UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities
    Exchange Act of 1934

For the fiscal year ended December 31, 2008

[_] 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 0-16075

PEOPLE'S LIBERATION, INC.
(Exact name of registrant as specified in its charter)

DELAWARE                                  86-0449546
(State or Other Jurisdiction of             (I.R.S. Employer
Incorporation or Organization)              Identification No.)

1212 S. FLOWER STREET, 5TH FLOOR
LOS ANGELES, CA 90015
(Address of Principal Executive Offices)

(213) 745-2123
(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, PAR VALUE $.001 PER SHARE

Indicate by check mark if the registrant is a well-known seasoned issuer, as
defined in Rule 405 of the Securities Act.   Yes [X]  No [_]

Indicate by check mark if the registrant is not required to file reports
pursuant to Section 13 or Section 15(d) of the Act.   Yes [_]  No [X]

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 [X]  No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K (ss.229.405 of this chapter) is not contained herein, and will
not be contained, to the best of registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-K
or any amendment to this Form 10-K.  [_]

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

Large accelerated filer [X]  Accelerated filer  [_]
Non-accelerated filer [_]  Smaller reporting company  [X]
(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in
Rule 12b-2 of the Act.)   Yes [_]  No [X]

The aggregate market value of the registrant's common stock held by
non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter was $3,646,965 (based on the closing sales price of the registrant's common stock on that date).

At March 26, 2009, the registrant had 36,002,563 shares of Common Stock, $0.001 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
None

PEOPLE'S LIBERATION, INC.
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This 2008 Annual Report on Form 10-K, including the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains "forward-looking statements" that include information relating to future events, future financial performance, strategies, expectations, competitive environment, regulation and availability of resources. These forward-looking statements include, without limitation, statements regarding: proposed new services; our expectations concerning litigation, regulatory developments or other matters; statements concerning projections, predictions, expectations, estimates or forecasts for our business, financial and operating results and future economic performance; statements of management's goals and objectives; and other similar expressions concerning matters that are not historical facts. Words such as "may," "will," "should," "could," "would," "predicts," "potential," "continue," "expects," "anticipates," "future," "intends," "plans," "believes" and "estimates," and similar expressions, as well as statements in future tense, identify forward-looking statements.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, that performance or those results will be achieved. Forward-looking statements are based on information available at the time they are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause these differences include, but are not limited to:

- our failure to implement our business plan within the time period we originally planned to accomplish;
- the risks of expanding the number of products we offer, as well as the number of brands we market and distribute;
- our ability to locate manufacturers who can timely manufacture our products;
- our ability to enter into distribution agreements both in the United States and internationally;
- the demand for high-end jeans and other casual apparel in the United States and internationally;
- the demand for collection apparel;
- a decline in the retail sales environment;
- a decrease in the availability of financial resources at favorable terms;
- industry competition;
- general economic conditions; and
- other factors discussed under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Description of Business."

Forward-looking statements speak only as of the date they are made. You should not put undue reliance on any forward-looking statements. We assume no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable securities laws. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.
CORPORATE OVERVIEW

We design, market and sell high-end casual apparel under the brand names "People's Liberation," "William Rast" and, in the United States, "J. Lindeberg." The majority of the merchandise we offer consists of premium denim, knits, wovens, golf wear and outerwear for men and women. In the United States, we distribute our merchandise to better specialty stores, boutiques and department stores, such as Nordstrom, Bloomingdales, Saks Fifth Avenue, Neiman Marcus and Fred Segal. We also market and sell J. Lindeberg branded collection and golf apparel through our flagship retail store in New York City and J. Lindeberg golf wear to green grass golf stores and boutiques in the United States. Internationally, in select countries, we sell our William Rast branded apparel products directly and through distributors to better department stores and boutiques throughout the world.

We commenced our William Rast clothing line in May 2005. Our William Rast clothing line is a collaboration with Justin Timberlake and his childhood friend, Trace Ayala. In addition, our William Rast lifestyle collection is being developed and designed in collaboration with Paris68, the independent design consultancy of Johan and Marcella Lindeberg.

We began distributing J. Lindeberg branded apparel products in the United States on an exclusive basis beginning July 2008 in collaboration with J. Lindeberg AB in Sweden. In addition to being sold in the United States through our subsidiary, J. Lindeberg USA, LLC, J. Lindeberg branded high-end men's fashion and premium golf apparel is marketed and sold by J. Lindeberg AB worldwide.

We commenced our People's Liberation business in July 2004. On December 16, 2008, we entered into an agreement with Charlotte Russe Holding, Inc. and its wholly-owned subsidiary, Charlotte Russe Merchandising, Inc. (collectively, "Charlotte Russe") pursuant to which we agreed to exclusively sell to Charlotte Russe, in North America and Central America, People's Liberation(TM) branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories. We will cease to sell People's Liberation branded merchandise in North America and Central America to parties other than Charlotte Russe effective April 30, 2009. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.

We are headquartered in Los Angeles, California, maintain showrooms in New York, Los Angeles and Atlanta, and have sales representatives in Dallas, Texas, and Orlando, Florida.

STRUCTURE OF OPERATIONS

Our wholly-owned subsidiary Versatile Entertainment, Inc. conducts our People's Liberation brand business. Our William Rast brand business is conducted through our wholly-owned subsidiary Bella Rose, LLC. William Rast Sourcing, LLC and William Rast Licensing, LLC are consolidated under Bella Rose and are each owned 50% by Bella Rose and 50% by William Rast Enterprises, LLC, an entity owned in part by Justin Timberlake. Our J. Lindeberg brand business is conducted through Bella Rose. J. Lindeberg USA, LLC is consolidated under Bella Rose and is owned 50% by Bella Rose and 50% by J. Lindeberg USA, Corp. an entity owned by J. Lindeberg AB, a Swedish corporation.

APPAREL INDUSTRY BACKGROUND

We operate exclusively in the premium contemporary segment of the apparel industry, which is characterized by lower volume sales of higher margin products. Our future success depends in part on the continued demand by consumers for high-end casual apparel, which in recent years has contributed to a proliferation of brands such as True Religion, Seven For All Mankind, Diesel,
G-Star, Theory, Rock & Republic and Joe's Jeans. We anticipate that the premium contemporary segment of the apparel industry will become increasingly competitive because of the consumer demand for apparel in this segment, as well as the high retail prices consumers are willing to spend for such goods. An increase in the number of brands competing in the premium contemporary segment of the apparel industry could result in reduced shelf space for our brands at better department stores and boutiques, our primary customers.

CUSTOMERS

We market our products to better department stores and boutiques that cater to fashion forward clientele. Our products are sold to a limited number of better department stores and boutiques to maintain our premium brand status. In the United States, our products are sold in a number of Nordstrom and Bloomingdales store locations. We plan to continue to develop our existing relationships with our customers, and expand our domestic sales and distribution to better department stores as the visibility of our brands increase in the marketplace. Currently, in addition to Nordstrom and Bloomingdales, we sell to Saks Fifth Avenue, Neiman Marcus and Fred Segal as well as hundreds of other boutiques and specialty retailers. We also market and sell J. Lindeberg branded collection and golf apparel through our flagship retail store in New York City and we sell J. Lindeberg golf wear to green grass golf stores and boutiques in the United States. Internationally, in select countries, we sell our William Rast products directly and through distributors to better department stores and boutiques throughout the world. We intend to expand our international distribution into additional territories and increase our brand penetration in the countries in which our apparel is currently being sold.

Beginning May 1, 2009, we will exclusively sell our People's Liberation branded apparel and apparel accessories to Charlotte Russe in North America and Central America and provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.


