follows:

1. Definitions; Incorporation of Plan Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Plan. The Award and all rights of the Grantee under this Agreement are subject to, and the Grantee agrees to be bound by, all of the terms and conditions of the Plan, incorporated herein by this reference. In the event of any conflict or inconsistency between the Plan and this Award Agreement, the Plan shall govern.
 2. Grant of Restricted Stock. The Grantee shall be entitled to purchase «**SHARES**» restricted shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), pursuant to the terms and conditions of this Agreement (the "Restricted Stock").
 3. Purchase Price. The Grantee shall pay to the Company, in cash, an aggregate purchase price of \$«**Total_Price**» (the "Purchase Price"), which amount is equal to the aggregate amount of the par value of the Restricted Stock. Such payment of the Purchase Price shall be made to the Company within 30 days after the date hereof.
 4. Vesting. Subject to Section 10 below, the total number of shares of the Restricted Stock subject to the Award shall vest and restrictions shall lapse based on the level of achievement of the performance goals and applicable targets set forth on Exhibit A, as previously communicated verbally to the Grantee by the Company. Subject to Section 8 below, shares of Restricted Stock that have not theretofore vested in accordance with Exhibit A or Section 10 shall be forfeited on the first business day following the filing of the Company's audited financial statements with the Securities and Exchange Commission for the final year of the performance period (as set forth on Exhibit A) applicable to the shares of Restricted Stock subject to the Award.
 5. Continued Employment Required. The vesting schedule requires continued employment from the date hereof through each applicable vesting date as a condition to the vesting of the applicable installment of the Award. Employment for only a portion of the vesting
-

period, even if a substantial portion, will not entitle the Grantee to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment as provided in Section 9 below or under the Plan.

6. Rights of a Stockholder. From and after the Date of Grant and for so long as the Restricted Stock is held by or for the benefit of the Grantee, the Grantee shall have all the rights of a stockholder of the Company with respect to the Restricted Stock, including but not limited to the right to receive dividends, if applicable, and the right to vote such shares.
7. Adjustments Upon Specified Events. Upon the occurrence of certain events relating to the Company's Common Stock contemplated by Section 16(b) of the Plan, the Committee will make adjustments, if appropriate, in the number and kind of securities subject to the Award. If any adjustment is made under Section 16(b) of the Plan, the restrictions applicable to the shares of Restricted Stock shall continue in effect with respect to any consideration or other securities (the "Restricted Property") and, for the purposes of this Award Agreement, "Restricted Stock" shall include "Restricted Property," unless the context otherwise requires) received in respect of such Restricted Stock. Such Restricted Property shall vest at such times in such proportion as the shares of Restricted Stock to which the Restricted Property is attributable. To the extent that the Restricted Property includes any cash (other than regular cash dividends provided for in Section 6 hereof), such cash shall be invested, pursuant to policies established by the Committee, in interest bearing, FDIC-insured (subject to applicable insurance limits) deposits of a depository institution selected by the Committee, the earnings on which shall be added to and become a part of the Restricted Property.
8. Effect of Cessation of Employment. Unless the Committee determines otherwise in its sole discretion, if the employment of the Grantee by the Company, a Parent or a Subsidiary shall terminate for any reason, whether with or without cause, voluntarily or involuntarily, any of the shares of the Restricted Stock that are not vested on the date of the Grantee's termination of employment shall be forfeited.
9. Return of Shares; Refund of Purchase Price. Upon the occurrence of any forfeiture of shares of Restricted Stock hereunder, such unvested, forfeited shares and related Restricted Property shall be automatically transferred to the Company, without any other action by the Grantee, or the Grantee's beneficiary or personal representative, as the case may be, and the Company shall refund the Purchase Price to the Grantee (or the Grantee's beneficiary or personal representative); no additional consideration shall be paid by the Company with respect to such transfer. No interest shall be credited with respect to nor shall any other adjustments be made to the Purchase Price for fluctuations in the fair market value of the Common Stock either before or after the transfer date. The Company may exercise its powers under Section 12(D) hereof and take any other action necessary or advisable to evidence such transfer. The Grantee, or the Grantee's beneficiary or personal representative, as the case may be, shall deliver any additional documents of transfer that the Company may request to confirm the transfer of such unvested, forfeited shares and related Restricted Property to the Company.
10. Change in Control. As provided in Section 17 of the Plan, in the event of a Change in Control and except as the Committee (as constituted immediately prior to such Change in

Control) may otherwise determine in its sole discretion, all of the shares of Restricted Stock then outstanding and not otherwise vested shall thereon become fully vested.

11. Restrictions on Transfer. Prior to shares of Restricted Stock becoming vested, neither the Restricted Stock, nor any interest therein, amount payable in respect thereof or Restricted Property shall be sold, transferred, pledged, hypothecated or otherwise disposed of by the Grantee; provided, however, that such transfer restrictions shall not apply to (i) transfers to the Company or (ii) transfers by will or descent and distribution. Grantee agrees that the Restricted Stock will not be sold or otherwise disposed of in any manner that would constitute a violation of any applicable federal or state securities laws.
12. Stock Certificates.
 - A. *Book Entry Form.* The Company shall, in its discretion, issue the shares of Restricted Stock subject to the Award either: (i) in certificate form as provided in Section 12(B) below; or (ii) in book entry form, registered in the name of the Grantee with notations regarding the applicable restrictions on transfer imposed under this Agreement.
 - B. *Certificates to be Held by Company; Legend.* Any certificates representing shares of Restricted Stock that may be delivered to the Grantee by the Company prior to the lapse of restrictions shall be immediately redelivered by the Grantee to the Company to be held by the Company until the restrictions on such shares shall have lapsed and the shares shall thereby have become vested or the shares represented thereby have been forfeited hereunder. Such certificates shall bear the following legend:

“The ownership of this certificate and the shares of stock evidenced hereby and any interest therein are subject to substantial restrictions on transfer under an Agreement entered into between the registered owner and Guess?, Inc. A copy of such Agreement is on file in the office of the Secretary of Guess?, Inc.”
 - C. *Delivery of Shares Upon Lapse of Restricted Period.* Promptly after any shares of Restricted Stock becoming vested pursuant to Section 4 or Section 10 and the satisfaction of any and all related tax withholding obligations pursuant to Section 13, the Company shall, as applicable, either remove the notations on any shares of Restricted Stock issued in book entry form which have vested or deliver to the Grantee a certificate or certificates evidencing the number of shares of Restricted Stock which have vested (or, in either case, such lesser number of shares as may be permitted pursuant to Section 13). The Grantee (or the Beneficiary or Personal Representative of the Grantee in the event of the Grantee’s death or incapacity, as the case may be) shall deliver to the Company any representations or other documents or assurances as the Company may deem necessary or reasonably desirable to ensure compliance with all applicable legal and regulatory requirements. The shares so delivered shall no longer be restricted shares hereunder.
 - D. *Stock Power; Power of Attorney.* Concurrent with the execution and delivery of this Agreement, the Grantee shall deliver to the Company an executed stock power in the form attached hereto as Exhibit B, in blank, with respect to the

Restricted Stock. The Grantee, by acceptance of the Award, shall be deemed to appoint, and does so appoint by execution of this Agreement, the Company and each of its authorized representatives as the Grantee's attorney(s) in fact to effect any transfer of unvested, forfeited shares (or shares otherwise reacquired by the Company hereunder) to the Company as may be required pursuant to the Plan or this Agreement and to execute such documents as the Company or such representatives deem necessary or advisable in connection with any such transfer.

- E. *Postponement of Issuance.* Notwithstanding any other provisions of this Agreement, the issuance or delivery of any shares of Common Stock (whether subject to restrictions or unrestricted) may be postponed for such period as may be required to comply with applicable requirements of any national securities exchange or any requirements under any law or regulation applicable to the issuance or delivery of such shares. The Company shall not be obligated to issue or deliver any shares of Stock if the issuance or delivery thereof shall constitute a violation of any provision of any law or of any regulation of any governmental authority or any national securities exchange.
13. Withholding of Tax. The Company shall reasonably determine the amount of any federal, state, local or other income, employment, or other taxes which the Company or any of its affiliates may reasonably be obligated to withhold with respect to the grant, vesting, making of an election under Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), or other event with respect to the Restricted Stock. The Company may, in its sole discretion, withhold and/or reacquire a sufficient number of shares of Restricted Stock in connection with the vesting of such shares at their then Fair Market Value (determined either as of the date of such withholding or as of the immediately preceding trading day, as determined by the Company in its discretion) to satisfy the amount of any such withholding obligations that arise with respect to the vesting of such shares. The Company may take such action(s) without notice to the Grantee and shall remit to the Grantee the balance of any proceeds from withholding and/or reacquiring such shares in excess of the amount reasonably determined to be necessary to satisfy such withholding obligations. The Grantee shall have no discretion as to the satisfaction of tax withholding obligations in such manner. If, however, the Grantee makes an election under Section 83(b) of the Code with respect to the Restricted Stock, if any other withholding event occurs with respect to the Restricted Stock other than the vesting of such stock, or if the Company for any reason does not satisfy the withholding obligations with respect to the vesting of the Restricted Stock as provided above in this Section 13, the Company shall be entitled to require a cash payment by or on behalf of the Grantee and/or to deduct from other compensation payable to the Grantee the amount of any such withholding obligations.
14. Compliance. Grantee hereby agrees to cooperate with the Company, regardless of Grantee's employment status with the Company, to the extent necessary for the Company to comply with applicable state and federal laws and regulations relating to the Restricted Stock.
15. Notices. Any notice required or permitted under this Agreement shall be deemed given when personally delivered, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Grantee either at the address on record with the

Company or such other address as may be designated by Grantee in writing to the Company; or to the Company, Attention: Stock Plan Administration, 1444 South Alameda Street, Los Angeles, California 90021, or such other address as the Company may designate in writing to the Grantee.

16. Failure to Enforce Not a Waiver. The failure of the Company or the Grantee to enforce at any time any provision of this Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.
17. Governing Law. This Agreement shall be governed by and construed according to the laws of the State of Delaware, without regard to Delaware or other laws that might cause other law to govern under applicable principles of conflicts of law. For purposes of litigating any dispute that arises under this Agreement, the parties hereby submit to and consent to the jurisdiction of the State of California, and agree that such litigation shall be conducted in the courts of Los Angeles County, or the federal courts for the United States for the Central District of California, and no other courts, where this Agreement is made and/or to be performed.
18. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to the Restricted Stock awarded under the Plan or future restricted stock that may be awarded under the Plan by electronic means or request Grantee's consent to participate in the Plan by electronic means. Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.
19. Severability. The provisions of this Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.
20. Amendments. This Agreement may be amended or modified at any time by an instrument in writing signed by both parties.
21. Agreement Not a Contract of Employment. Neither the grant of the Restricted Stock, this Agreement nor any other action taken in connection herewith shall constitute or be evidence of any agreement or understanding, express or implied, that the Grantee is an employee of the Company or any subsidiary of the Company.
22. Committee's Powers. No provision contained in this Agreement shall in any way terminate, modify or alter, or be construed or interpreted as terminating, modifying or altering any of the powers, rights or authority vested in the Committee or, to the extent delegated, in its delegate pursuant to the terms of the Plan or resolutions adopted in furtherance of the Plan, including, without limitation, the right to make certain determinations and elections with respect to the Restricted Stock.
23. Section 83(b) Election. The Grantee hereby acknowledges that, with respect to the grant of the Restricted Stock, an election may be filed by the Grantee with the Internal Revenue Service, within 30 days of the Date of Grant, electing pursuant to Section 83(b) of the Code, to be taxed currently on the fair market value of the Restricted Stock on the Date of Grant.

THE GRANTEE HEREBY ACKNOWLEDGES THAT IT IS THE GRANTEE'S SOLE RESPONSIBILITY AND NOT THE RESPONSIBILITY OF THE COMPANY TO TIMELY FILE AN ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE GRANTEE REQUESTS THE COMPANY OR ITS REPRESENTATIVE TO MAKE THIS FILING ON THE GRANTEE'S BEHALF.

24. Termination of this Agreement. Upon termination of this Agreement, all rights of the Grantee hereunder shall cease.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by a duly authorized officer and the Grantee has hereunto set his or her hand as of the date and year first above written.

**GUESS?, INC.,
a Delaware corporation**

By: _____

Print Name: Deborah Siegel

Its: Secretary

GRANTEE

Signature

«Name»
Print Name

«ID»
Employee ID

MARITAL STATUS

- I AM NOT MARRIED.**
- I AM MARRIED AND HAVE INFORMED MY SPOUSE OF THIS EQUITY GRANT.** *(Please have your spouse sign the Consent of Spouse section below.)*

GRANTEE

Signature

«NAME»
Print Name

CONSENT OF SPOUSE

In consideration of the execution of the foregoing Restricted Stock Agreement by Guess?, Inc., a Delaware corporation, I, _____, the spouse of the Grantee therein named, do hereby join with my spouse in executing the foregoing Restricted Stock Agreement and do hereby agree to be bound by all of the terms and provisions thereof and of the Plan.

Dated: _____

Signature of Spouse

Print Name

PERFORMANCE GOALS AND TARGETS

20% of the total number of shares of Restricted Stock subject to the Award are eligible to become vested on the first business day following the filing of the Company's audited financial statements with the Securities and Exchange Commission for each of the fiscal years listed in the table below based on the Company's *[Performance Goal]* for such year.