OUR PRODUCTS

Our principal products consist of high-end casual apparel under the brand names "William Rast," "People's Liberation" and, in the United States, "J. Lindeberg." The majority of the merchandise we offer consists of premium denim, knits, wovens, golf wear and outerwear for men and women. Our principal products are designed, manufactured, marketed, and distributed under our "William Rast" and "People's Liberation" labels and we market and distribute under the J. Lindeberg label in the United States, products that are designed and manufactured by J. Lindeberg AB. Our William Rast brand is a collection of denim, knits, wovens and outerwear for both men and women, our People's Liberation brand primarily includes denim for men and women and the J. Lindeberg brand primarily consists of golf wear and collection apparel for men. As a result of the fit, quality, styles and successful marketing and branding of our products, we believe that our products will continue to command premium prices in the marketplace.

Our denim is made from high quality fabrics milled primarily in the United States, Japan and Italy and processed with various treatments, washes and finishes, including light, medium, dark, and destroyed washes, some of which include studs, stones, and embroidered pockets as embellishments. We introduce new versions of our major styles each season in different colors, washes and finishes.

Our knits and woven products consist of men's and women's tops and bottoms. We sell knit and woven products which consist of cotton, velour, terry loop, fleece and nylon fabrications. Similar to our denim products, we introduce new versions, bodies, styles, colors and graphics of our knit and woven products
each season. We anticipate expanding our products and fabrications to include other fashion forward materials.

Our William Rast lifestyle collection is being developed and designed in collaboration with Paris68, the independent design consultancy firm of Johan and Marcella Lindeberg. Johan Lindeberg, best known for his role as Creative Director of the Swedish brand J. Lindeberg, designs our men's collection while Marcella Lindeberg designs our women's collection. This collaboration results in a partnership to develop the William Rast brand into full contemporary men's and women's fashion collections. The initial collections were launched in February of 2008.

We began distributing J. Lindeberg branded apparel products in the United States on an exclusive basis beginning July 2008 in collaboration with J. Lindeberg AB in Sweden. In addition to being sold in the United States, J. Lindeberg branded high-end men's fashion and premium golf apparel is marketed and sold by J. Lindeberg AB worldwide.

An in-house team of designers is responsible for the design and development of our People's Liberation product line and our William Rast denim product line. We do not currently have in place a formal research and development effort. Our design teams, together with our in-house sales team and our J. Lindeberg outside sales contractors, shop stores, travel and speak to market and trend setters to help generate new product ideas.

SALES AND DISTRIBUTION

US SALES AND DISTRIBUTION

We sell our products through our own sales force based in Los Angeles, New York, Atlanta, Orlando and Dallas. Additionally, we operate showrooms in Los Angeles, New York and Atlanta with dedicated salaried and commissioned sales staff. We also employ customer service representatives who are assigned to key customers and provide in-house customer service support. We ship products to and invoice our United States customers directly from warehouse facilities located in or around Los Angeles, California, and Somerset, New Jersey. Under agreements with third-party warehouses, we outsource all of our finished good shipping, receiving and warehouse functions.

Currently, our products are sold in the United States to department stores and boutiques. While we do not depend on any individual department store to sell our products, for the years ended December 31, 2008 and 2007, approximately 28.9% and 31.1% of our sales were to one customer.

Beginning May 1, 2009, we will exclusively sell our People's Liberation branded apparel and apparel accessories to Charlotte Russe in North America and Central America and provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America.

INTERNATIONAL SALES AND DISTRIBUTION

Our William Rast branded apparel products are sold internationally in select countries directly and through distributors to better department stores and boutiques. Our distributors purchase products at a discount for resale in their respective territories and market, sell, warehouse and ship William Rast branded apparel products at their expense. We anticipate growing our international distribution channels across new territories.

BRAND DEVELOPMENT

Our William Rast, J. Lindeberg and People's Liberation brands already have consumer recognition in the high-end fashion denim, knits, golf wear and casual wear markets. We plan to continue building and expanding this recognition by targeting marketing our lines to fashion conscious consumers who want to wear and be seen in the latest, trendiest jeans and other apparel. To facilitate this objective, we plan to continue to limit distribution to exclusive boutiques and major retailers. We also plan to use celebrities as a marketing catalyst to continue to bring attention and credibility to our brands. Currently, we
leverage the popular public images of Justin Timberlake in the promotion of our William Rast apparel line and Camilo Villegas to promote our J. Lindeberg golf wear line.

We anticipate that our internal growth will be driven by (1) expansion of our product lines by introducing new styles and categories of apparel products, (2) entering into license agreements for the manufacture and distribution of new apparel categories, accessories, fragrances and other products, (3) expansion of our wholesale distribution, both domestically and internationally through high-end retailers, and (4) operating a retail store chain. Our goal is to employ a multi-brand strategy which diversifies the fashion and other risks associated with reliance on any single brand.

MANUFACTURING AND SUPPLY

We use third party contract manufacturers to produce our People’s Liberation and William Rast denim finished goods from facilities located primarily in Los Angeles, California. For the majority of our denim products, we purchase fabric and trim from suppliers who deliver these components directly to us to be cut, sewn, washed and finished by our contract manufacturers. For the majority of our knits and other non-denim products, we source these goods from international suppliers. As our product offerings increase, we intend to expand the number of contract manufacturers we use, both domestically and internationally, to perform some or all of the manufacturing processes required to produce finished products. We currently purchase all of our J. Lindeberg branded apparel products from J. Lindeberg AB in Sweden, the beneficial owner of 50% of our subsidiary, J. Lindeberg USA. We intend to source our People’s Liberation denim and knit products sold to Charlotte Russe under our exclusive distribution agreement from international suppliers of full package goods.

We believe we can realize additional cost savings in product manufacturing because of our strong relationships with a diverse group of U.S. and international manufacturers established by our management team. In addition, the increase in production volume as a result of our multi-brand strategy will give us greater purchasing power. We do not rely on any one manufacturer and manufacturing capacity is readily available to meet our current and planned needs. We do not currently have any long-term agreements in place for the supply of fabric, thread or other raw materials. Fabric, thread and other raw materials are available from a large number of suppliers worldwide. Although we do not depend on any one supplier, for the year ended December 31, 2008, three suppliers provided for 34.5% of our total combined purchases for the year. For the year ended December 31, 2007, four suppliers provided for 52.4% of our total combined purchases for the year.

COMPETITION

The premium denim, knits and golf wear industries are intensely competitive and fragmented and will continue to become more competitive and fragmented as a result of the high margins that are achievable in the industries. Our competitors include other small companies like ours, as well as companies that are much larger, with superior economic, marketing, distribution, and manufacturing capabilities. Our competitors in the denim and knit markets include brands such as True Religion, Seven For All Mankind, Diesel, G-Star, Theory, Rock & Republic and Joe’s Jeans, as well as other premium denim brands.

We compete in our ability to create innovative concepts and designs, develop products with extraordinary fit, and produce high quality fabrics and finishes, treatments and embellishments. At a retail price point of $150 to $280 for denim jeans, $20 to $125 for knits and other apparel items, and $60 to $1,000 for collection products, we believe that we offer competitively valued priced products.

TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

We have filed trademark applications for the following marks in the following territories:

<table>
<thead>
<tr>
<th>NAME OF MARK</th>
<th>TERRITORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>People's Liberation</td>
<td>USA, European Community, Japan,</td>
</tr>
</tbody>
</table>
We plan to continue to expand our brand names and our proprietary trademarks and designs worldwide.

GOVERNMENT REGULATION AND SUPERVISION

Our operations are subject to the effects of international treaties and regulations such as the North American Free Trade Agreement (NAFTA). We are also subject to the effects of international trade agreements and embargoes by entities such as the World Trade Organization. Generally, these international trade agreements benefit our business rather than burden it because they tend to reduce trade quotas, duties, taxes and similar impositions. However, these trade agreements may also impose restrictions that could have an adverse impact on our business, by limiting the countries from whom we can purchase our fabric or other component materials, or limiting the countries where we might market and sell our products.

Labeling and advertising of our products is subject to regulation by the Federal Trade Commission. We believe that we are in compliance with these regulations.