In order for any annual installment of the shares of Restricted Stock to be become vested, the Company must achieve the "Applicable Annual Goal" for the fiscal year listed in the table below. If any annual installment does not become vested because the Company fails to achieve the "Applicable Annual Goal" for the fiscal year, the annual installment of the shares of Restricted Stock will become vested if the Company achieves the "Applicable Cumulative Goal" for such year or any subsequent fiscal year listed in the table below. For example, if the Company does not achieve the "Applicable Annual Goal" for fiscal 2009 but achieves the "Applicable Cumulative Goal" for fiscal 2010, then 40% of the total number of shares of Restricted Stock subject to the Award shall vest following the end of the 2010 fiscal year (20% attributable to the fiscal 2009 annual installment and 20% attributable to the fiscal 2010 annual installment). Any shares of Restricted Stock that are not vested following the end of the 2013 fiscal year shall be forfeited on the first business day following the filing of the Company's audited financial statements with the Securities and Exchange Commission for the 2013 fiscal year.

<u>Fiscal Year</u>	<u>Applicable Annual Goal</u>	<u>Applicable Cumulative Goal</u>
2009		
2010		
2011		
2012		
2013		

Whether and the extent to which any "Applicable Annual Goal" or "Applicable Cumulative Goal" has been achieved will be determined by the Committee (or, to the extent consistent with Section 162(m) of the Code, its delegate), and no vesting shall be deemed to have occurred absent such a determination by the Committee (or such a delegate as the case may be). The "Applicable Annual Goals" and "Applicable Cumulative Goals" listed in the table above shall be proportionally adjusted by the Committee (in its sole discretion) as may be necessary to mitigate the unbudgeted impact of material, unusual or nonrecurring gains and losses, accounting changes or other extraordinary events not foreseen at the time the "Applicable Annual Goals" and "Applicable Cumulative Goals" were established.

STOCK POWER

FOR VALUE RECEIVED and pursuant to that certain Restricted Stock Agreement between Guess?, Inc., a Delaware corporation (the "Company"), and the individual named below (the "Individual") dated as of _____, _____, the Individual hereby sells, assigns and transfers to the Company, an aggregate _____ shares of Common Stock of the Company, standing in the Individual's name on the books of the Company and, if such shares are in certificate form, represented by stock certificate number(s) _____ to which this instrument is attached, and hereby irrevocably constitutes and appoints _____ as his or her lawful attorney in fact and agent to transfer such shares on the books of the Company, with full power of substitution in the premises.

Dated _____

Signature
«NAME»

Print Name

(Instruction: Please do not fill in any blanks other than the signature line. The purpose of the assignment is to enable the Company to exercise its rights set forth in the Restricted Stock Agreement in connection with the forfeiture of any restricted shares subject thereto without requiring additional signatures on the part of the Individual.)

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE effective as of July 30, 2008 ("First Amendment") between 1444 Partners, Ltd., a California limited partnership ("Landlord") and Guess ?, Inc., a Delaware corporation ("Tenant") amends that certain Lease dated July 29, 1992 between Landlord and Tenant ("Lease"). Capitalized terms used but not otherwise defined in this First Amendment shall have the respective meanings ascribed to them in the Lease.

WHEREAS, Landlord and Tenant entered into the Lease for the property commonly known as 1444 S. Alameda Street (the "Premises"); and

WHEREAS, Landlord and Tenant desire to extend the term of the Lease and to otherwise amend the Lease on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the covenants and agreements contained in this First Amendment, and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the execution of this First Amendment, the parties to this First Amendment agree as follows:

1. The Basic Lease Provisions on page (i) of the Lease are hereby amended as follows:

(a) Lease Termination Date: July 31, 2018;

(b) Minimum Rent: Two Million Eight Hundred Fifty-Two Thousand Six Hundred Sixty-Four and 36/100 Dollars (\$2,852,664.36) for the period of August 1, 2008 through July 31, 2009, subject to annual increases based on the Index (as defined below);

(c) Addresses for Notices: All references in the Lease to:

"1444 Partners, Ltd., a California limited partnership
c/o 1444 Alameda Street, Suite 100
Los Angeles, CA 90021"

are hereby deleted in their entirety and the following shall be submitted in lieu thereof:

"1444 Partners, Ltd., a California limited partnership
144 S. Beverly Drive, Suite 600
Beverly Hills, CA 90212"

All references in the Lease to:

“Stein & Kahan, a law corporation
429 Santa Monica Boulevard, Fifth Floor
Santa Monica, CA 90401
Attn: William E. Niles, Esq.”

are hereby deleted in their entirety and the following shall be submitted in lieu thereof:

“Rutter Hobbs & Davidoff Incorporated
1901 Avenue of the Stars, Suite 1700
Los Angeles, CA 90067
Attn: Marc E. Petas, Esq.”

All references in the Lease to:

“Skadden, Arps, Meagher & Flom
300 S. Grand Avenue, #3400
Los Angeles, CA 90071
Attn: Rand S. April, Esq.”

are hereby deleted in their entirety.

2. Section 2.01 (“Length of Term”) of the Lease is hereby amended by extending the term of the Lease for an additional ten (10) years and two (2) days; such extended term to commence on July 30, 2008 and end on July 31, 2018 (“Renewal Term”).

3. The first paragraph of Section 3.01 (“Minimum Rent”) of the Lease is hereby deleted in its entirety and the following shall be submitted in lieu thereof:

“For the period of July 30, 2008 through July 31, 2008, Tenant shall pay to Landlord an amount equal to Fifteen Thousand Three Hundred Thirty-Six and 90/100 Dollars (\$15,336.90) as Minimum Rent. The foregoing amount shall be due and payable by Tenant on July 30, 2008. Commencing August 1, 2008, Tenant shall pay to Landlord an amount equal to Two Million Eight Hundred Fifty-Two Thousand Six Hundred Sixty-Four and 36/100 Dollars (\$2,852,664.36) as Minimum Rent for the period of August 1, 2008 through July 31, 2009, in monthly installments of Two Hundred Thirty-Seven Thousand Seven Hundred Twenty-Two and 03/100 Dollars (\$237,722.03), in advance, on the first (1st) day of each month of said period. The Minimum Rent shall be increased annually on August 1 of each year of the Renewal Term, beginning with August 1, 2009 (each, an “Adjustment Date”). On each Adjustment Date, the Minimum Rent (as previously adjusted and then in effect) shall be increased by a percentage equal to the percentage increase, if any, in the Index published for the month of May immediately preceding such Adjustment Date over the Index published for the month of May immediately preceding (i) the Renewal Term commencement date in the case of the first Adjustment Date, or

(ii) the prior Adjustment Date in the case of each subsequent Adjustment Date. Notwithstanding any decrease in the Index, the Minimum Rent payable as of any Adjustment Date shall in no event be less than the Minimum Rent payable immediately prior to such Adjustment Date. The term "Index" shall mean the Consumer Price Index for All Urban Consumers, Los Angeles-Riverside-Orange County, CA, subgroup "All Items", (1982-84=100), published by the United States Department of Labor, Bureau of Labor Statistics. If the compilation and/or publication of the Index shall be transferred to any other governmental department or bureau or agency or shall be discontinued, then the index most nearly the same as the Index shall be selected and used by Landlord. Notwithstanding the foregoing, in no event shall Minimum Rent be increased by more than four percent (4%) for any lease year."

4. The following paragraph shall be added to the end of Section 6.06(c):

"Tenant shall immediately repair all damage resulting from the removal of any such alterations, improvements, remodeling, additions or fixtures and shall restore the Premises to a tenable condition as reasonably determined by Landlord. If Tenant shall fail to remove those items described above, Landlord may (but shall not be obligated to), at Tenant's expense, remove any of such property and store, sell or otherwise deal with such property as permitted by law, at the risk of, expense of and for the account of Tenant, and the proceeds of any sale shall be applied pursuant to law. Landlord shall in no event be responsible for the value, preservation or safekeeping of any such property. Tenant hereby waives all claims for damages that may be caused by Landlord's removing or storing Tenant's personal property pursuant to this Section, and Tenant hereby indemnifies, and agrees to defend, protect and hold harmless, Landlord from any and all loss, claims, demands, actions, expenses, liability and cost (including reasonable attorneys' fees and expenses) arising out of or in any way related to such removal or storage."

5. Section 15.03 of the Lease ("Refurbish and Upgrade") is hereby deleted in its entirety.

6. Landlord hereby grants to Tenant the option ("Option") to extend the Renewal Term for one additional period of five (5) years ("Option Term"). Provided Tenant is not then in default, Tenant shall have the right to exercise the Option no later than twelve (12) months, but not more than fifteen (15) months, prior to the Renewal Term expiration date. Should Tenant fail to timely deliver written notice of the exercise of the Option, then the rights granted herein shall terminate and be of no further force or effect. The Minimum Rent payable during the Option Term shall be the Prevailing Rent, as defined below.

Within thirty (30) days after Landlord receives written notice of Tenant's exercise of the Option, Landlord shall notify Tenant of the prevailing monthly rent for a Triple Net Lease (as said term is defined in Section 17.01 of the Lease) for non-sublease, non-expansion space in the city of Los Angeles for lease renewals comparable in size, location and quality to the Premises ("Prevailing Rent"). Said Prevailing Rent shall become the monthly Minimum Rent for the first year of the Option Term and shall increase annually by a percentage equal to the percentage increase, if any, in the Index (in the manner set forth in Section 3.01 of the Master Lease, provided that in no event shall Minimum Rent be increased by more than five percent (5%))

for any year in the Option Term). However, should Tenant object to the Prevailing Rent within fifteen (15) days of Landlord's delivery of notice thereof, Landlord and Tenant shall attempt, in good faith, to agree upon the Prevailing Rent. Failure of Tenant to timely deliver to Landlord a written notice of objection to the Prevailing Rent shall conclusively be deemed its approval of Landlord's proposed Prevailing Rent. If Landlord and Tenant fail to reach an agreement within fifteen (15) days following the date of Tenant's objection to the Prevailing Rent, then each party shall set out its opinion of the Prevailing Rent and the matter of Prevailing Rent for similar space in Los Angeles shall be submitted to arbitration as set forth in paragraphs (a) through (g) below:

- (a) Landlord and Tenant shall each appoint one arbitrator who shall by profession be a real estate broker who shall have been active over the ten (10) year period ending on the date of such appointment in the leasing of industrial/commercial properties in the Los Angeles area. Each such arbitrator shall be appointed within fifteen (15) days after the parties' failure to agree on Prevailing Rent.
- (b) The two arbitrators so appointed shall, within fifteen (15) days of the date the last arbitrator is appointed, agree upon and appoint a third arbitrator who shall be an MAI appraiser, associated with a nationally recognized appraisal company, but who otherwise shall be qualified under the same criteria set forth hereinabove for qualification of the initial two arbitrators.
- (c) Landlord and Tenant shall each submit its computation of Prevailing Rent to the arbitrators together with evidence supporting such computation. The three arbitrators shall, within thirty (30) days of the appointment of the third arbitrator, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted computation of Prevailing Rent and shall notify Landlord and Tenant of their decision. The determination of the arbitrators shall be limited solely to the issue of whether Landlord's or Tenant's submitted Prevailing Rent for the Premises is the closest to the actual Prevailing Rent for the Premises (as determined by the arbitrators), taking into account the terms of the respective submittals and the requirements of this Section 6.
- (d) The decision of the majority of the three arbitrators shall be binding upon Landlord and Tenant.
- (e) If either Landlord or Tenant fails to timely appoint an arbitrator, the arbitrator appointed by the other one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant.
- (f) If the two arbitrators fail to agree upon and appoint a third arbitrator, then the appointment of the third arbitrator shall be dismissed, and the matter to be decided shall be forthwith submitted to arbitration under the provisions of the American Arbitration Association, but subject to the instructions set forth in this Section 6.
- (g) The costs of arbitration shall be paid by Landlord and Tenant equally.

7. Tenant acknowledges that Tenant (i) has been, and is, in possession of the Premises pursuant to the Lease and (ii) is fully aware of the condition of the Premises. Therefore,

Tenant shall continue to occupy the Premises as of the Renewal Term commencement date in its then existing "As-Is" condition, and, notwithstanding any provision to the contrary contained in the Lease, Landlord shall not be obligated to provide or pay for any improvement work or services related to the improvement of the Premises. Tenant also acknowledges that neither Landlord, nor any agent of Landlord, has made any representation or warranty regarding the condition of the Premises or the Buildings or with respect to the suitability of the same for the conduct of Tenant's business.

8. Notwithstanding anything to the contrary contained in the Lease, upon any default by Tenant, in addition to any other remedies available to Landlord at law or in equity or under the Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue the Lease in effect after Tenant's breach and abandonment and recover rent as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations). Accordingly, if Landlord does not elect to terminate the Lease, Landlord may, from time to time, enforce all of its rights and remedies under the Lease, including the right to recover all rent as it becomes due. Such remedy may be exercised by Landlord without prejudice to its right thereafter to terminate the Lease.

9. Notwithstanding any provision to the contrary contained in the Lease, Landlord and Tenant acknowledge and agree that the liability of Landlord, for Landlord's obligations under the Lease, shall be limited to Landlord's interest in the Buildings and Tenant shall not look to any other property or assets of Landlord or the property or assets of any general or limited partner, member, manager, shareholder, director, officer, trustee, principal, employee or agent of Landlord (collectively, the "Landlord Parties") in seeking either to enforce Landlord's obligations under the Lease, or to satisfy a judgment for Landlord's failure to perform such obligations; and none of the Landlord Parties shall be personally liable for the performance of Landlord's obligations under the Lease. In no event shall Landlord be liable for, and Tenant, on behalf of itself and all other subtenants or occupants of the Premises and their respective agents, contractors, subcontractors, employees, invitees or licensees, hereby waives any claim for, any indirect, consequential or punitive damages, including loss of profits or business opportunity, arising under or in connection with the Lease.

11. If any lender of Landlord requires a modification of any of the terms of the Lease, and such modifications will not increase Tenant's cost or expense or materially or adversely change Tenant's rights and obligations under the Lease, the Lease shall be so modified and Tenant shall execute such documents as are reasonably required by Landlord's lender and shall deliver same to Landlord within ten (10) days after any request therefor.

12. Effective as of the date hereof, all references in the Lease to "The Prudential Insurance Company of America" or "Prudential," and to all associated information, are hereby deleted in their entirety and the following is hereby substituted in lieu thereof: "Landlord's lender."

13. Each party represents and warrants to the other that no broker, agent or finder negotiated or was instrumental in negotiating or consummating this First Amendment. Each

party further agrees to defend, indemnify and hold harmless the other party from and against any claim for commission or finder's fee by any entity who claims or alleges they are entitled to a commission based on the acts of the indemnifying party.

14. Each party represents and warrants to the other that, as of the date of this First Amendment, each is in full compliance with all terms, covenants and conditions of the Lease and that there are no breaches or defaults under the Lease, and that neither party knows of any events or circumstances which, given the passage of time or notice or both, would constitute a default under the Lease.

15. In any action to enforce the terms of the Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the losing party shall pay the successful party a reasonable sum for attorneys' fees and costs in such suit. Such attorneys' fees and costs shall be deemed to have accrued prior to the commencement of such action and shall be paid whether or not such action is prosecuted to judgment. Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises through Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises, or any part thereof, and from all costs and expenses, including reasonable attorneys' fees and costs incurred by Landlord in connection with such litigation.

16. Except as expressly modified by this First Amendment to Lease, the Lease is confirmed and shall continue to be and remain in full force and effect in accordance with its terms. Any existing or future reference to the Lease and any document or instrument delivered in connection with the Lease shall be deemed to be a reference to the Lease as modified by this First Amendment. To the extent that anything in this First Amendment is inconsistent with anything in the Lease, this First Amendment shall control.

17. This First Amendment may be executed in any number of counterparts, each of which, when taken together, shall constitute but one and the same instrument.

18. This First Amendment shall be governed by and construed in accordance with the laws of the State of California.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this First Amendment as of the date first above written.

LANDLORD:

1444 Partners, Ltd.
a California limited partnership

By: Alameda Associates, Inc.
a California corporation

Its: General Partner

BY: /s/ Paul Marciano

NAME: Paul Marciano

ITS: Member

TENANT:

Guess ?, Inc.
a Delaware corporation

BY: /s/ Deborah Siegel

NAME: Deborah Siegel

ITS: Secretary

In consideration of the rents and covenants hereinafter set forth, Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord the following described premises upon the following terms and conditions.

BASIC LEASE PROVISIONS

Lease Reference Date: July 29, 1992

Landlord: 1444 Partners, Ltd. a California limited partnership

Tenant: Guess?, Inc., a California corporation

Premises: 1444 South Alameda, Los Angeles, California

Use of Premises: Any lawful purpose.

Lease Term: Sixteen (16) Years

Lease Commencement Date: July 29, 1992

Lease Termination Date: July 29, 2008

Minimum Rent: Two Million Forty Three Thousand Six Hundred Ninety-Nine Dollars and Eighty-Four Cents (\$2,043,699.84) for the first lease year subject to annual increases based on the consumer price index.

Addresses for Notices:

(Section 13.10)

To Landlord:
1444 Partners, Ltd., a California limited partnership
c/o 1444 Alameda St.
Suite 100
Los Angeles, Ca 90021

To Tenant:
Guess?, Inc.
c/o 1444 Alameda St.
Suite 100
Los Angeles, CA 90021

with a copy to:

with a copy to:

Stein & Kahan, a law corporation
429 Santa Monica Boulevard
Fifth Floor
Santa Monica, CA 90401
Attn: William E. Niles, Esq.

Skadden, Arps, Meagher & Flom
300 S. Grand Ave., #3400
Los Angeles, CA 90071
Attn: Rand S. April, Esq.

The Basic Lease Provisions are an integral part of this lease and each reference in this lease to any of the Basic Lease Provisions shall be construed to incorporate all of the terms provided under each such Basic Lease Provision. In the event of any conflict between any Basic Lease Provisions and the balance of the lease, the latter shall control. References to specific sections are for convenience only and designate some of the sections where references to the particular Basic Lease Provisions appear.

LANDLORD:

TENANT:

1444 Partners, Ltd., a
California Limited
Partnership

Guess?, Inc., a
California corporation

By: Alameda Associates, Inc.,
a California corporation
Its General Partner

By: /s/ Paul Marciano
Its

By: /s/ [Signature]
Its President

By: /s/ [Signature]
Its Secretary

TABLE OF CONTENTS

ARTICLE	Section	Page
ARTICLE I		
	PREMISES	1
	Section 1.01 - PREMISES DEFINED	1
ARTICLE II		
	TERM	1
	Section 2.01 - LENGTH OF TERM	1
	Section 2.02 - COMMENCEMENT DATE	1
	Section 2.03 - LEASE YEAR	1
ARTICLE III		
	RENT	1
	Section 3.01 - MINIMUM RENT	1
	Section 3.02 - RENT	2
ARTICLE IV		
	TAXES	2
	Section 4.01 - TAXES	2
	Section 4.02 - DEFINITIONS	2
	Section 4.03 - OTHER TAXES	3
ARTICLE V		
	CONDUCT OF BUSINESS BY TENANT	3
	Section 5.01 - USE OF PREMISES	3
	Section 5.02 - RESTRICTIONS ON USE	3
ARTICLE VI		
	MAINTENANCE, REPAIRS AND ALTERATIONS	3
	Section 6.01 - LANDLORD'S OBLIGATIONS	3
	Section 6.02 - TENANT'S OBLIGATIONS	4
	Section 6.03 - SURRENDER	4
	Section 6.04 - LANDLORD'S RIGHTS	4
	Section 6.05 - LANDLORD'S OBLIGATIONS	4
	Section 6.06 - ALTERATIONS AND ADDITIONS	4
	Section 6.07 - CLEANLINESS; WASTE AND NUISANCE	5
ARTICLE VII		
	INSURANCE AND INDEMNITY	5
	Section 7.01 - LIABILITY INSURANCE	5
	Section 7.02 - PROPERTY INSURANCE	6
	Section 7.03 - PROPERTY INSURANCE - LANDLORD	6
	Section 7.04 - INSURANCE POLICIES	6
	Section 7.05 - WAIVER OF SUBROGATION	7
	Section 7.06 - INDEMNITY	7
	Section 7.07 - EXEMPTION OF LANDLORD	7
	Section 7.08 - LANDLORD'S SECURITY	8
ARTICLE VIII		
	REPAIRS AND RESTORATION	8
	Section 8.01 - INSURED OR MINOR DAMAGE	8
	Section 8.02 - SUBSTANTIAL DAMAGE	8
	Section 8.03 - DAMAGE NEAR END OF TERM	8
	Section 8.04 - ABATEMENT OF RENT; TENANT'S REMEDIES	9
	Section 8.05 - DEFINITIONS	9
	Section 8.05 - SALVAGE RIGHTS	9
ARTICLE IX		
	ASSIGNMENT/SUBLETTING/RIGHT OF FIRST OFFER	9
	Section 9.01 - LANDLORD'S RIGHTS	9
	Section 9.02 - LANDLORD'S COSTS	11
	Section 9.03 - NO RELEASE OF TENANT	12
	Section 9.04 - TENANT'S RIGHT OF FIRST OFFER	12
	Section 9.05 - EXEMPT TRANSACTIONS FROM RIGHT OF FIRST OFFER	12

ARTICLE	Section	Page
ARTICLE X		
	EMINENT DOMAIN	13
	Section 10.01 - ENTIRE OR SUBSTANTIAL TAKING	13
	Section 10.02 - PARTIAL TAKING	13
	Section 10.03 - AWARDS	13
	Section 10.04 - SALE UNDER THREAT OF CONDEMNATION	13
ARTICLE XI		
	UTILITY SERVICES	13
	Section 11.01 - UTILITY CHARGES	13
	Section 11.02 - INTERRUPTION OF SERVICE	13
ARTICLE XII		
	DEFAULTS AND REMEDIES	14
	Section 12.01 - DEFINITIONS	14
	Section 12.02 - REMEDIES	14
	Section 12.03 - DEFAULT BY LANDLORD	16
	Section 12.04 - EXPENSE OF LITIGATION	16
	Section 12.05 - HOLDING OVER	16
	Section 12.06 - LANDLORD RIGHTS	17
	Section 12.07 - TRIAL WITHOUT JURY	17
ARTICLE XIII		
	MISCELLANEOUS	17
	Section 13.01 - OFFSET STATEMENT	17
	Section 13.02 - LANDLORD'S RIGHT OF ACCESS	18
	Section 13.03 - TRANSFER OF LANDLORD'S INTEREST/ASSIGNMENT OF LEASE	18
	Section 13.04 - FLOOR AREA	19
	Section 13.05 - SEVERABILITY	19
	Section 13.06 - LATE PAYMENTS	19
	Section 13.07 - TIME OF ESSENCE	19
	Section 13.08 - HEADINGS	19
	Section 13.09 - INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS	20
	Section 13.10 - NOTICES	20
	Section 13.11 - BROKERS	20
	Section 13.12 - WAIVERS	20
	Section 13.13 - RECORDING	20
	Section 13.14 - LIENS	20
	Section 13.15 - SUBORDINATION	21
	Section 13.16 - FORCE MAJEURE	21
	Section 13.17 - YIELD UP PREMISES	21
	Section 13.18 - AUTHORITY	22
	Section 13.19 - SAFETY AND HEALTH	22
	Section 13.20 - INDEMNITIES	22
	Section 13.21 - DISCLOSURE	22
	Section 13.22 - GENDER; TENANTS	22
	Section 13.23 - QUIET ENJOYMENT	23
	Section 13.24 - ASSIGNS	23
	Section 13.25 - NO OPTION	23
	Section 13.26 - LANDLORD LIABILITY	23
	Section 13.27 - ACCOUNTS	23
	Section 13.28 - LEASEHOLD COLLATERAL	23
ARTICLE XIV		
	CONDITION OF PREMISES	23
	Section 14.01 - CONDITION OF PREMISES	23
ARTICLE XV		
	OPERATIONAL PROVISIONS	24
	Section 15.01 - PAYMENT PROVISIONS	24
	Section 15.02 - TERMINATION	24
	Section 15.03 - REFURBISH AND UPGRADE	25

<u>ARTICLE</u>	<u>Section</u>	<u>Page</u>
ARTICLE XVI		
	HAZARDOUS WASTE	25
SECTION 16.01 - HAZARDOUS WASTE		25
ARTICLE XVII		
	NET LEASE	26
SECTION 17.01 - EXPENSES		26
	iv	

ARTICLE I
PREMISES

Section 1.01 - PREMISES DEFINED

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the property commonly known as 1444 S. Alameda Street located in the City of Los Angeles, State of California, together with all improvements, fixtures, equipment, located thereon, including four buildings with an aggregate of approximately 354,809 square feet, a parking area and all rights of way and easements appurtenant thereto (collectively the "Premises"), for the term, at the rental, and upon all of the conditions and agreements set forth herein. A more particular description of the Premises is attached hereto as Exhibit "A" and by this reference made a part hereof.

ARTICLE II
TERM

Section 2.01 - LENGTH OF TERM

The term of this lease shall be for sixteen (16) years commencing on the Lease Commencement Date, and ending on July , 2008.

Section 2.02 - COMMENCEMENT DATE

a. This lease shall commence on July , 1992 (the "Lease Commencement Date").

Section 2.03 - LEASE YEAR

A lease year is a period of twelve (12) full calendar months commencing on the Lease Commencement Date and expiring on the last day of the twelfth (12) month thereafter.

ARTICLE III
RENT

Section 3.01 - MINIMUM RENT

Tenant shall pay to Landlord Two Million Forty Three Thousand Six Hundred Ninety-Nine Dollars and Eighty-Four Cents (\$2,043,699.84) for the first lease year, in monthly installments of One Hundred Seventy Thousand Three Hundred Eight Dollars and Thirty-Two Cents (\$170,308.32), in advance, on the first (1st) day of each month of said lease year. The Minimum Rent shall thereafter be increased annually by the percentage increase, (if any,) in the Bureau of Labor Statistics Consumer Price Index, "All Urban Consumers" (the "Index"), as published by the United States Department of Labor for the Los Angeles/Long Beach/Anaheim metropolitan area (all items). The first increase in the Minimum Rent shall be based on the percentage increase of the Index during the initial lease year, and each lease year thereafter for subsequent annual adjustments. The first such increase shall become effective on the first day of the second lease year and every twelve (12) months thereafter. In no event shall any percentage increase exceed five percent (5%) for any one lease year.