EMPLOYEES

As of December 31, 2008, we had a total of 65 full time employees. Our full time employees consist of four officers, Colin Dyne, our Chief Executive Officer, Thomas Nields, our Chief Operating Officer, Darryn Barber, our President and Chief Financial Officer and Andrea Sobel, Executive Vice President

<table>
<thead>
<tr>
<th>Company</th>
<th>Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Rast</td>
<td>USA, European Community, Japan, Mexico, People's Republic of China, Republic of Korea, Hong Kong, Israel, Russia, Taiwan, Singapore, Turkey, Australia and Canada.</td>
</tr>
<tr>
<td>William Rast &amp; Design</td>
<td>USA, European Community and Japan</td>
</tr>
<tr>
<td>Rising Star</td>
<td>USA, European Community, Japan, Mexico, People's Republic of China, Republic of Korea, Hong Kong, Israel, Russia, Taiwan, Singapore, Turkey, Australia and Canada.</td>
</tr>
<tr>
<td>Star Pocket</td>
<td>USA, Japan, Mexico, People's Republic of China, Republic of Korea, Israel, Russia, Singapore, Turkey, Australia and Canada.</td>
</tr>
<tr>
<td>The Dub</td>
<td>USA, European Community, Japan, Mexico, People's Republic of China, Republic of Korea, Russia, Canada, Croatia and United Arab Emirates.</td>
</tr>
<tr>
<td>Dancing Star</td>
<td>USA</td>
</tr>
<tr>
<td>Mummy Star</td>
<td>USA, Mexico, Canada</td>
</tr>
<tr>
<td>People's Liberation &amp; Design</td>
<td>USA</td>
</tr>
<tr>
<td>(Dancing Star)</td>
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<tr>
<td>People's Liberation &amp; Design</td>
<td>USA, Mexico, Canada</td>
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<tr>
<td>(Mummy Star)</td>
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</table>
of Branding and Licensing. Our production and design teams include 30 employees consisting of production managers as well as sample sewers, pattern makers, technical designers and product designers. Our production and design teams are responsible for the design, development, and preparation of sample products. Additionally, we have 31 employees who handle sales, marketing, customer service, accounting and administration functions.

ITEM 1A. RISK FACTORS

Several of the matters discussed in this document contain forward-looking statements that involve risks and uncertainties. Factors associated with the forward-looking statements that could cause actual results to differ materially from those projected or forecast are included in the statements below. In addition to other information contained in this report, readers should carefully consider the following cautionary statements.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY AND HAVE EXPERIENCED OPERATING LOSSES MAKING IT DIFFICULT TO EVALUATE WHETHER WE WILL OPERATE PROFITABLY.

Certain of our subsidiaries, Versatile Entertainment, Inc. and Bella Rose, LLC, and Bella Rose’s subsidiaries, William Rast Sourcing, LLC, William Rast Licensing, LLC and J. Lindeberg USA, LLC, have limited operating history. Versatile was established in April 2001 to design, market, and distribute high-end casual apparel and commenced operation of its People’s Liberation business in July 2004. Versatile began shipping its products in the fourth quarter of 2004. Bella Rose was formed in May of 2005, to design, market, and distribute high-end casual apparel under the brand name “William Rast.” Bella Rose began shipping its products in the fourth quarter of 2005. J. Lindeberg USA was formed in June 2008 and began distributing J. Lindeberg branded apparel products in the United States on an exclusive basis in July 2008. Because our subsidiaries only recently commenced their principal operations, we do not have a meaningful historical record of sales and revenues nor an established business track record. While we believe that we have the opportunity to be successful in the premium contemporary segment of the apparel industry, there can be no assurance that we will be successful in accomplishing our business initiatives, or that we will be able to achieve any significant levels of revenues or net income, from the sale of our products.

Unanticipated problems, expenses and delays are frequently encountered in increasing production and sales and developing new products, especially in the current stages of our business. Our ability to continue to successfully develop, produce and sell our products and to generate significant operating revenues will depend on our ability to, among other matters:

- successfully market, distribute and sell our products or enter into agreements with third parties to perform these functions on our behalf; and

- obtain the financing required to implement our business plan.

Given our limited operating history, lack of long-term sales history and other sources of revenue, there can be no assurance that we will be able to achieve any of our goals and develop a sufficiently large customer base to be profitable.

OUR WILLIAM RAST CLOTHING LINE IS ENDORSED BY JUSTIN TIMBERLAKE, AND SHOULD OUR RELATIONSHIP WITH MR. TIMBERLAKE DETERIORATE, OUR PROFITABILITY MAY BE NEGATIVELY IMPACTED.

Two of our consolidated subsidiaries, which we own with an entity controlled by Justin Timberlake, have the exclusive rights to manufacture clothing and accessories under the William Rast trade name. Mr. Timberlake has agreed to publicly promote and endorse the William Rast brand, and we manage the companies and are responsible for funding the costs of their operation. In the event that our relationship with Mr. Timberlake deteriorates, Mr. Timberlake may refuse to directly or indirectly promote our William Rast brand, which could reduce the acceptance of our William Rast brand in the marketplace and consequently harm our sales and profitability.
WE RELY ON A DESIGN COMPANY TO DESIGN OUR WILLIAM RAST LIFESTYLE COLLECTION.

We rely on Paris68, the independent design consultancy firm of Johan and Marcella Lindeberg to design our William Rast lifestyle collection. Our William Rast brand is an integral component of our business and accounts for a significant portion of our sales. In the event that Paris68 fails to fulfill its obligations to us, for example, failing to timely deliver products for a particular season, or if the reputation of our William Rast brand is negatively impacted as a result of our relationship with Paris68, our sales and profitability could decline.

OUR J. LINDEBERG CLOTHING LINE IS A COLLABORATION WITH J. LINDEBERG USA CORP, A WHOLLY-OWNED SUBSIDIARY OF J. LINDEBERG AB. SHOULD OUR RELATIONSHIP WITH OUR PARTNER DETERIORATE, OUR PROFITABILITY MAY BE NEGATIVELY IMPACTED.

J. Lindeberg USA, LLC, which is 50% owned by our wholly-owned subsidiary, Bella Rose, and 50% owned by J. Lindeberg USA Corp, a wholly-owned subsidiary of J. Lindeberg AB, has the exclusive rights to source, market, and distribute J. Lindeberg(TM) branded apparel in the United States on an exclusive basis. We manage J. Lindeberg USA and will be required to contribute up to a maximum of $1.5 million in working capital or related guaranties through December 2010. J. Lindeberg AB is required to make available to J. Lindeberg USA for purchase all new collections of J. Lindeberg(TM) branded apparel, and provide for the factory-direct purchase by J. Lindeberg USA of J. Lindeberg(TM) branded apparel on terms no less favorable to J. Lindeberg USA than terms received by J. Lindeberg AB or its affiliates for the same or substantially the same merchandise. In addition, the agreements establishing the relationship between the parties provide for a license from J. Lindeberg AB to J. Lindeberg USA of the J. Lindeberg(TM) mark and other related marks for use in the United States on an exclusive basis for a period of 25 years. In the event that our relationship with J. Lindeberg AB deteriorates or if J. Lindeberg AB fails to fulfill its contractual obligations to us by, for example, failing to timely deliver products for a particular season, our sales and profitability could be negatively impacted.

WE RELY ON OUR INTERNATIONAL DISTRIBUTORS TO SELL OUR PRODUCTS

Internationally, we sell our products primarily through distributors. In the event our international distributors fail to successfully promote and sell our brands outside the United States, the reputation of our brands could be negatively impacted, and our sales and profitability would decline.

WE MAY REQUIRE ADDITIONAL CAPITAL IN THE FUTURE.