Minimum Rent shall be payable in advance upon the first day of each calendar month without any deduction or offset and without notice or demand at Landlord's address as set forth in the applicable Basic Lease Provisions or to such other person or at such other place as Landlord may designate by written notice to Tenant. The Minimum Rent for any fractional part of a calendar month at the beginning or end of the lease term shall be a proportionate part of the Minimum Rent for a full calendar month. All rent and additional rent shall be paid in lawful money of the United States which shall be legal tender at the time of payment.

Section 3.02 - RENT

As used in this lease, the term "rent" shall mean Minimum Rent, and additional rent, and the term "additional rent" shall mean all amounts payable by Tenant pursuant to this lease other than Minimum Rent.

ARTICLE IV
TAXES

Section 4.01 - TAXES

Tenant shall pay directly to the appropriate taxing authority all taxes, as defined below, with respect to the Premises that accrue on or after the Lease Commencement Date. Landlord agrees to deliver to Tenant, upon its own receipt thereof, any tax statement or other notice or official evidence of payment due. If Tenant has paid such taxes, prior to delinquency, Tenant may with Landlord's prior written consent (which shall not be unreasonably withheld), petition any applicable governmental authority for a reduction in the real property taxes assessed against the real property and the improvements located thereon. Tenant shall also have the right to contest taxes before payment thereof provided that Tenant obtains Landlord's prior written consent and shall procure and maintain a stay of all proceedings to enforce any collection thereof and provide Landlord with collateral (which is acceptable to Landlord in Landlord's sole discretion) to secure the payment of the taxes in dispute and any potential penalties and fees related thereto. Tenant shall pay for all expenses related to any such petition and shall indemnify, defend and hold Landlord harmless from and against any expenses or liability arising from Tenant's actions.

Section 4.02 - DEFINITIONS

- (a) The term "taxes" shall include without limitation:
- (i) All taxes, assessments and governmental charges and surcharges levied upon or with respect to the Premises;
 - (ii) All other taxes, assessments and governmental charges and surcharges levied upon or with respect to the fixtures, equipment and other property of Landlord in or about the Premises whether real or personal;
 - (iii) Fees and assessments for any governmental service(s) to the Premises, including service payments in lieu of taxes;
 - (iv) Dues and assessments payable to any property owners' association due to Landlord ownership or operation of the Premises;
 - (v) Any and all taxes payable by Landlord: (A) upon, allocable to, or measured by or on the gross or net rent payable hereunder, including without limitation any gross receipts or revenues, sales tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government with respect to the receipt of such rent; (B) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy of the Premises or any portion thereof, including any sales, use or service tax imposed as a result thereof; (C) upon or measured by Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures, and other personal property of Tenant or leasehold improvements, alterations or additions located in the Premises; or (D) upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises;

(vi) All expenses reasonably incurred in seeking reduction by the taxing authorities of the taxes described in clauses (i) through (v) above. Provided, however, that the term "taxes" shall not include any capital gain, franchise, estate, inheritance, succession, capital levy, net income or excess profits taxes imposed upon Landlord except that in the event that real property taxes are withdrawn in whole or in part and any substitute tax is made therefor, such tax shall in any event for the purpose of this lease be considered a tax included in "taxes" pursuant to this Section 4.02 regardless of how denominated or the source from which it is collected.

(b) Taxes shall include all items identified or described as included in taxes in subsection (a) above, whether or not such items are customary and whether or not such items are within the contemplation of the parties on the date of execution of this lease.

Section 4.03 - OTHER TAXES

Tenant shall be responsible for and shall pay before delinquency all municipal, county or state taxes, levies and fees of every kind and nature, including but not limited to general or special assessments, assessed during the term of this lease against any leasehold interest, leasehold improvements or personal property of any kind, owned by or placed in, upon or about the Premises by Tenant.

ARTICLE V CONDUCT OF BUSINESS BY TENANT

Section 5.01 - USE OF PREMISES

(a) Tenant shall use the Premises for the purposes specified in the applicable Basic Lease Provision.

Section 5.02 - RESTRICTIONS ON USE

Tenant shall, at Tenant's sole cost and expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders and requirements, in effect prior to the date of this lease or promulgated thereafter, affecting the Premises or regulating the use by Tenant of the Premises and all requirements of all insurance carriers or underwriters providing coverage on the Premises or the contents thereof. Tenant shall not use or permit the use of the Premises in any manner that will tend to create a nuisance or tend to injure the reputation of the Premises or which will invalidate any property damage or liability insurance maintained on the Premises. No auction, fire sale, bankruptcy sale, sidewalk sale, end of lease sale, or going out of business sale may be conducted from the Premises without the written consent of Landlord, which may be withheld in Landlord's sole discretion.

ARTICLE VI MAINTENANCE, REPAIRS AND ALTERATIONS

Section 6.01 - LANDLORD'S OBLIGATIONS

(a) Except for the obligations of Landlord under Section 8 (relating to destruction of the Premises) and under Section 10 (relating to condemnation of the Premises), it is intended by the parties hereto that Landlord shall have no obligation, in any manner whatsoever, to repair and maintain the Premises nor any building or improvement located thereon nor any equipment, whether structural or nonstructural, all of which obligations are intended to be that of the Tenant under this Article 6. Tenant expressly waives the benefit of any statute now or hereinafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this lease because of Landlord's failure to keep the Premises in good order, condition and repair.

(b) Tenant hereby accepts the Premises in their condition existing as of the Lease Commencement Date or the date that Tenant takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants, easements, restrictions or other matters of record, and accepts this lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Tenant acknowledges that neither Landlord nor Landlord's agent has made any representation or warranty as to the present or future's suitability of the Premises for the conduct of Tenant's business.

Section 6.02 - TENANT'S OBLIGATIONS

Tenant shall keep in good order, condition and repair the Premises and every part thereof, structural and nonstructural (whether or not such portion of the Premises requiring repair, or the means of repairing the same are reasonably or readily accessible to Tenant, and whether or not the need for such repairs occurs as a result of Tenant's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all plumbing, heating, air conditioning (Tenant shall procure and maintain, at Tenant's expense, an air conditioning system maintenance contract), ventilating, electrical, lighting facilities and equipment within the Premises, fixtures, walls (interior and exterior) foundations, ceilings, roofs (interior and exterior), floors, windows, doors, plate glass and skylights and all landscaping, driveways, parking lots, fences and signs located on the Premises and sidewalks and parkways adjacent to the Premises.

Section 6.03 - SURRENDER

See Section 13.17.

Section 6.04 - LANDLORD'S RIGHTS

See Section 12.06.

Section 6.05 - LANDLORD'S OBLIGATIONS

See Section 6.01.

Section 6.06 - ALTERATIONS AND ADDITIONS

(a) Tenant shall not, without the prior written consent of Landlord, which consent may be withheld in Landlord's reasonable discretion, make any material alterations, improvements, remodeling or additions to the Premises. The term "material" shall mean any alteration, improvement, remodeling, or additions, the cost of which exceed Twenty-five Thousand Dollars (\$25,000.00). Landlord may condition any approval upon such requirements as Landlord reasonably deems appropriate, including requirements as to the manner in which, the time at which and the contractor(s) by whom such work shall be done.

(b) If Landlord delivers written notice to Tenant to remove from record any lien related to work or materials furnished to or obligations incurred on behalf of Tenant, then within twenty (20) days after delivery of such notice, Tenant shall remove from record, by bonding or otherwise, such lien. Tenant shall discharge any such lien of record immediately upon its filing. Landlord may keep posted on the Premises any notices it deems necessary for protection from such liens. If any lien is not removed from record, by bonding or otherwise, within the twenty (20) day period specified in the first sentence of this Section 6.06(b), Landlord may cause such liens to be released by any means it deems proper, including payment, at Tenant's expense and without affecting Landlord's rights.

(c) All alterations, improvements, remodeling, additions or fixtures, other than trade fixtures not permanently affixed to the Premises, which may be made or installed in the Premises and which are attached to the floor, walls or ceiling of the Premises and any floor covering which is cemented or otherwise affixed to the floor of the Premises shall be the property of Landlord and shall remain upon and be surrendered with the Premises at the termination of this lease, unless Landlord shall direct Tenant to remove such items, or some of them, by written notice given to Tenant not less than thirty (30) days prior to the expiration of this lease or within ten (10) days after the earlier termination hereof. Tenant shall remove any such items, at Tenant's cost, prior to the expiration of this lease, or in the event of an early termination, within ten (10) days after Landlord's notice.

Section 6.07 - CLEANLINESS: WASTE AND NUISANCE

Tenant shall keep the Premises at all times in a neat, clean and sanitary condition, shall neither commit nor permit any waste or nuisance thereon, and shall keep the walks adjacent thereto and the parking lot free from Tenant's waste or debris. Without limiting the foregoing, Tenant shall keep the Premises free of all graffiti.

ARTICLE VII
INSURANCE AND INDEMNITY

Section 7.01 - LIABILITY INSURANCE

Tenant shall at all times during the term hereof and at Tenant's sole cost and expense, for the protection of Tenant and Landlord, as their interest may appear, maintain in full force and effect a policy or policies of insurance which afford the following coverages:

(a) Worker's Compensation in the statutorily required amount, together with employer's liability coverage with a liability amount not less than One Million Dollars (\$1,000,000).

(b) Comprehensive General Liability Insurance with a liability amount not less than Two Million Dollars (\$2,000,000) combined single limit for both bodily injury and property damage, personal injury, completed operations, products liability, liquor liability, and owned and non-owned automobile coverage. Tenant shall also maintain umbrella liability coverage in an amount not less than Five Million Dollars (\$5,000,000) and excess liability insurance in an amount not less than Twenty Million Dollars (\$20,000,000).

(c) The minimum limit of the coverage provided in subsection (b) above may be adjusted upward at the expiration of each third (3rd) lease year as follows: Not less than sixty (60) days prior to the relevant adjustment date, Landlord may designate [] or select an insurance brokerage firm, the identity of which shall reasonably acceptable to Tenant (the "Reviewing Broker"), to review Tenant's then existing liability insurance coverage, to review the then use of the Premises and the claims history with respect thereto and to recommend, in writing, the amount of coverage to be carried by Tenant pursuant to subsection (b). Such recommendation shall be based upon the then use of the Premises and the liability claims history with respect to the Premises and shall be consistent with amounts of coverage generally recommended by such Reviewing Broker for similar types of tenants or users of property with uses similar to that of the Premises in the geographical area which includes the Premises. If the Reviewing Broker shall recommend an increase(s) in the amount of coverage then provided by Tenant under subsection (b), Tenant shall promptly increase its coverage to the recommended amount(s). In no event shall there be any reduction in the amount of coverage provided by Tenant under subsection (b) below the initial amount set forth

herein, notwithstanding any recommendation by the Reviewing Broker.

(d) Landlord, each of its general partners, and any other persons designated by Landlord and having an insurable interest in the Premises, shall be added as additional insureds pursuant to such policies (although they shall not have any obligations of "named" insureds therein). The insurance required by this Section Article VII shall be the primary insurance as respects Landlord (and any other additional insureds designated by Landlord) and not contributory with any other available insurance. The policy or policies providing the coverage required by subsection (b) above shall contain an endorsement providing, in substance, that "such insurance as afforded hereby for the benefit of the additional insureds shall be primary and any insurance carried by the additional insureds shall be excess and not contributory." In no event shall the limits of any coverage maintained by Tenant pursuant to this Article VII be considered as limiting the liability of Tenant pursuant to this lease.

Section 7.02 - PROPERTY INSURANCE

(a) Tenant shall at all times during the term hereof, and at its cost and expense, maintain in effect policies of insurance covering (i) all improvements in or to the Premises, providing protection against any item included within the classification "All Risk," including but not limited to insurance against sprinkler leakage, vandalism and malicious mischief, such insurance to be in an amount no less than the full replacement value of such improvements, which shall be determined at the time the policy is initially obtained, and not less frequently than once every three (3) years thereafter, and such other insurance as may be required by Landlord's lender, if any, (ii) all personal property of Tenant located in or on the Premises, including but not limited to fixtures, furnishings, equipment, furniture, inventory and stock in trade, in an amount not less than their full replacement value, providing protection against any peril included within the classification "All Risk," including but not limited to insurance against sprinkler leakage, vandalism and malicious mischief; and (iii) all plate glass on the Premises.

(b) The proceeds of such insurance, so long as this lease remains in effect, shall be held in trust by the insurance carriers and used to repair or replace the parts of the Premises, any improvements thereto and personal property so insured. Upon any termination of this lease pursuant to Sections 8.02 or 8.03, Landlord may keep or apply the proceeds of the insurance required pursuant to clauses (i) and (iii) of Subsection 7.02(a) above, at its discretion; the remaining proceeds shall be the property of Tenant.

(c) Tenant shall at its cost maintain business interruption insurance assuring that the rent payable hereunder will be paid to Landlord for a period of not less than twelve (12) months if the Premises are destroyed or rendered inaccessible.

Section 7.03 - PROPERTY INSURANCE - LANDLORD

Landlord may, but shall not be required to, maintain earthquake and flood insurance insuring the Premises against damage arising from such events. The cost of maintaining all such insurance including any deductible shall be paid for by Tenant, as additional rent.

Section 7.04 - INSURANCE POLICIES

All insurance required to be carried by Tenant hereunder shall be with companies rated A:XIII, or better, in the then most recent version of Best's Insurance Guide. Tenant shall deliver to Landlord at least five (5) days prior to the time such insurance is first required to be carried by Tenant, and

thereafter at least thirty (30) days prior to the expiration or renewal date of any policy maintained by Tenant, copies of the policies or certificates evidencing such insurance. All policies and certificates delivered pursuant to this Section shall contain liability limits not less than those set forth in Sections 7.01 and 7.02, shall list the additional insureds and shall specify all endorsements and special coverages required by such Sections. Each such policy shall contain a provision (by endorsement or otherwise) requiring not less than thirty (30) days written notice to Landlord prior to any cancellation, non-renewal or material amendment thereof. For the purposes of this Article VII, the phrase "term of this lease" shall mean the period from the Lease Commencement Date through the later of the expiration or termination of the lease term. Any insurance required pursuant to this lease may be provided by means of a so-called "blanket" policy, so long as the Premises are specifically covered (by rider, endorsement or otherwise) and the policy otherwise complies with the provisions of this lease. The cost of all insurance provided for in this Article VII shall be paid by Tenant directly to the, companies providing the respective policies of insurance.

Section 7.05 - WAIVER OF SUBROGATION

Notwithstanding anything to the contrary contained in this lease, Landlord and Tenant each hereby waive any and all rights of recovery against the other, and against any other tenant or occupant of the Premises and against the officers, employees, agents, representatives, customers and business visitors of such other party and of such other tenant or occupant of the Premises, for loss of or damage to such waiving party or its property or property of others under its control, arising from any cause insured against under any policy of insurance required to be carried by such waiving party pursuant to the provisions of this lease (or any other policy of insurance carried by such waiving party in lieu thereof) at the time of such loss or damage. Landlord and Tenant shall, upon obtaining the policies of insurance which they are required to maintain hereunder, give notice to their respective insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this lease. Landlord's notice hereunder may be a general notice with respect to all leases, including this lease, then or thereafter in effect at the Premises.

Section 7.06 - INDEMNITY

To the fullest extent permitted by law, Tenant shall indemnify, defend and hold Landlord harmless from and against any liability or expense (including attorneys' fees and costs of defense) for any damage or injury to persons or property in or about the Premises which may result from the use or occupation of the Premises by Tenant, its agents, employees, invitees, licensees, concessionaires or other persons claiming under Tenant or from any breach or default by Tenant in its obligations pursuant to this lease. It is understood and agreed that payment shall not be a condition precedent to enforcement of the foregoing indemnity. If any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon Landlord's request, shall defend the same by counsel reasonably satisfactory to Landlord and at Tenant's expense. The foregoing indemnification shall not extend to damage or injury which is proximately caused and due solely to the gross negligence or intentional misconduct or intentional acts of Landlord, its agents, employees and contractors.

Section 7.07 - EXEMPTION OF LANDLORD

Landlord shall not be liable for injury or damage which may be sustained by the person, goods, wares, merchandise or property of Tenant, Tenant's employees, invitees or customers or any other person in or about the Premises caused by or resulting from any peril which may affect the Premises, including but not limited to fire, theft, steam, electricity, gas, water or rain, which may

leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures of the same, whether such damage or injury results from conditions arising upon or from the Premises or upon or from adjacent parcels, or from any other source(s). Landlord shall not be liable for any damages arising from any act or neglect of any other tenant of the Premises, if any, or any of their officers, employees, agents, representatives, customers, business visitors or invitees. Provided, however, that the foregoing shall not apply to any damage or injury which Tenant establishes in a court of competent jurisdiction was proximately caused by and due solely to the gross negligence or intentional misconduct of Landlord, its agents or employees.

Section 7.08 - LANDLORD'S SECURITY

Tenant acknowledges and agrees that Landlord shall have no responsibility, duty or obligation to provide security for the Premises and the persons therein. Under no circumstances shall Landlord be liable to Tenant or to any other person by reason of any theft, burglary, robbery, assault, trespass, unauthorized entry, vandalism, or any other act of any third person occurring in or about the Premises, and Tenant shall indemnify, defend and hold Landlord harmless from and against any and all losses, liabilities, judgments costs or expenses (including reasonable attorneys' fees and other costs of investigation or defense) which Landlord may suffer by reason of any claim asserted by any person arising out of, or related to, any of the foregoing.

ARTICLE VIII
REPAIRS AND RESTORATION

Section 8.01 - INSURED OR MINOR DAMAGE

Subject to the provisions of Section 8.03 and 8.04, if at any time during the term hereof the Premises are destroyed or damaged and either (a) such damage is not "substantial" as that term is hereafter defined, or (b) such damage was caused by a casualty required to be insured against under Section 7.02, then Landlord shall promptly repair such damage at Tenant's expense and this lease shall continue in full force and effect. Any such repairs shall be performed in accordance with all applicable laws.

Section 8.02 - SUBSTANTIAL DAMAGE

Subject to the provisions of Section 8.03 and 8.04, if at any time during the term hereof the Premises are destroyed or damaged and if such damage is "substantial" as that term is hereinafter defined, and if such damage was caused by a casualty not required to be insured against under Section 7.02, then Landlord may at its option either (a) promptly repair such damage at Landlord's expense, in which event this lease shall continue in full force and effect, or (b) cancel and terminate this lease as of the date of the occurrence of such damage, by giving Tenant written notice of its election to do so within thirty (30) days after the date of the occurrence of such damage.

Section 8.03 - DAMAGE NEAR END OF TERM

If the Premises are destroyed or damaged during the last twelve (12) months of the term of this lease and the estimated cost of repair exceeds twenty-five percent (25%) of the Minimum Rent then remaining to be paid by Tenant for the balance of the term, Landlord may at its option cancel and terminate this lease as of the date of occurrence of such damage by giving written notice to Tenant of its election to so terminate within thirty (30) days after the date Landlord received notice of the occurrence of such damage. If Landlord shall not so elect to terminate this lease, the repair of such damage shall be governed by Section 8.01 or 8.02, as the case may be.

Section 8.04 - ABATEMENT OF RENT; TENANT'S REMEDIES

(a) If the Premises are destroyed or damaged and Landlord repairs or restores the Premises pursuant to the provisions of this Article, Tenant shall continue the operation of its business in the Premises to the extent reasonably practicable from the standpoint of prudent business management, and the Minimum Rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Tenant's use of the Premises is impaired. There shall be no abatement of any additional rent payable hereunder, and Tenant shall have no claim against Landlord for any damage suffered by Tenant by reason of any such damage, destruction, repair or restoration. Tenant waives the provision of Civil Code Sections 1932(2) and 1933(4) and any present or future laws or case decisions to the same effect.

(b) If Landlord shall be obligated to repair or restore the Premises under the provisions of this Article and shall not commence such repair or restoration within thirty (30) days after such obligation shall accrue (as described below), Tenant may at its option cancel and terminate this lease as of the date of occurrence of such damage by giving Landlord written notice of its election to do so at any time prior to the commencement of such repair or restoration. Notwithstanding the foregoing, this lease shall not terminate if, within ten (10) days following receipt of Tenant's written notice to terminate the lease Landlord commences repair or restoration of the Premises. Landlord's obligation to commence repairs or restoration shall be deemed to accrue on the later of (i) receipt by Landlord of any governmental permit or approval necessary to commence such work or (ii) settlement of any insurance claim with respect to such casualty.

Section 8.05 - DEFINITIONS

(a) For the purpose of this Article, "substantial" damage to the Premises shall be deemed to be damage to the buildings located on the real property, the estimated cost or repair of which exceeds one fifth (1/5) of the then estimated replacement cost of such improvements.

(b) The determination in good faith by Landlord of the estimated cost of repair of any damage and/or of the estimated replacement cost of any building shall be conclusive for the purpose of this Article.

Section 8.05 - SALVAGE RIGHTS

If the Premises are destroyed or damaged, Landlord shall have the sole and exclusive right to salvage any and all materials (except for Tenant's personal property) located on the Premises and the sole and exclusive right to any proceeds derived from the sale of any such items.

ARTICLE IX
ASSIGNMENT/SUBLETTING/RIGHT OF FIRST OFFER

Section 9.01 - LANDLORD'S RIGHTS

(a) Tenant shall not, either voluntarily or by operation of law, assign, sell, encumber, pledge or otherwise transfer all or any part of Tenant's leasehold estate hereunder, or permit the Premises to be occupied by anyone other than Tenant or Tenant's employees or sublet the Premises or any portion thereof, without Landlord's prior written consent in each instance. In exercising such right of consent Landlord's consent shall not be unreasonably withheld and, in exercising such right of consent, Landlord shall be entitled to take into account any fact or factor which Landlord deems relevant to such decision including but not necessarily limited to any or all of the following:

- (i) The financial strength of the proposed assignee or subtenant.
- (ii) The experience of the proposed assignee or subtenant with respect to business of the type and size which such assignee or subtenant proposes to conduct in the Premises.
- (iv) Whether there then exists any default by Tenant pursuant to this lease or any non-payment or non-performance by Tenant under this lease which, with the passage of time and/or the giving of notice would constitute a default under this lease.

The foregoing restrictions shall be binding upon any assignee or subtenant to which Landlord has consented, and consent by Landlord to one or more assignments of this lease or to one or more subletting of the Premises shall not operate to exhaust Landlord's rights under this paragraph. The voluntary or other surrender of this lease by Tenant or a mutual cancellation hereof shall not work a merger, and shall at the option of Landlord, terminate all or any existing subleases or subtenancies or shall operate as an assignment to Landlord of such subleases or subtenancies. If Tenant is a corporation which is not deemed a public corporation, or is an unincorporated association or partnership, the transfer, assignment or hypothecation of any stock or interest in such corporation, association or partnership in the aggregate excess of fifty percent (50%) shall be deemed an assignment within the meaning and provisions of this Article.

(b) In the event Tenant desires to sublet the Premises, or any portion thereof, or assign its interest in this lease, Tenant shall give written notice thereof to Landlord with a copy to The Prudential Insurance Company of America ("Prudential") at 2029 Century Park East, Suite 3600, Los Angeles, California 90067, Attn: Carol Weiss, at least sixty (60) days but not more than ninety (90) days prior to the proposed effective date of such subletting or assignment, which notice shall set forth or be accompanied by the name of the proposed subtenant or assignee, the relevant terms of any sublease or assignment, the proposed effective date thereof, the nature of the proposed subtenant's or assignee's business to be carried on in the Premises and such reasonable financial information as Landlord may request concerning the proposed subtenant or assignee, including but not limited to a balance sheet of the proposed subtenant or assignee for the two year period preceding the request for Landlord's consent and a written statement in reasonable detail as to the business and experience of the proposed subtenant or assignee during the five years preceding the request for Landlord's consent.

(c) (i) At any time within thirty (30) days after Landlord's receipt of the information specified in Section 9.01(b), Landlord may by written notice to Tenant elect to (i) consent to the subletting or assignment upon the terms and to the subtenant or assignee proposed; (ii) refuse to give its consent, specifying in reasonable detail the reason(s) therefor; or (iii) sublet from Tenant that portion of the Premises which is the subject of the assignment or sublease sought by Tenant at the rental and on the other terms proposed by Tenant.

(c) (ii) Notwithstanding the consent of Landlord pursuant to 9.01(c)(i) above, Tenant's right to sublet the Premises or assign the lease on the terms specified in its notice to Landlord pursuant to 9.01(b), will be terminated, and Tenant shall have no right to assign the lease or sublet the Premises upon such terms, if Prudential delivers written notice to Landlord at any time within thirty (30) days after Landlord's receipt of the information specified in Section 9.01(b). Such notice must provide that Prudential has elected to refuse to give its consent to such assignment or sublease, specifying in reasonable detail the reasons thereof. If Prudential does not deliver such notice within said thirty (30) day period, its consent shall be deemed

given. Prudential's objection to any assignment or sublease must not be arbitrary and must be based on reasonable and material considerations which, in Prudential's reasonable judgment, may adversely affect Prudential's interest in the Premises. Prudential shall only have the right to prohibit a sublease or assignment so long as Prudential is a beneficiary under a duly recorded and valid deed of trust encumbering the Premises.

(d) Any sale, assignment, mortgage, transfer of this lease or subletting which does not comply with the provisions of this Article shall be void.

(e) As a condition to Landlord's consent to any assignment or subletting, Landlord shall be entitled to receive, fifty percent (50%) of all "consideration" paid, directly or indirectly (however denominated and paid) by the subtenant or assignee to Tenant in excess of the rent payable by Tenant to Landlord pursuant to this lease. The term "consideration" shall mean and include money, services, property or any other thing of value such as payment of costs, cancellation of indebtedness, discounts, rebates and the like less any brokerage commissions, tenant improvements, free rent concessions or any other monetary concession granted by Tenant to the respective subtenant or assignee as an inducement to assign or sublet the Premises (collectively the "Concessions"). All such Concessions shall be reasonably approved by Landlord prior to granting same to the prospective subtenant or assignee as the case may be. Any rent or other consideration which is to be passed through to Landlord by Tenant pursuant to this subsection shall be paid to Landlord promptly upon receipt by Tenant and shall be paid in cash or check, irrespective of the form in which received by Tenant from any subtenant or assignee. In the event that any rent or other consideration received by Tenant from a subtenant or assignee is in a form other than cash, Tenant shall pay to Landlord in cash the fair value of such consideration.