We may not be able to fund our future growth or react to competitive pressures if we lack sufficient funds. Currently, we believe that our cash on hand, anticipated cash from operations, and cash available through our factor should be sufficient to fund existing operations for the next 12 months. We anticipate that the advance payments we will receive under our distribution agreement with Charlotte Russe should be adequate to fund our working capital shortages, if any. The extent of our future capital requirements will depend on many factors, including our results of operations. If our cash from operations is less than anticipated or our working capital requirements or capital expenditures are greater than we expect, or if we expand our business by acquiring or investing in additional brands, we may need to raise additional debt or equity financing within the next twelve months. There can be no assurance that additional debt or equity financing will be available on acceptable terms or at all. In addition, any additional funding may result in significant dilution to existing shareholders. If adequate funds are not available, we may be required to curtail our operations or obtain funds through collaborative partners that may require us to release material rights to our products.

FAILURE TO MANAGE OUR GROWTH AND EXPANSION COULD IMPAIR OUR BUSINESS.

We believe that we are poised for growth in 2009. No assurance can be given that we will be successful in maintaining or increasing our sales in the future. Any future growth in sales will require additional working capital and may place a significant strain on our management, management information
systems, inventory management, sourcing capability, distribution facilities and receivables credit management. Any disruption in our order processing, sourcing or distribution systems could cause orders to be shipped late, and under industry practices, retailers generally can cancel orders or refuse to accept goods due to late shipment. Such cancellations and returns would result in a reduction in revenue, increased administrative and shipping costs, a further burden on our distribution facilities and also adversely impact our relations with retailers.

WE OPERATE IN A SEASONAL BUSINESS, AND OUR FAILURE TO TIMELY DELIVER PRODUCTS TO MARKET WILL NEGATIVELY IMPACT OUR PROFITABILITY.

The apparel industry is a seasonal business in which our financial success is largely determined by seasonal events such as the commencement of the school year and holiday seasons. In the event that we are unable to supply our products to the marketplace in a timely manner as a consequence of manufacturing delays, shipping delays, or other operational delays, our sales and profitability will be negatively impacted.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY.

Management expects that we will experience substantial variations in our net sales and operating results from quarter to quarter. We believe that the factors which influence this variability of quarterly results include:

- the timing of our introduction of new product lines;
- the level of consumer acceptance of each new product line;
- general economic and industry conditions that affect consumer spending and retailer purchasing;
- the availability of manufacturing capacity;
- the timing of trade shows;
- the product mix of customer orders;
- the return of defective merchandise;
- the timing of the placement or cancellation of customer orders;
- transportation delays;
- quotas and other regulatory matters;
- the lack of credit approval of our customers from our factor;
- the occurrence of charge backs in excess of reserves; and
- the timing of expenditures in anticipation of increased sales and actions of competitors.

As a result of fluctuations in our revenue and operating expenses that may occur, management believes that period-to-period comparisons of our results of operations are not a good indication of our future performance. It is possible that in some future quarter or quarters, our operating results will be below the expectations of securities analysts or investors. In that case, our stock price could fluctuate significantly or decline.

THE FINANCIAL CONDITION OF OUR CUSTOMERS COULD AFFECT OUR RESULTS OF OPERATIONS.

Certain retailers, including some of our customers, have experienced in the past, and may experience in the future, financial difficulties, which increase the risk of extending credit to such retailers and the risk that financial failure will eliminate a customer entirely. These retailers have attempted to improve their own operating efficiencies by concentrating their purchasing power among a narrowing group of vendors. There can be no assurance that we will remain a preferred vendor for our existing customers. A decrease in
business from or loss of a major customer, such as one customer that accounted for 28.9% and 31.1% of our net sales for the years ended December 31, 2008 and 2007, respectively, could have a material adverse effect on the results of our operations. There can be no assurance that our factor will approve the extension of credit to certain retail customers in the future. If a customer's credit is not approved by the factor or sales to a customer exceed the factor's imposed limits, we could assume the collection risk on sales to the customer.

OUR BUSINESS IS SUBJECT TO RISKS ASSOCIATED WITH IMPORTING PRODUCTS.

A portion of our import operations are subject to tariffs imposed on imported products and quotas imposed by trade agreements. In addition, the countries into which our products are imported may from time to time impose additional new duties, tariffs or other restrictions on their imports or adversely modify existing restrictions. Adverse changes in these import costs and restrictions, or our suppliers' failure to comply with customs or similar laws, could harm our business. We cannot assure that future trade agreements will not provide our competitors with an advantage over us, or increase our costs, either of which could have an adverse effect on our business and financial condition.

Our operations are also subject to the effects of international trade agreements and regulations such as the North American Free Trade Agreement, and the activities and regulations of the World Trade Organization. Generally, these trade agreements benefit our business by reducing or eliminating the duties assessed on products or other materials manufactured in a particular country.

However, trade agreements can also impose requirements that adversely affect our business, such as limiting the countries from which we can purchase raw materials and setting duties or restrictions on products that may be imported into the United States from a particular country.

Our ability to import raw materials in a timely and cost-effective manner may also be affected by problems at ports or issues that otherwise affect transportation and warehousing providers, such as labor disputes. These problems could require us to locate alternative ports or warehousing providers to avoid disruption to our customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on our business and financial condition.

OUR DEPENDENCE ON INDEPENDENT MANUFACTURERS AND SUPPLIERS OF RAW MATERIALS REDUCES OUR ABILITY TO CONTROL THE MANUFACTURING PROCESS, WHICH COULD HARM OUR SALES, REPUTATION AND OVERALL PROFITABILITY.

We depend on independent contract manufacturers and suppliers of raw materials to secure a sufficient supply of raw materials and maintain sufficient manufacturing and shipping capacity in an environment characterized by declining prices, labor shortage, continuing cost pressures and increased demands for product innovation and speed-to-market. This dependence could subject us to difficulty in obtaining timely delivery of products of acceptable quality. In addition, a contractor's failure to ship products to us in a timely manner or failure to meet the required quality standards could cause us to miss the delivery date requirements of our customers. The failure to make timely deliveries may cause our customers to cancel orders, refuse to accept deliveries, impose non-compliance charges through invoice deductions or other charge-backs, demand reduced prices or reduce future orders, any of which could harm our sales, reputation and overall profitability.

For the year ended December 31, 2008, three contractors accounted for approximately 35% of our purchases. For the year ended December 31, 2007, four contractors accounted for approximately 52% of our purchases. We do not have long-term contracts with any of our independent contractors, and any of these contractors may unilaterally terminate their relationship with us at any time. While management believes that there exists an adequate supply of contractors to provide products and services to us, to the extent that we are not able to secure or maintain relationships with independent contractors that are able to fulfill our requirements, our business would be harmed.

We do not control our contractors or their labor practices. The violation of federal, state or foreign labor laws by one of our contractors
could subject us to fines and result in our goods that are manufactured in violation of such laws being seized or their sale in interstate commerce being prohibited. To date, we have not been subject to any sanctions that, individually or in the aggregate, have had a material adverse effect on our business, and we are not aware of any facts on which any such sanctions could be based. There can be no assurance, however, that in the future we will not be subject to sanctions as a result of violations of applicable labor laws by our contractors, or that such sanctions will not have a material adverse effect on our business and results of operations.

WE MAY NOT BE ABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

The loss of or inability to enforce the trademarks "William Rast" and "People's Liberation" and our other proprietary designs, know-how and trade secrets could adversely affect our business. If any third party independently develops similar products to ours or manufactures knock-offs of our products, it may be costly to enforce our rights and we would not be able to compete as effectively. Additionally, the laws of foreign countries may provide inadequate protection of intellectual property rights, making it difficult to enforce such rights in those countries.

We may need to bring legal claims to enforce or protect our intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding the rights we have secured in our intellectual property, third parties may bring claims against us alleging that we have infringed on their intellectual property rights or that our intellectual property rights are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate and therefore could have an adverse affect on our business.

THE LOSS OF CHIEF EXECUTIVE OFFICER, COLIN DYNE, COULD HAVE AN ADVERSE EFFECT ON OUR FUTURE DEVELOPMENT AND COULD SIGNIFICANTLY IMPAIR OUR ABILITY TO ACHIEVE OUR BUSINESS OBJECTIVES.