(f) If Landlord consents to such assignment or subletting or does not exercise any option set forth in this Section 9.01 within said thirty (30) day period, Tenant may thereafter within sixty (60) days after the expiration of said period enter into a valid assignment or sublease of the Premises or portion thereof, upon terms and conditions consistent with the terms and conditions described in the information required to be furnished by Tenant to Landlord pursuant to subsection (b), or upon other terms not less favorable to Tenant; provided, however that any material change in such terms shall be subject to Landlord's consent as provided in this Section and provided further, that any amount to be paid to Landlord by Tenant in connection therewith pursuant to subsection (e) above shall be paid to Landlord upon the later of consummation of such transaction or receipt by Tenant of such consideration.

(g) Provided Landlord receives the notice provided in Section 9.01(b) and subject to the consent of Prudential as provided for in Section 9.01(c), the Landlord hereby consents to the assignment of the Tenant's leasehold estate to an affiliate of Tenant provided that there will be no substantial change in the nature and quality of the business conducted on the Premises and such affiliate executes and delivers to Landlord a written assumption of the obligations of Tenant pursuant to this lease in form and substance reasonably acceptable to Landlord. The term "affiliate" shall mean any entity or individual ("Parent") which directly or indirectly controls the right to elect a majority of the members of Tenant's board of directors or any entity ("Subsidiary") which is controlled by Tenant or under the control of Tenant's Parent (i.e., Tenant or Tenant's Parent has the right, directly or indirectly, to elect a majority of the Subsidiary's board of directors).

Section 9.02 - LANDLORD'S COSTS

Tenant shall pay to Landlord on demand a sum equal to all of Landlord's reasonable costs, including attorney's and

accountant's fees, incurred in connection with processing, reviewing and documenting any proposed assignment or sublease.

Section 9.03 - NO RELEASE OF TENANT

Notwithstanding any assignment or subletting (including any assignment or subletting to an affiliate), even with the consent of Landlord, Tenant shall at all times remain directly and primarily responsible and liable for the payment of the rent herein specified and for compliance with all of its other obligations under this lease. Upon the occurrence of an "event of default" (as hereinafter defined), if the Premises or any part thereof are then sublet, Landlord, in addition to any other remedies provided herein or by law, may collect directly from any subtenant all rents due and becoming due to Tenant under such sublease and apply such rent against any sums due to Landlord from Tenant hereunder. No such collection directly from an assignee or subtenant shall be construed to constitute a novation or a release of Tenant from the further performance of Tenant's obligations hereunder. The acceptance by Landlord of any payment due hereunder from any other person shall not be deemed to be a waiver by Landlord of any provision of this lease or to be a consent to any assignment or subletting.

Section 9.04 - TENANT'S RIGHT OF FIRST OFFER

If, at any time during the term of this lease, Landlord desires to sell all or any portion of its interest in the Premises ("Landlord's Interest"), Landlord shall deliver a written notice thereof to Tenant, which notice shall indicate the sale price and the other terms and conditions upon which Landlord is willing to sell Landlord's Interest (the "Sale Notice"). The Sale Notice shall constitute an offer to sell Landlord's Interest to Tenant at the price and upon the terms and conditions contained therein. Tenant shall have thirty (30) calendar days after its receipt of the Sale Notice within which to deliver an executed counterpart of the Sale Notice to Landlord, which shall then constitute the purchase and sale agreement between the parties. If Tenant fails to deliver an executed Sale Notice to Landlord as provided herein or fails to close the purchase of Landlord's Interest in accordance with the terms and conditions set forth in the Sale Notice, then Landlord shall be relieved of its obligations under this Section 9.04 and may freely sell Landlord's Interest to any person or entity, provided that (i) such sale is consummated within eight (8) months following the date the Sale Notice was delivered to Tenant, (ii) the purchase price for such sale is not less than ninety-five percent (95%) of the price set forth in the Sale Notice and (iii) the material terms of such sale are substantially the same as the terms set forth in the Sale Notice. After the consummation of such sale or if Tenant fails to close the purchase of Landlord's Interest in accordance with the terms and conditions set forth in the Sale Notice, Landlord's Interest shall no longer be subject to this Article 9.04.

Section 9.05 - EXEMPT TRANSACTIONS FROM RIGHT OF FIRST OFFER

Nothing contained in this Article IX shall require any notice by Landlord or give Tenant any right in the event of (i) a sale to an "affiliate" of Landlord (as such term is defined in Section 9.01(g)), (ii) any transaction by which Landlord borrows any funds or obtains any credit or allowance, the repayment of which is secured by Landlord's Interest or this lease or (iii) a judicial foreclosure, foreclosure through the exercise of a power of sale or a deed given in lieu of foreclosure.

ARTICLE X
EMINENT DOMAIN

Section 10.01 - ENTIRE OR SUBSTANTIAL TAKING

If the entire Premises, or so much thereof as to make the balance not reasonably adequate for the conduct of Tenant's business notwithstanding restoration by Landlord as hereinafter provided, shall be taken permanently, or temporarily for not less than six (6) months, under the power of eminent domain, this lease shall automatically terminate as of the date on which the condemning authority takes possession.

Section 10.02 - PARTIAL TAKING

In the event of any taking under the power of eminent domain which does not so result in a termination of this lease, the Minimum Rent and all additional rent payable hereunder shall be reduced, effective as of the date on which the condemning authority takes possession, equitably and proportionately in relation to the amount of the Premises taken.

Section 10.03 - AWARDS

Any award for any taking of all or any part of the Premises under the power of eminent domain shall be the property of Landlord, whether such award shall be made as compensation for diminution in value of the leasehold or for taking of the fee. Nothing contained herein, however, shall be deemed to preclude Tenant from obtaining, or to give Landlord any interest in, any award to Tenant for loss of or damage to Tenant's trade fixtures and removable personal property or for damages for cessation or interruption of Tenant's business.

Section 10.04 - SALE UNDER THREAT OF CONDEMNATION

A sale by Landlord to any authority having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed a taking under the power of eminent domain for all purposes under this Article. In such event, Tenant shall not be entitled to any portion of the sale proceeds.

ARTICLE XI
UTILITY SERVICES

Section 11.01 - UTILITY CHARGES

Tenant shall pay all charges for gas, water, sewer, electricity, telephone and other utility services used in the Premises during the lease term. If any such charges are not paid when due Landlord may pay the same, after providing Tenant with five days prior written notice, and any amount so paid by Landlord shall thereupon become due to Landlord from Tenant as additional rent. As to any utility services not separately metered to the Premises at the Commencement Date of this lease, Landlord reserves the right to require Tenant, at Tenant's cost, to install a separate meter or submeter to monitor the usage of such utility service in the Premises. The foregoing provisions shall also apply to any utility service used by Tenant to operate the heating, ventilating and air conditioning unit serving the Premises.

Section 11.02 - INTERRUPTION OF SERVICE

Except as otherwise expressly provided for herein, Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility service being furnished to the Premises and no such failure or interruption shall entitle Tenant to terminate this lease, or to an abatement of the Minimum Rent, additional rent or other charges due hereunder.

ARTICLE XII
DEFAULTS AND REMEDIES

Section 12.01 - DEFINITIONS

The occurrence of any one or more of the following events shall constitute a default hereunder by Tenant:

- (a) The abandonment of the Premises by Tenant. Abandonment is herein defined to include, but is not limited to, any absence by Tenant from the Premises for twenty (20) successive days or longer while in default of any provision of this lease.
- (b) The failure by Tenant to make any payment of rent or additional rent required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 et seq., as amended.
- (c) The failure by Tenant to observe or perform any of the express or implied covenants or provisions of this lease to be observed or performed by Tenant, other than as specified in (a) or (b) above, where such failure shall continue for a period of fifteen (15) days after written notice thereof from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure Section 1161 et seq., as amended, and provided further, that if the nature of Tenant's default is such that more than fifteen (15) days are reasonably required for its cure then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said fifteen (15) day period and thereafter diligently prosecute such cure to completion.
- (d) (i) The making by Tenant of any general assignment for the benefit of creditors; (ii) the filing by or against Tenant of a petition to have Tenant adjudged a debtor in any proceeding under the Federal Bankruptcy Code or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within thirty (30) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this lease, where possession is not restored to Tenant within thirty (30) days; (iv) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this lease, where such seizure is not discharged within thirty (30) days; or (v) Tenant's convening of a meeting of its creditors or any class thereof for the purpose of effecting a moratorium upon or composition of its debts, or any class thereof.

Section 12.02 - REMEDIES

- (a) In the event of any default by Tenant as defined herein, Landlord may exercise the following remedies:
 - (1) Terminate Tenant's right to possession of the Premises by any lawful means, in which case this lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant:
 - (i) The worth at the time of award of the unpaid rent and additional rent which had been earned at the time of termination;
 - (ii) The worth at the time of award of the amount by which the unpaid rent and additional rent which would have been earned after termination until the time of award

exceeds the amount of such loss that Tenant proves could have been reasonably avoided;

(iii) The worth at the time of award of the amount by which the unpaid rent and additional rent for the balance of the term after the time of award exceeds the amount of such loss that Tenant proves could be reasonably avoided; and

(iv) Any other amount necessary to compensate Landlord for all the detriment related to Tenant's failure to perform its obligations under this lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary repair, renovation and alteration of the Premises, brokers' commissions, attorneys' fees, and any other costs.

The "worth at the time of award" of the amounts referred to in subparagraphs (i) and (ii) above shall be computed by allowing interest at the rate per annum determined pursuant to Section 13.06 from the date such amounts accrue to Landlord. The worth at the time of award of the amount referred to in subparagraph (iii) above shall be computed by discounting such amount at one (1) percentage point above the discount rate of the Federal Reserve Bank of San Francisco at the time of award.

(2) Without terminating or effecting a forfeiture of this lease or otherwise relieving Tenant of any obligation hereunder in the absence of express written notice of Landlord's election to do so, Landlord may, but need not, relet the Premises or any portion thereof at any time or from time to time and for such terms and upon such conditions and rental as Landlord in its sole discretion may deem proper. Whether or not the Premises are relet Tenant shall pay to Landlord all amounts required by Tenant hereunder up to the date that Landlord terminates Tenant's right to possession of the Premises. Such payments by Tenant shall be due at the times provided in this lease, and Landlord need not wait until the termination of the lease to recover them by legal action or in any other manner. If Landlord relets the Premises or any portion thereof, such reletting shall not relieve Tenant of any obligation hereunder, except that Landlord shall apply the rent or other proceeds actually collected by it for such reletting against amounts due from Tenant hereunder to the extent such proceeds compensate Landlord for non-performance of any obligation of Tenant hereunder. Landlord may execute any lease made pursuant hereto in its own name, and the lessee thereunder shall be under no obligation to see to the application by Landlord of any proceeds to Landlord, nor shall Tenant have any right to collect any such proceeds. Landlord shall not by any re-entry or other act be deemed to have accepted any surrender by Tenant of the Premises or Tenant's interest therein, or be deemed to have terminated this lease, or to have relieved Tenant of any obligation hereunder, unless Landlord shall have given Tenant express written notice of Landlord's election to do so as set forth herein.

(3) Landlord may terminate this lease by express written notice to Tenant of its election to do so. Such termination shall not relieve Tenant of any obligation hereunder which has accrued prior to the date of such termination. In the event of such termination, Landlord shall be entitled to recover from Tenant the amounts determined pursuant to paragraph (1) above.

(b) Landlord shall be under no obligation to observe or perform any covenant of this lease on its part to be observed or performed which accrues after the date of any default by Tenant hereunder.

(c) In any action for unlawful detainer commenced by Landlord against Tenant by reason of any default hereunder, the reasonable rental value of the Premises for the period of the unlawful detainer shall be deemed to be the amount of rent and additional rent reserved in this lease for such period, unless

Landlord or Tenant shall prove to the contrary by competent evidence.

(d) The rights and remedies reserved to Landlord herein, including those not specifically described, shall be cumulative, and, except as provided by California statutory law in effect at the time, Landlord may pursue any or all of such rights and remedies, at the same time or otherwise.

(e) No delay or omission of Landlord to exercise any right or remedy shall be construed as a waiver of any such right or remedy or of any default by Tenant hereunder. The acceptance by Landlord of any rent hereunder shall not be a waiver of any preceding breach or default by Tenant of any provision hereof other than the failure of Tenant to pay the particular rent accepted, regardless of Landlord's knowledge of such preceding breach or default at the time of acceptance of such rent, or a waiver of Landlord's right to exercise any remedy available to Landlord by virtue of such breach or default. The acceptance of any payment from a debtor in possession, a trustee, a receiver or any other person acting on behalf of Tenant or Tenant's estate shall not waive or cure a default under Section 12.01(d).

(f) Tenant hereby waives any right of redemption or relief from forfeiture under Code of Civil Procedure Sections 1174 and 1179, and under any present or future statutes or case decisions to the same effect, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any default by Tenant hereunder.

Section 12.03 - DEFAULT BY LANDLORD

Except as otherwise provided for hereunder, Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within twenty (20) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than twenty (20) days are required for its performance then Landlord shall not be deemed to be in default if it shall commence such performance within such twenty (20) day period and thereafter diligently prosecute the same to completion. Tenant's remedies for Landlord's default shall be limited to suit or action and shall not extend to withholding or offsetting rent.

Section 12.04 - EXPENSE OF LITIGATION

If either party incurs any expense, including attorneys' fees, in connection with any action or proceeding instituted by either party by reason of any default or alleged default of the other party hereunder, the party prevailing in such action or proceeding shall be entitled to recover its expenses, costs, fees, and disbursements, including attorneys fees, from the other party.