Our success is largely dependent upon the expertise and knowledge of our Chief Executive Officer, Colin Dyne, whom we rely upon to formulate our business strategy. As a result of the unique skill set and responsibilities of Mr. Dyne, the loss of Mr. Dyne could have a material adverse effect on our business, development, financial condition, and operating results. We do not maintain "key person" life insurance on any of our management, including Mr. Dyne.

THE REQUIREMENTS OF THE SARBANES-OXLEY ACT, INCLUDING SECTION 404, ARE BURDENSOME, AND OUR FAILURE TO COMPLY WITH THEM COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS AND STOCK PRICE.

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 required us to evaluate and report on our internal control over financial reporting beginning with our annual report on Form 10-KSB for the fiscal year ending December 31, 2007. Currently, our independent registered public accounting firm will be required to annually attest to our evaluation, and issue their own opinion on our internal control over financial reporting beginning with our annual report for the fiscal year ending December 31, 2009. We have prepared for compliance with Section 404 by strengthening, assessing and testing our system of internal control over financial reporting to provide the basis for our report. The process of strengthening our internal control over financial reporting and complying with Section 404 was expensive and time consuming, and required significant management attention. We cannot be certain that the measures we have undertaken will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to rapidly grow our business, the internal control over financial reporting that we will need will become more complex, and significantly more resources will be required to ensure our internal control over financial reporting remains effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness in our
internal control over financial reporting, the disclosure of that fact, even if
the weakness is quickly remedied, could diminish investors' confidence in our
financial statements and harm our stock price. In addition, non-compliance with
Section 404 could subject us to a variety of administrative sanctions, including
the suspension of trading, ineligibility for listing on one of the Nasdaq Stock
Markets or national securities exchanges, and the inability of registered
broker-dealers to make a market in our common stock, which would further reduce
our stock price.

RISKS RELATED TO OUR INDUSTRY

OUR BUSINESS MAY BE NEGATIVELY IMPACTED BY GENERAL ECONOMIC CONDITIONS AND THE CURRENT GLOBAL FINANCIAL CRISIS.

Our performance is subject to worldwide economic conditions and their impact on levels of consumer spending that affect not only the ultimate consumer, but also retailers and distributors, our largest direct customers. Consumer spending recently has deteriorated significantly and may remain depressed, or be subject to further deterioration for the foreseeable future. The worldwide apparel industry is heavily influenced by general economic cycles. Purchases of high-end fashion apparel and accessories tend to decline in periods of recession or uncertainty regarding future economic prospects, as disposable income declines. Many factors affect the level of consumer spending in the apparel industries, including, among others: prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. During periods of recession or economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers or maintain or increase our international operations on a profitable basis. As a result, our operating results may be adversely and materially affected by downward trends in the United States or global economy, including the current recession in the United States.

WE OPERATE IN A HIGHLY COMPETITIVE INDUSTRY AND THE SUCCESS OF OUR BUSINESS DEPENDS ON OUR ABILITY TO OVERCOME A VARIETY OF COMPETITIVE CHALLENGES.

We operate our business in the premium contemporary segment of the apparel industry. Currently, our competitors include companies and brands such as True Religion, Seven For All Mankind, Diesel, G-Star, Theory, Rock & Republic and Joe's Jeans. We face a variety of competitive challenges including:

- anticipating and quickly responding to changing consumer demands that are dictated in part by fashion and season;
- developing innovative, high-quality products in sizes and styles that appeal to consumers;
- competitively pricing our products and achieving customer perception of value; and
- the need to provide strong and effective marketing support to maintain our brand image.

Our ability to anticipate and effectively respond to these competitive challenges depends in part on our ability to attract and retain key personnel in our design, merchandising and marketing staff. Competition for these personnel is intense, and we cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods. In addition, our competitors may have greater financial resources than we do which could limit our ability to respond quickly to market demands. In the event that we are not successful in addressing the competitive challenges we face, we could lose market share to our competitors and consequently our stock price could be negatively impacted.

RISKS RELATED TO OUR COMMON STOCK

SINCE TRADING ON THE OTC BULLETIN BOARD MAY BE SPORADIC, YOU MAY HAVE DIFFICULTY RESELLING YOUR SHARES OF OUR COMMON STOCK.
In the past, our trading price has fluctuated as the result of many factors that may have little to do with our operations or business prospects. In addition, because the trading of securities on the OTC Bulletin Board is often more sporadic than the trading of securities listed on an exchange, you may have difficulty reselling any of our common shares.

**WE HAVE A LIMITED TRADING VOLUME AND SHARES ELIGIBLE FOR FUTURE SALE BY OUR CURRENT STOCKHOLDERS MAY ADVERSELY AFFECT OUR STOCK PRICE.**

To date, we have had a very limited trading volume in our common stock. For instance, for the year ended December 31, 2008, approximately 2.5 million shares of our common stock were traded and for the year ended December 31, 2007, approximately 6.1 million shares of our common stock were traded. As long as this condition continues, the sale of a significant number of shares of common stock at any particular time could be difficult to achieve at the market prices prevailing immediately before such shares are offered.

**OUR COMMON STOCK PRICE IS HIGHLY VOLATILE.**

The market price of our common stock is likely to be highly volatile as the stock market in general has been highly volatile.

Factors that could cause such volatility in our common stock may include, among other things:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities analysts;
- conditions or trends in our industry or in the economy in general; and
- changes in the market valuations of other comparable companies.

**WE DO NOT FORESEE PAYING DIVIDENDS IN THE NEAR FUTURE.**

We have not paid dividends on our common stock and do not anticipate paying such dividends in the foreseeable future.

**OUR OFFICERS AND DIRECTORS OWN A SIGNIFICANT PORTION OF OUR COMMON STOCK, WHICH COULD LIMIT OUR STOCKHOLDERS' ABILITY TO INFLUENCE THE OUTCOME OF KEY TRANSACTIONS.**

Our officers and directors and their affiliates beneficially own approximately 26.4% of our outstanding voting shares as of March 2, 2009. In addition, Gerard Guez, a relative of our founder and former chief executive officer and director, Daniel Guez, owns approximately 29.7% of our outstanding voting shares. As a result, our officers and directors, and Mr. Guez, are able to exert influence over the outcome of any matters submitted to a vote of the holders of our common stock, including the election of our Board of Directors. The voting power of these stockholders could also discourage others from seeking to acquire control of us through the purchase of our common stock, which might depress the price of our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

We lease our principal executive office space under a lease agreement that expires in March 2012. The facility is approximately 13,000 square feet, and is located in Los Angeles, California. It is from this facility that we conduct all of our executive and administrative functions. We lease 7,500 square feet of warehouse space located in Los Angeles, California, to conduct our design functions and to store our trim and design library under a lease that expires in February 2010. Our finished goods are shipped from third-party warehouses in Commerce, California, and Somerset, New Jersey. Our internet
products are shipped from a third-party warehouse in Long Beach, California. We have showrooms located in Los Angeles, New York City and Atlanta. Our William Rast New York City showroom lease expires in April 2009 and our J. Lindeberg New York City showroom lease expires in April 2011. Our Los Angeles showroom lease expires in May 2013 and our Atlanta showroom lease expires in May 2009. The lease agreement for our J. Lindeberg retail store located in New York City expires in June 2010. We believe that the facilities we utilize are well maintained, in good operating condition, and adequate to meet our current and foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS

We are subject to certain legal proceedings and claims arising in connection with our business. In the opinion of management, there are currently no claims that will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We are not involved in any legal proceedings that require disclosure in this report.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK

Our common stock is quoted on the Over-The-Counter Bulletin Board under the symbol "PPLB.OB" The following table sets forth, for the periods indicated, the high and low bid information for the common stock, as determined from quotations on the Over-the-Counter Bulletin Board, as well as the total number of shares of common stock traded during the periods indicated. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