Section 12.05 - HOLDING OVER

If Tenant or anyone claiming under Tenant shall remain in possession of the Premises or any part thereof after expiration of the lease term or earlier termination thereof without any agreement in writing between Landlord and Tenant with respect thereto, Tenant shall (a) occupy upon all of the terms and conditions of this lease except that the monthly Minimum Rent due from Tenant shall be one hundred fifty percent (150%) of the monthly Minimum Rent in effect at the end of the lease term, (b) pay all damages sustained by Landlord by reason of such retention and (c) indemnify, defend, and hold Landlord harmless from and against any loss or liability resulting from such holding over. Landlord's acceptance of rent shall create only a month-to-month tenancy, in either case upon the terms set forth in this Section. Any such month-to-month tenancy shall be terminable at the end of any calendar month by either party by written notice to the other

statements of fact included by Landlord in the statement are correct.

(c) Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any intentional material misstatement contained in any estoppel certificate supplied by Tenant. Tenant irrevocably appoints Landlord as attorney-in-fact for Tenant with full power and authority to execute and deliver in the name of Tenant an estoppel certificate if Tenant fails to deliver the same within such ten (10) day period, and such certificate as signed by Landlord, shall be binding on Tenant.

(d) In the event this lease will be used as collateral for a loan made to Tenant, Landlord shall upon not less than ten (10) days prior written notice from Tenant execute, acknowledge and deliver to Tenant a statement in writing (1) certifying that this lease is unmodified and in full force and effect (or, is modified, stating the nature of such modification and certifying that this lease, as so modified, is in full force and effect) and the dates to which the Minimum Rent and additional rent have been paid in advance, if any, (ii) indicating whether there are to Landlord's knowledge, any uncured defaults on the part of Tenant hereunder, or specifying such defaults, if any, are claimed and (iii) indicating whether such other facts as are included in such statement by Tenant are accurate.

Section 13.02 - LANDLORD'S RIGHT OF ACCESS

Landlord and its agents shall have the right, after providing Tenant with twenty-four (24) hours advance notice, to (a) enter the Premises at all reasonable times for the purpose of examining or inspecting the same to ascertain if they are in good repair, making such alterations, repairs, improvements or additions to the Premises as Landlord may be permitted to make hereunder, exhibiting the same to prospective purchasers and posting notices which Landlord may deem necessary for its protection and (b) at any time in an emergency. During the six (6) months prior to the end of the term of this lease (and during any period during which Tenant is holding over with or without the consent of Landlord), Landlord may post the usual "for rent" or "for lease" signs provided that the placement of such signs does not interfere with Tenant's reasonable use of the Premises. Tenant shall not disturb such signs and shall cooperate with Landlord in exhibiting the Premises to prospective tenants. Access by Landlord hereunder shall not, under the circumstances, unreasonably interfere with Tenant's use and enjoyment of the Premises and Tenant waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, occupancy or quiet enjoyment arising out of any permitted entry by Landlord. Tenant acknowledges that Landlord may retain a key to the Premises and may, in any emergency, enter the Premises in any manner which Landlord reasonably determines to be necessary, without liability therefor to Tenant. No entry by Landlord pursuant to the Section shall be deemed to constitute an eviction of Tenant or a forcible detainer of the Premises.

Section 13.03 - TRANSFER OF LANDLORD'S INTEREST/ ASSIGNMENT OF LEASE

In the event of any transfer or transfers of Landlord's interest in the Premises, the transferor shall be automatically relieved of any and all obligations arising under this lease (as may be amended), accruing from and after the date of such transfer. Notwithstanding anything to the contrary set forth herein, Landlord may, without the consent of Tenant, assign all of its rights, liabilities and obligations under this lease and Tenant hereby agrees to attorn to any such assignee. Any transfer of Landlord's interest hereunder shall be evidenced by written notice delivered to Tenant.

Section 13.04 - FLOOR AREA

“Floor area” as used in this lease means, with respect to the Premises, the number of square feet set forth in the Basic Lease Provisions.

Section 13.05 - SEVERABILITY

Any provision of this lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and such remaining provisions shall remain in full force and effect.

Section 13.06 - LATE PAYMENTS

(a) Any amount due from Tenant to Landlord hereunder which is not paid to Landlord when due shall bear interest at the maximum rate of interest then permitted by the applicable usury law, accruing from the date due until the same is fully paid. Payment of such interest shall not excuse or cure any default by Tenant pursuant to this lease.

(b) TENANT ACKNOWLEDGES THAT THE LATE PAYMENT BY TENANT TO LANDLORD OF RENT AND OTHER SUMS DUE HEREUNDER WILL CAUSE LANDLORD TO INCUR COSTS NOT CONTEMPLATED BY THIS LEASE, THE EXACT AMOUNT OF WHICH WILL BE EXTREMELY DIFFICULT TO ASCERTAIN. SUCH COSTS MAY INCLUDE, BUT ARE NOT LIMITED TO, ADMINISTRATIVE, PROCESSING AND ACCOUNTING CHARGES, AND LATE CHARGES WHICH MAY BE IMPOSED ON LANDLORD BY THE TERMS OF ANY ENCUMBRANCE COVERING THE PREMISES. ACCORDINGLY, IF ANY SUM DUE FROM TENANT SHALL NOT BE RECEIVED BY LANDLORD OR LANDLORD’S DESIGNEE WITHIN TEN (10) DAYS AFTER THE DATE DUE, TENANT SHALL PAY TO LANDLORD, IN ADDITION TO THE INTEREST PROVIDED ABOVE, A LATE CHARGE IN THE AMOUNT OF FIVE PERCENT (5%) OF THE DELINQUENT AMOUNT, AS LIQUIDATED DAMAGES. THE PARTIES AGREE THAT SUCH LATE CHARGE REPRESENTS A FAIR AND REASONABLE ESTIMATE OF THE COST LANDLORD WILL INCUR BY REASON OF THE LATE PAYMENT BY TENANT. ACCEPTANCE OF SUCH LATE CHARGE SHALL NOT CONSTITUTE A WAIVER OF TENANT’S DEFAULT WITH RESPECT TO SUCH OVERDUE AMOUNT, NOR PREVENT LANDLORD FROM EXERCISING ANY OTHER RIGHTS AND REMEDIES GRANTED HEREUNDER OR BY LAW TO LANDLORD.

/s/ [Initials] _____ /s/ [Initials] _____
Landlord’s Initials Tenant’s Initials

(c) If Tenant shall, during any six (6) month period, be more than ten (10) days delinquent in the payment of any rent or other amount payable by Tenant hereunder on three (3) or more occasions then, notwithstanding anything herein to the contrary, Landlord may, by written notice to Tenant, elect to require Tenant to pay all Minimum Rent and additional rent payable hereunder quarterly in advance during the remaining term of the applicable lease year and during the next full lease year. Such right of Landlord shall be in addition to and not in lieu of any other right or remedy available to Landlord hereunder or at law on account of Tenant’s default hereunder.

Section 13.07 - TIME OF ESSENCE

Time is of the essence with respect to the performance of every provision of this lease in which time of performance is a factor.

Section 13.08 - HEADINGS

The article and section captions contained in this lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof.

Section 13.09 - INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS

This lease and the exhibits hereto cover in full each and every agreement of every kind or nature whatsoever between the parties hereto concerning the Premises, and all preliminary negotiations and agreements of whatsoever kind with respect to the Premises, except those contained herein, are superseded and of no further force or effect. No person, firm or corporation has at any time had any authority from Landlord to make any representations or promises on behalf of Landlord, and Tenant expressly agrees that if any such representations or promises have been made by Landlord or others, Tenant hereby waives all right to rely thereon. No verbal agreement or implied covenant shall be held to vary the provisions hereof, any statute, law, or custom to the contrary notwithstanding. No provision of this lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

Section 13.10 - NOTICES

Any notice, consent or approval ("notice") required or permitted to be given hereunder shall be in writing and may be served personally or by mail; if served by mail it shall be addressed as specified in the applicable Basic Lease Provision. Any notice to Tenant may, after Tenant opens the Premises for business be sent instead to Tenant at the Premises. Any notice which is personally served shall be effective upon service, any notice given by mail shall be deemed effectively given three (3) days after deposit in the United States mail, registered or certified, postage prepaid and addressed to the Premises (for Tenant) or as specified in the applicable Basic Lease Provision. Either party may by written notice to the other from time to time specify a different address for notice purposes.

Section 13.11 - BROKERS

With the exception of the Broker referenced in the Basic Lease Provisions, if any, Tenant and Landlord, each for themselves, warrants to the other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this lease, except as specifically stated to the contrary in the applicable Basic Lease Provision, and each expressly agrees and covenants to hold the other harmless and to defend the other from any claims, threatened or asserted, by any broker, finder or agent claiming under or through the respective party in connection with the negotiations and execution of this lease.

Section 13.12 - WAIVERS

No waiver of any provision hereof shall be deemed a waiver of any other provision hereof. Consent or approval of any act by one of the parties hereto shall not be deemed to render unnecessary the obtaining of such party's consent to or approval of any subsequent act.

Section 13.13 - RECORDING

Tenant shall not record this lease without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this lease for recording purposes.

Section 13.14 - LIENS

Notwithstanding Section 6.06 (b), Tenant shall do all things necessary to prevent the filing of any mechanics' or other liens against the Premises or any part thereof by reason of work, labor, services or materials supplied or claimed to have been supplied to Tenant, or anyone holding the Premises, or any part thereof, through or under Tenant.

Section 13.15 - SUBORDINATION

This lease and all rights of Tenant under this lease are subject and subordinate to any of the following, and any modifications thereof, which may now or hereafter affect any portion of the Premises: (a) any mortgage, or any ground or underlying lease covering any part of the Premises, provided that a condition of this subordination for any future mortgage holder or ground lessor shall be the delivery to Tenant of a commercially reasonable non-disturbance and attornment agreement which shall indicate that Tenant's peaceable possession of the Premises will not be disturbed as a result of such subordination, (b) any applicable laws, rules, statutes and ordinances of any governmental authority having jurisdiction, and (c) all utility easements and agreements. On sale by foreclosure of a mortgage or sale in lieu of foreclosure, Tenant will attorn to the purchaser if requested by such purchaser, and recognize the purchaser as the Landlord under this lease provided Tenant has received a commercially reasonable non-disturbance and attornment agreement indicating that Tenant's (or its Affiliate) peaceful possession of the Premises will not be disturbed. These provisions are self-operative and except as provided above no further instrument is required to effect them; however, upon demand from time to time, Tenant shall execute, acknowledge and deliver to Landlord any instruments and certificates necessary or proper to evidence such subordination and/or attornment or, if Landlord so elects, to render any of the foregoing subordinate to this Lease or to any or all rights of Tenant hereunder. Tenant further waives the provisions of any current or future statutes, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this lease and the obligations of Tenant hereunder in the event of any such foreclosure proceeding or sale, and agrees that this Lease shall not be affected in any way whatsoever by any such proceeding or sale unless the mortgagee, or the purchaser, shall declare otherwise.

Section 13.16 - FORCE MAJEURE

In the event that either Landlord or Tenant is delayed in performing any obligation of Landlord or Tenant pursuant to this lease by any cause beyond the reasonable control of the party required to perform such obligation, the time period for performing such obligation shall be extended by a period of time equal to the period of the delay. For the purpose of this Section:

(a) A cause shall be beyond the reasonable control of a party to this lease when such cause would affect any person similarly situated (such as power outage, labor strike or truckers' strike) but shall not be beyond the reasonable control of such party when peculiar to such party (such as financial inability or ordering long lead time materials).

(b) This Section shall not apply to any obligation to pay money or delay the Lease Commencement Date.

(c) In the event of any occurrence which a party believes constitutes a cause beyond the reasonable control of such party and which will delay any performance by such party hereunder, such party shall promptly in writing notify the other party of the occurrence and nature of such cause, the anticipated period of delay and the steps being taken by such party to mitigate the effects of such delay.

Section 13.17 - YIELD UP PREMISES

At the expiration or earlier termination of this lease, Tenant shall peaceably yield up the Premises to Landlord in the same condition as when received, ordinary wear and tear excepted, and all additions made upon the same to Landlord, in first class condition (free and clear of debris) and shall execute, acknowledge and deliver to Landlord, within five (5) days after

written demand from Landlord to Tenant, any quitclaim deed or other document, in recordable form, which may be reasonably requested by any reputable title company to remove the lease as a matter affecting title to the Premises.

Notwithstanding anything to the contrary otherwise stated in this lease, Tenant shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, air conditioning, plumbing and fencing on the Premises in good operating condition and shall repair any damage to the Premises occasioned by the removal of any personal property.

Section 13.18 - AUTHORITY

Each individual executing this lease on behalf of the respective parties hereto represents and warrants that the execution and delivery of this lease on behalf of the party executing this lease is duly authorized and that he or she is authorized to execute and deliver this lease on behalf of the respective party. If Tenant is a corporation, Tenant shall, concurrently with the execution of this lease, deliver to Landlord a certified copy of a resolution of Tenant's board of directors authorizing or ratifying the execution of this lease.

Section 13.19 - SAFETY AND HEALTH

Tenant covenants at all times during the term of this lease to comply with the requirements of the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 651 et seq. and any analogous legislation in California (collectively the "Act"), to the extent that the Act applies to the Premises and any activities therein. Without limiting the generality of the foregoing, Tenant covenants to maintain all working areas, all machinery, structures, electrical facilities and the like upon the Premises in a condition that fully complies with the requirements of the Act, including such requirements as would be applicable with respect to agents, employees or contractors of Landlord who may from time to time be present upon the Premises, and Tenant agrees to indemnify and hold harmless Landlord from any liabilities, claims or damages arising as a result of a breach of the foregoing covenant and from all costs, expenses and charges arising therefrom including, without limitation, attorneys' fees and court costs incurred by Landlord in connection therewith.