<table>
<thead>
<tr>
<th></th>
<th>HIGH</th>
<th>LOW</th>
<th>VOLUME</th>
</tr>
</thead>
<tbody>
<tr>
<td>YEAR ENDED DECEMBER 31, 2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Quarter</td>
<td>$0.51</td>
<td>$0.35</td>
<td>643,400</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>$0.45</td>
<td>$0.30</td>
<td>526,200</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>$0.54</td>
<td>$0.26</td>
<td>898,800</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>$0.42</td>
<td>$0.17</td>
<td>476,400</td>
</tr>
<tr>
<td>YEAR ENDED DECEMBER 31, 2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Quarter</td>
<td>$1.12</td>
<td>$0.65</td>
<td>406,766</td>
</tr>
<tr>
<td>Second Quarter</td>
<td>$0.80</td>
<td>$0.38</td>
<td>4,118,881</td>
</tr>
<tr>
<td>Third Quarter</td>
<td>$0.70</td>
<td>$0.29</td>
<td>768,726</td>
</tr>
<tr>
<td>Fourth Quarter</td>
<td>$0.50</td>
<td>$0.32</td>
<td>849,800</td>
</tr>
</tbody>
</table>

On March 27, 2009, the closing sales price of our common stock as reported on the Over-The-Counter Bulletin Board was $0.14 per share. As of March 27, 2009, there were approximately 460 record holders of our common stock. Our transfer agent is Stalt, Inc., Menlo Park, CA.

DIVIDENDS

Since January 1, 2006, we have not paid or declared cash distributions or dividends on our common stock. We do not intend to pay cash dividends on our common stock in the near future. We currently intend to retain all earnings, if and when generated, to finance our operations. The declaration of cash dividends in the future will be determined by the board of directors based upon our earnings, financial condition, capital requirements and other relevant factors.

ITEM 6. SELECTED FINANCIAL DATA
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Consolidated Financial Statements of People's Liberation, Inc. and the "Notes to Consolidated Financial Statements" included elsewhere in this report. This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of People's Liberation, Inc. for the fiscal years ended December 31, 2008 and 2007. Except for historical information, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond our control.

OVERVIEW

We design, market and sell high-end casual apparel under the brand names "People's Liberation," "William Rast" and, in the United States, "J. Lindeberg." The majority of the merchandise we offer consists of premium denim, knits, wovens, golf wear and outerwear for men and women. In the United States, we distribute our merchandise to better specialty stores, boutiques and department stores, such as Nordstrom, Bloomingdales, Saks Fifth Avenue, Neiman Marcus and Fred Segal. We also market and sell J. Lindeberg branded collection and golf apparel through our flagship retail store in New York City and J. Lindeberg golf wear to green grass golf stores and boutiques in the United States. Internationally, in select countries, we sell our William Rast branded apparel products directly and through distributors to better department stores and boutiques around the world.

We commenced our William Rast clothing line in May 2005. Our William Rast clothing line is a collaboration with Justin Timberlake and his childhood friend, Trace Ayala. In addition, our William Rast lifestyle collection is being developed and designed in collaboration with Paris68, the independent design consultancy of Johan and Marcella Lindeberg.

We began distributing J. Lindeberg branded apparel products in the United States on an exclusive basis beginning July 2008 in collaboration with J. Lindeberg AB in Sweden. In addition to being sold in the United States through our subsidiary, J. Lindeberg USA, LLC, J. Lindeberg branded high-end men's fashion and premium golf apparel is marketed and sold by J. Lindeberg AB worldwide.

We commenced our People's Liberation business in July 2004. On December 16, 2008, we entered into an agreement with Charlotte Russe pursuant to which we agreed to exclusively sell to Charlotte Russe, in North America and Central America, People's Liberation(TM) branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories. We will cease to sell People's Liberation branded merchandise in North America and Central America to parties other than Charlotte Russe effective April 30, 2009. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.

We are headquartered in Los Angeles, California, maintain showrooms in New York, Los Angeles and Atlanta, and have sales representatives in Dallas, Texas, and Orlando, Florida.

INTERNATIONAL DISTRIBUTION

Our William Rast branded apparel products are sold internationally in select countries directly and through distributors to better department stores and boutiques. Our distributors purchase products at a discount for resale in their respective territories and market, sell, warehouse and ship William Rast branded apparel products at their expense. We anticipate growing our international distribution channels across new territories.
MANUFACTURING AND SUPPLY

We use third party contract manufacturers to produce our People's Liberation and William Rast denim finished goods from facilities located primarily in Los Angeles, California. For the majority of our denim products, we purchase fabric and trim from suppliers who deliver these components directly to us to be cut, sewn, washed and finished by our contract manufacturers. For the majority of our knits and other non-denim products, we source these goods from international suppliers. As our product offerings increase, we intend to expand the number of contract manufacturers we use, both domestically and internationally, to perform some or all of the manufacturing processes required to produce finished products. We currently purchase all of our J. Lindeberg branded apparel products from J. Lindeberg AB, the beneficial owner of 50% of J. Lindeberg USA, LLC. We intend to source our People's Liberation denim and knit products sold to Charlotte Russe under our exclusive distribution agreement from international suppliers of full package goods.

STRUCTURE OF OPERATIONS

Our wholly-owned subsidiary Versatile Entertainment, Inc. conducts our People's Liberation brand business. Our William Rast brand business is conducted through our wholly-owned subsidiary Bella Rose, LLC. William Rast Sourcing, LLC and William Rast Licensing, LLC are consolidated under Bella Rose and are each owned 50% by Bella Rose and 50% by William Rast Enterprises, LLC, an entity owned in part by Justin Timberlake. Our J. Lindeberg brand business is conducted through Bella Rose. J. Lindeberg USA, LLC is consolidated under Bella Rose and is owned 50% by Bella Rose and 50% by J. Lindeberg USA, Corp. an entity owned by J. Lindeberg AB, a Swedish corporation.

RECENT DEVELOPMENT

On December 16, 2008, we entered into an agreement with Charlotte Russe pursuant to which we agreed to exclusively sell to Charlotte Russe Holding, Inc. and its wholly-owned subsidiary, Charlotte Russe Merchandising, Inc. (collectively, "Charlotte Russe"), in North America and Central America, People's Liberation(TM) branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories. We will continue to design, source, sample, fit and deliver an assortment of finished goods selected by Charlotte Russe and sell such merchandise to Charlotte Russe at wholesale prices. Charlotte Russe has the exclusive right to market, distribute, and sell People's Liberation branded merchandise purchased from us in North America and Central America through Charlotte Russe(TM) branded retail stores and related distribution channels, including outlet locations and direct-to-consumer sales. We will cease to sell People's Liberation branded merchandise in such territories to parties other than Charlotte Russe effective April 30, 2009. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.

In consideration for the exclusive rights granted to Charlotte Russe under the Agreement, Charlotte Russe has agreed to purchase from us a minimum amount of People's Liberation branded merchandise during each contract year. The aggregate minimum purchase obligation for the period from inception of the Agreement through the end of its initial term on December 31, 2012 is $65 million. The amount of the minimum purchase obligation varies by contract year, and may be less than or greater than $65 million if the Agreement is terminated prior to expiration of the initial term or is renewed for one or more additional renewal periods.

Effective December 1, 2008, the design services agreement with Paris68 LLC and Johan and Marcella Lindeberg was terminated and the parties are currently negotiating the final terms of a new design consulting agreement. We currently have a verbal agreement with Paris68 LLC and Johan and Marcella Lindeberg which provides for the payment of design fees at a rate of $97,000 per month in addition to travel and other expenses incurred by the design team.
result of the termination of the design services agreement dated effective November 15, 2007, prepaid design fees incurred through December 1, 2008 amounting to $1,630,704 were expensed to selling, design and production expense during the fourth quarter of 2008.

Effective July 1, 2008, our subsidiary, Bella Rose, and J. Lindeberg AB in Sweden entered into an operating agreement and other related agreements for our new subsidiary, J. Lindeberg USA, LLC ("J. Lindeberg USA"). Pursuant to the agreements, J. Lindeberg USA will source, market, and distribute J. Lindeberg branded apparel in the United States on an exclusive basis. The agreements provide that Bella Rose and J. Lindeberg each hold a 50% interest in JLUS with the business of JLUS being operated by us. Under the terms of the agreements, J. Lindeberg AB was required to contribute to JLUS $20,000 in cash as well as certain assets consisting primarily of accounts receivable and inventory. We were required to contribute to JLUS $20,000 in cash and will be required to contribute up to a maximum of $1.5 million in working capital or related guaranties through December 2010. The agreements also provide that J. Lindeberg AB will, among other things, make available to JLUS for purchase all new collections of J. Lindeberg branded apparel, and provide for the factory-direct purchase by us of J. Lindeberg branded apparel on terms no less favorable than terms received by J. Lindeberg AB or its affiliates for the same or substantially the same merchandise. In addition, the agreements provide for a license from J. Lindeberg AB to JLUS of the J. Lindeberg(TM) mark and other related marks for use in the United States on an exclusive basis for a period of 25 years. The operating agreement provides that J. Lindeberg AB has the option to purchase our share of JLUS at a negotiated purchase price as outlined in the agreement.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to our valuation of inventories and our allowance for uncollectible house accounts receivable, recourse factored accounts receivable and chargebacks. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

INVENTORIES. Inventories are evaluated on a continual basis and reserve adjustments, if any, are made based on management's estimate of future sales value of specific inventory items. Reserve adjustments are made for the difference between the cost of the inventory and the estimated market value, if lower, and charged to operations in the period in which the facts that give rise to the adjustments become known. Inventories, consisting of piece goods and trim, work-in-process and finished goods, are stated at the lower of cost (first-in, first-out method) or market.

ACCOUNTS RECEIVABLE. Factored accounts receivable balances with recourse, chargeback and other receivables are evaluated on a continual basis and allowances are provided for potentially uncollectible accounts based on management's estimate of the collectability of customer accounts. Factored accounts receivable without recourse are also evaluated on a continual basis and allowances are provided for anticipated returns, discounts and chargebacks based on management's estimate of the collectability of customer accounts and historical return, discount and other chargeback rates. If the financial condition of a customer were to deteriorate, resulting in an impairment of its ability to make payments, an additional allowance may be required. Allowance adjustments are charged to operations in the period in which the facts that give rise to the adjustments become known.
INTANGIBLE ASSETS. Intangible assets are evaluated on a continual basis and impairment adjustments are made based on management's reassessment of the useful lives related to intangible assets with definite useful lives. Intangible assets with indefinite lives are evaluated on a continual basis and impairment adjustments are made based on management's comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Impairment adjustments are made for the difference between the carrying value of the intangible asset and the estimated valuation and charged to operations in the period in which the facts that give rise to the adjustments become known.

REVENUE RECOGNITION. Wholesale revenue is recognized when merchandise is shipped to a customer, at which point title transfers to the customer, and when collection is reasonably assured. Customers are not given extended terms or dating or return rights without proper prior authorization. Revenue is recorded net of estimated returns, charge backs and markdowns based upon management's estimates and historical experience. Website revenue is recognized when merchandise is shipped to a customer and when collection is reasonably assured. Retail revenue is recognized on the date of purchase from our retail store.

DEFERRED TAX ASSETS. We may record a valuation allowance to reduce our deferred tax assets to an amount that we believe is more likely than not to be realized. We consider estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. If we determine that we may not realize all or part of our deferred tax assets in the future, we will make an adjustment to the carrying value of the deferred tax asset, which would be reflected as an income tax expense. Conversely, if we determine that we will realize a deferred tax asset, which currently has a valuation allowance, we would be required to reverse the valuation allowance, which would be reflected as an income tax benefit. Valuation allowance adjustments are made in the period in which the facts that give rise to the adjustments become known.

STOCK BASED COMPENSATION. Stock-based compensation expense is recognized based on awards ultimately expected to vest on a straight-line prorated basis. The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Stock price volatility was estimated based on a peer group of public companies and the expected term was estimated using the "safe harbor" provisions provided in SAB 107.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition.

RESULTS OF OPERATIONS

The following table presents consolidated statement of operations data for each of the years indicated as a percentage of revenues.

<table>
<thead>
<tr>
<th></th>
<th>YEAR ENDED DECEMBER 31, 2008</th>
<th>YEAR ENDED DECEMBER 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>51.7</td>
<td>51.4</td>
</tr>
</tbody>
</table>
Gross profit ........................................... 48.3 48.6
Selling, design and production expense ...... 36.6 28.5
General and administrative expense ........... 21.1 23.1

Operating loss ........................................ (9.4)% (3.0)%

NET SALES

YEARS ENDED DECEMBER 31,
----------------------------------------------- PERCENT
-----------------------------------------------
2008 2007 CHANGE
-----------------------------------------------
Net sales .......................... $ 32,190,093 $ 20,267,377 58.8%

The increase in net sales for the year ended December 31, 2008 was due primarily to a significant increase in sales volume of our William Rast apparel line and sales of our new product line, J. Lindeberg, offset by a decrease in sales volume of our People's Liberation product line. The increase in net sales also includes a significant increase of approximately $2.7 million in sales volume to our international distributors during the year. We began distributing J. Lindeberg brand products in the United States on an exclusive basis beginning July 2008. We anticipate that the addition of this new product line will have a significant impact on our future sales.

On December 16, 2008, we entered into an agreement with Charlotte Russe pursuant to which we agreed to exclusively sell to Charlotte Russe, in North America and Central America, People's Liberation branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories. We will continue to design, source, sample, fit and deliver an assortment of finished goods selected by Charlotte Russe and sell such merchandise to Charlotte Russe at wholesale prices. Charlotte Russe has the exclusive right to market, distribute, and sell People's Liberation branded merchandise purchased from us in North America and Central America through Charlotte Russe(TM) branded retail stores and related distribution channels, including outlet locations and direct-to-consumer sales. We will cease to sell People's Liberation branded merchandise in such territories to parties other than Charlotte Russe effective April 30, 2009. We will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.

In consideration for the exclusive rights granted to Charlotte Russe under the Agreement, Charlotte Russe has agreed to purchase from us a minimum amount of People's Liberation branded merchandise during each contract year. The aggregate minimum purchase obligation for the period from inception of the Agreement through the end of its initial term on December 31, 2012 is $65 million. The amount of the minimum purchase obligation varies by contract year, and may be less than or greater than $65 million if the Agreement is terminated prior to expiration of the initial term or is renewed for one or more additional renewal periods.

GROSS PROFIT

YEARS ENDED DECEMBER 31,
----------------------------------------------- PERCENT
-----------------------------------------------
2008 2007 CHANGE
-----------------------------------------------
Gross profit .................. $ 15,547,678 $ 9,858,218 57.7%

Gross profit consists of net sales less cost of goods sold. Cost of goods sold includes expenses primarily related to inventory purchases and contract labor, freight, duty and overhead expenses. Overhead expenses primarily
Our gross margin decreased slightly to 48.3% for the year ended December 31, 2008 from 48.6% for the year ended December 31, 2007. The decrease in gross profit as a percentage of net sales was due to increased sales to our international distributors at a reduced margin and increased off-price sales, offset by additional sales of J. Lindeberg brand products with higher gross margins.