Section 13.20 - INDEMNITIES

The obligations of the indemnifying party under each and every indemnification and hold harmless provision contained in this lease shall survive the expiration or earlier termination of this lease to and until the last to occur of (a) the last date permitted by law for the bringing of any claim or action with respect to which indemnification may be claimed by the indemnified party against the indemnifying party under such provision or (b) the date on which any claim or action for which indemnification may be claimed under such provision is fully and finally resolved and, if applicable, any compromise thereof or judgment or award thereon is paid in full by the indemnifying party and the indemnified party is reimbursed by the indemnifying party for any amounts paid by the indemnified party in compromise thereof or upon judgment or award thereon and in defense of such action or claim, including reasonable attorneys' fees incurred.

Section 13.21 - DISCLOSURE

Landlord and Tenant agree that the terms of this lease are not confidential.

Section 13.22 - GENDER; TENANTS

The use of the masculine pronoun includes the feminine and neuter genders; the use of the singular form of a pronoun includes the plural and vice-versa. If there be more than one

person or entity indicated as Tenant herein, each person or entity subscribing as Tenant shall be jointly and severally liable for all obligations of Tenant hereunder.

Section 13.23 - QUIET ENJOYMENT

Landlord represents and warrants that it has full right and authority to enter into this lease and that Tenant, so long as it pays the rent and performs its other covenants and agreements herein set forth, shall peaceably and quietly have, hold and enjoy the Premises for the term without hindrance or molestation from Landlord. Landlord shall not be liable for any interference or disturbance of other tenants, if any, or third persons, nor shall Tenant be released from any of its obligations under this lease because of such interference or disturbance.

Section 13.24 - ASSIGNS

Subject to the provisions of Article IX, the terms, covenants and conditions contained herein shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators, marital communities, if any, and assigns of the parties hereto.

Section 13.25 - NO OPTION

Submission of this lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound hereby until its delivery to Tenant of an executed copy hereof signed by Landlord, already having been signed by Tenant, and until such delivery Landlord reserves the right to exhibit the Premises to other prospective tenants.

Section 13.26 - LANDLORD LIABILITY

The obligations of Landlord herein are intended to be binding only on the Premises of the entity acting as Landlord and shall not be personally binding, nor shall any resort be had to the private properties of, any of its trustees, general partners, limited partners, or board of directors and officers, as the case may be, or any employees or agents of Landlord.

Section 13.27 - ACCOUNTS

Tenant's failure to object to any statement, invoice or billing by Landlord within sixty (60) days after receipt thereof shall constitute Tenant's acquiescence with respect thereto and shall conclusively establish such statement, invoice or billing as an account stated between Landlord and Tenant.

ARTICLE XIV
CONDITION OF PREMISES

Section 14.01 - CONDITION OF PREMISES

Tenant accepts the Premises "as is" and after inspection by Tenant. Tenant acknowledges that neither Landlord nor any agent

of Landlord has made any representation or warranty with respect to the Premises or the suitability of either for the conduct of Tenant's business except as may be expressly provided for hereunder.

ARTICLE XV
OPERATIONAL PROVISIONS

Section 15.01 - PAYMENT PROVISIONS

Tenant agrees to pay all amounts due under this lease including, without limitation, taxes, utilities, rent, insurance premiums, etc., prior to delinquency and, upon Landlord's request, to furnish Landlord with satisfactory written evidence of such payment. Notwithstanding the foregoing, any amount payable by Tenant pursuant to this lease shall be due and payable within ten (10) days after the date of Landlord's invoice therefor unless a different time for payment thereof is elsewhere provided in this lease.

Section 15.02 - TERMINATION

If this lease is terminated by Landlord under any provision hereof, and upon the expiration of the term of this lease (collectively, the "termination date"), the following shall pertain:

(a) Tenant shall, within ten (10) days after the date of termination, remove from the Premises all merchandise, furniture, furnishings, equipment and movable trade fixtures and shall surrender the Premises to Landlord in the condition required by Section 13.17. Tenant shall, at Tenant's cost, repair any damage to the Premises caused by such removal. Any items which Tenant is permitted to remove but fails to remove prior to the surrender of the Premises to Landlord shall be deemed abandoned by Tenant, and Landlord may retain or dispose of the same as Landlord sees fit without claim by Tenant thereto or to any proceeds thereof. Tenant shall pay all amounts payable by it through the date of termination, each of the parties shall bear their own costs and fees incurred (including all costs incurred in performing their respective obligations hereunder) through the termination date and from and after the termination date neither party shall have any further obligations to the other, except for those obligations set forth in this subsection, in Section 13.17, and in subsection (b) below.

(b) Notwithstanding the provisions of subsection (a), upon any such termination or expiration the following shall pertain:

(i) Landlord agrees to defend, indemnify and hold harmless Tenant from and against any and all claims, costs, expenses, losses, damages, actions and causes of action for which Landlord is responsible under this lease and which accrue on or before the termination date.

(ii) Tenant agrees to defend, indemnify and hold harmless Landlord from and against any and all claims, costs, losses, expenses, damages, actions and causes of action for which Tenant is responsible under this lease and which accrue on or before the termination date.

(iii) Tenant shall remain liable for the cost of all utilities used in or at the Premises through the termination date accrued and unpaid, whether or not then billed, as of the termination date until full payment thereof by Tenant. Tenant shall attempt to obtain directly from the companies providing such services closing statements for all services rendered through the termination date and shall promptly pay the same. In the event that any utility statement with respect to the Premises includes charges for a period partially prior to and partially subsequent to the termination date, such charges shall be prorated as between Landlord and Tenant, with Tenant responsible for the portion thereof (based upon a fraction whose numerator is

the number of days of service on such statement through the termination date and whose denominator is the total number of days of service on such statement) through the termination date and Landlord shall be responsible for the balance. The party receiving any such statement which requires proration hereunder shall promptly pay such statement and the other party shall, within ten (10) days after receipt of a copy of such statement, remit to the party paying the statement any amount for which such other party is responsible hereunder.

(iv) Tenant shall remain responsible for all accrued taxes of the type described in Article IV and assessed against the Premises and the personal property located therein or thereon with a lien date prior to the termination date, irrespective of the date of the billing therefor, and shall indemnify and hold Landlord harmless with respect to any claims for such taxes or resulting from non-payment thereof.

Section 15.03 - REFURBISH AND UPGRADE

Tenant shall at Tenant's sole cost and expense, renovate and refurbish the Premises, from time to time, as may be reasonably necessary to maintain the Premises in good order and condition. Failure of Tenant to perform its obligations pursuant to this Section shall be a default pursuant to this lease entitling Landlord to exercise all remedies available to a landlord against a defaulting tenant.

ARTICLE XVI HAZARDOUS WASTE

SECTION 16.01 - HAZARDOUS WASTE

(a) Tenant agrees that Tenant, its agents and contractors, licensees, or invitees shall not handle, use, manufacture, store or dispose of any flammables, explosives, radioactive materials, or other similar substances, petroleum products or derivatives (collectively "Hazardous Materials") on, under, or about the Premises, without Landlord's prior written consent (which consent may be given or withheld in Landlord's sole discretion), provided that Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials, which products are of a type customarily found in offices and households (such as aerosol cans containing insecticides, toner for copies, paints, paint remover, and the like), provided further that Tenant shall handle, store, use and dispose of any such Hazardous Materials in a safe and lawful manner and shall not allow such Hazardous Materials to contaminate the Premises or the environment.

(b) Without limiting the above, Tenant shall reimburse, defend, indemnify and hold Landlord harmless from and against any and all claims, losses, liabilities, damages, costs and expenses, including without limitation, loss of rental income, loss due to business interruption, and attorneys fees and costs, arising out of or in any way connected with the use, manufacture, storage, or disposal of Hazardous Materials by Tenant, its agents or contractors on, under or about the Premises including, without limitation, the costs of any required or necessary investigation, repair, cleanup or detoxification and the preparation of any closure or other required plans in connection herewith, whether voluntary or compelled by governmental authority. The indemnity obligations of Tenant under this clause shall survive any termination of the lease.

(c) Notwithstanding anything set forth in this lease, Tenant shall only be responsible for contamination of Hazardous Materials or any cleanup resulting directly therefrom, resulting directly from matters occurring or Hazardous Materials deposited (other than by contractors, agents or representatives controlled by Landlord) during the lease term, and any other period of time during which Tenant is in actual or constructive occupancy of the

Premises. Tenant shall take reasonable precautions to prevent the contamination of the Premises with Hazardous Materials by third parties.

(d) It shall not be unreasonable for Landlord to withhold its consent to any proposed Assignment or Sublease if (i) the proposed Assignee's or Sublessee's anticipated use of the Premises involves the generation, storage, use, treatment or disposal of Hazardous Materials; (ii) the proposed Assignee or Sublessee has been required by any prior landlord, lender, or governmental authority to take remedial action in connection with Hazardous Materials contaminating a property if the contamination resulted from such Assignee's or Sublessee's actions or use of the property in question; or (iii) the proposed Assignee or Sublessee is subject to an enforcement order issued by any governmental authority in connection with the use, disposal, or storage of a hazardous material.

ARTICLE XVII
NET LEASE

SECTION 17.01 - EXPENSES

Without limiting the Tenant's obligations under this lease, Tenant hereby acknowledges that this is a "Triple Net Lease" (as such term is commonly used). Without limiting Tenant's obligation to pay all taxes, insurance, maintenance charges, and any other amount due under the lease, Tenant shall pay all "Operating Expenses" related to the Premises. The term "Operating Expenses" shall mean any and all costs, expenses and disbursements of every kind and character which Landlord incurs, pays or becomes obligated to pay in connection with the operation, maintenance, management, repair, replacement, and security of the Premises. Operating Expenses include, without limitation, any and all water and sewer charges; accounting, legal and other consulting fees; the net cost and expense of insurance, including loss of rents coverage, (including losses borne by Landlord as a result of deductibles carried by Landlord under any insurance policy); utilities; labor; parking charges; utilities surcharges, or any other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations or interpretations thereof, promulgated by any federal, state, regional, municipal or local government authority in connection with the use or occupancy of the Premises or the parking facilities serving it (if any); the cost of any equipment used to operate the improvements located on the Premises, and the cost of any capital improvements that may be incurred or which are made or installed in order to comply with any statutes, rules, regulations or directives hereafter promulgated by any governmental authority; air conditioning; waste disposal; heating, ventilating, supplies; materials; equipment; tools; repair and maintenance of the Premises, including the structural portion of the improvements located on the Premises, and the plumbing, heating, ventilating, air conditioning, and electrical; maintenance costs, including utilities, rental of personal property used in maintenance, and all other upkeep of all parking areas; costs and expenses of gardening and landscaping, maintenance of signs; reasonable audit or verification fees; costs and expenses of repairs, resurfacing, repairing, maintenance, painting, lighting, cleaning, refuse removal, and similar items for the Premises; and costs reasonably incurred to reduce or contest taxes and other Operating Expenses.

Operating Expenses shall not include any of the items described below:

- a) Brokerage commissions and fees and advertisements for rentals;
- b) Debt service points on any mortgages or deeds of trust or any rent payable under the terms of a ground lease;

c) Tax penalties incurred as a result of Landlord's failure to make payments when due as a result of Landlord's negligence;

IN WITNESS WHEREOF, this Agreement has been entered into by the parties as of the day and year first above written.

LANDLORD:

1444 Partners, Ltd., a California
Limited Partnership

By: Alameda Associates, Inc.,
a California Corporation
Its: General Partner

By: /s/ [SIGNATURE] _____
Its President

By: /s/ [SIGNATURE] _____
Its Secretary

TENANT:

Guess? Inc., a
California corporation

By: /s/ Paul Marciano _____
Its

I, Paul Marciano, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 quarterly 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 quarterly 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 quarterly 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 officers 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: June 11, 2008

By: /s/ PAUL MARCIANO
Paul Marciano
Chief Executive Officer and
Vice Chairman of the Board

I, Carlos Alberini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 quarterly 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 quarterly 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 quarterly 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 officers 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: June 11, 2008

By: /s/ CARLOS ALBERINI
Carlos Alberini
President and Chief Operating Officer

I, Dennis R. Secor, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Guess?, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 quarterly 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 quarterly 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 quarterly 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 officers 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: June 11, 2008

By: /s/ DENNIS R. SECOR
Dennis R. Secor
Senior Vice President and Chief Financial Officer

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

I, Paul Marciano, Chief Executive Officer and Vice Chairman of the Board of Guess?, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended May 3, 2008, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2008

By: /s/ PAUL MARCIANO
Paul Marciano
Chief Executive Officer and
Vice Chairman of the Board

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

I, Carlos Alberini, President and Chief Operating Officer of Guess?, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended May 3, 2008, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2008

By: /s/ CARLOS ALBERINI
Carlos Alberini
President and Chief Operating Officer

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

I, Dennis R. Secor, Senior Vice President and Chief Financial Officer of Guess?, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- the Quarterly Report on Form 10-Q of the Company for the period ended May 3, 2008, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: June 11, 2008

By: /s/ DENNIS R. SECOR
Dennis R. Secor
Senior Vice President and Chief Financial Officer