SELLING, DESIGN AND PRODUCTION EXPENSES

<table>
<thead>
<tr>
<th>Years Ended</th>
<th>Percent</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>--------</td>
</tr>
<tr>
<td>Selling, design and production expense</td>
<td>$11,784,062</td>
<td>$5,791,072</td>
</tr>
</tbody>
</table>

Selling, design and production expense for the years ended December 31, 2008 and 2007 primarily related to tradeshows, salaries, design fee payments, advertising, marketing and promotion, samples, travel and showroom expenses. As a percentage of net sales, selling, design and production expense increased to 36.6% for the year ended December 31, 2008 compared to 28.5% for the year ended December 31, 2007. The increase in selling, design and production expense for the year ended December 31, 2008 is attributable to our increased promotion and marketing of our brands, including our William Rast apparel collection designed by Paris68 and Johan and Marcella Lindeberg, the sponsorship of an Indy car bearing the William Rast brand name, our William Rast fashion show and the launch of our William Rast video and marketing campaign featuring Justin Timberlake as William Rast. The increase in expenses during the year ended December 31, 2008 was also due to the hiring of additional salaried sales staff in Los Angeles and New York, offset by a reduction in sales commissions during the period. We also incurred additional design fees and sample costs for our William Rast apparel line, including our William Rast apparel collection designed by Paris68 and Johan and Marcella Lindeberg, and our new J. Lindeberg apparel line. Effective December 1, 2008, the design services agreement entered into effective November 15, 2007 with Paris68 LLC and Johan and Marcella Lindeberg was terminated and the parties are currently negotiating the final terms of a new design consulting arrangement. As a result of the termination of the design services agreement dated effective November 15, 2007, prepaid design fees incurred through December 1, 2008 amounting to approximately $1.6 million were expensed in selling, design and production expense during the fourth quarter of 2008. Total design fees paid to Paris68 pursuant to the contract from November 15, 2007 through November 30, 2008 amounted to $2.3 million, including the $1.6 million expensed in the fourth quarter of 2008. The new design consulting arrangement will provide for a reduction in the fees paid for services and a reduction in the percentage of royalty payments due under the prior agreement.

GENERAL AND ADMINISTRATIVE EXPENSES

<table>
<thead>
<tr>
<th>Years Ended</th>
<th>Percent</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>--------</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>$6,796,234</td>
<td>$4,681,425</td>
</tr>
</tbody>
</table>

General and administrative expenses for the years ended December 31, 2008 and 2007 primarily related to salaries, professional fees, facility costs, travel and entertainment, depreciation and amortization expense, and other general corporate expenses. As a percentage of net sales, general and administrative expenses decreased to 21.1% for the year ended December 31, 2008 compared to 23.1% for the year ended December 31, 2007. The increase in general and administrative expenses during the year ended December 31, 2008 was due primarily to increased professional fees related to the acquisition of our J. Lindeberg branded apparel line, rent related to our J. Lindeberg retail store.
and showroom in New York City, increased factor fees, travel and entertainment costs, bank charges, depreciation and amortization, loss on disposal of leaseholds and other fixed assets related to the relocation of our corporate office, and a net increase in officers' salaries. The decrease in general and administrative expenses as a percentage of sales for the year ended December 31, 2008 was a result of net sales increasing more rapidly than general and administrative expenses during the year.

**INTEREST EXPENSE, NET**

<table>
<thead>
<tr>
<th>YEARS ENDED</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHANGE</td>
</tr>
<tr>
<td>DECEMBER 31,</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>$ 141,844</td>
</tr>
</tbody>
</table>

Under our factoring arrangements, we may borrow up to 85% on our factored accounts receivable and 50% on our eligible inventories. Maximum borrowings under our People's Liberation and William Rast inventory facility are not to exceed $1.3 million of eligible inventory. Maximum borrowings, including borrowings related to factored accounts receivable and inventory, related to our J. Lindeberg facility are not to exceed $1.5 million. Outstanding borrowings, net of matured funds, under our factoring arrangements amounted to approximately $3.5 million and $649,000 at December 31, 2008 and 2007, respectively. The increase in interest expense is due to the increased borrowing under our factoring arrangements during the year ended December 31, 2008.

**(BENEFIT) PROVISION FOR INCOME TAXES**

<table>
<thead>
<tr>
<th>YEARS ENDED</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHANGE</td>
</tr>
<tr>
<td>DECEMBER 31,</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>(Benefit) provision for income taxes</td>
<td>$ (35,250)</td>
</tr>
</tbody>
</table>

The current provision for income taxes for the years ended December 31, 2008 and 2007 represents minimum tax payments due for state purposes, including gross receipts tax on sales generated by our limited liability companies, William Rast Sourcing, LLC and J. Lindeberg USA, LLC. Also included in the current provision for income taxes for the year ended December 31, 2007 is the write-down of refundable income taxes to the amount recovered and additional expense related to the under accrual of the prior year's income taxes. A provision for Federal income taxes has not been recorded for the years ended December 31, 2008 and 2007, as we had net losses during the years. The deferred tax assets at December 31, 2008 and 2007 represent the amounts that management believes are more likely than not to be realized. As of December 31, 2008, a valuation allowance has been provided for our deferred income tax assets related to net operating loss carryforwards, bad debt and other reserves. As of December 31, 2008, total net operating losses available to carry forward to future periods amounted to approximately $4.5 million. At this time, we cannot determine that it is more likely than not that we will realize the future income tax benefits related to our net operating losses and other deferred tax assets.

**MINORITY INTEREST**

<table>
<thead>
<tr>
<th>YEARS ENDED</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CHANGE</td>
</tr>
<tr>
<td>DECEMBER 31,</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>------------</td>
<td>--------</td>
</tr>
<tr>
<td>Minority interest</td>
<td>$ 1,337,317</td>
</tr>
</tbody>
</table>
Minority interest recorded for the year ended December 31, 2008 represents minimum distributions accrued for the calendar quarters ended December 31, 2008 due to William Rast Enterprises, a member of William Rast Sourcing, and profit allocations due to J. Lindeberg USA, Corp., a member of J. Lindeberg USA, LLC. Minority interest recorded for the year ended December 31, 2007 represents distributions for the calendar quarter ended March 31, 2007 due to William Rast Enterprises. Effective January 1, 2007, William Rast Sourcing was to pay its member, William Rast Enterprises, a minimum quarterly minority interest distribution of 6% of applicable net sales generated by William Rast Sourcing during the quarterly periods. On November 9, 2007, the limited liability company operating agreement of William Rast Sourcing, LLC was further amended to reflect a modification of the distributions to William Rast Enterprises. For the calendar quarters ending June 30, 2007, September 30, 2007 and December 31, 2007, all cash distributions William Rast Sourcing, LLC was required to pay to William Rast Enterprises pursuant to the amended and restated operating agreement were not paid or accrued for future payment with respect to such calendar quarters. Beginning July 1, 2008, the operations of J. Lindeberg USA, LLC are included in the consolidated financial statements of the Company. Profit and loss allocations to its member, J. Lindeberg USA, Corp., are recorded as minority interest in the consolidated financial statements of the Company.

NET LOSS

<table>
<thead>
<tr>
<th>YEARS ENDED</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>DECEMBER 31, 2008</td>
<td>2008</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net loss.......................</td>
<td>($4,460,257)</td>
</tr>
<tr>
<td>NET CHANGE</td>
<td>480.4%</td>
</tr>
</tbody>
</table>

The increase in net loss during the year ended December 31, 2008 compared to the year ended December 31, 2007 is due primarily to increased operating expenses incurred during the year and increased minority interest, offset by increased net sales and gross profit, as discussed above.

RELATED PARTY TRANSACTIONS

See "Certain Relationships and Related Transactions, and Director Independence" included under Item 13 of this report.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2008, we had cash and cash equivalents of approximately $1.9 million, a working capital balance of approximately $1.6 million, and approximately $895,000 of availability from our factor. As of December 31, 2008, advances from our factor totaled approximately $3.5 million. As of December 31, 2007, we had cash and cash equivalents of approximately $363,000, a working capital balance of approximately $4.3 million, and approximately $2.8 million of availability from our factor. As of December 31, 2007, advances from our factor totaled approximately $649,000. Pursuant to a private placement transaction with various investors that closed on September 28, 2007 and November 2, 2007, we sold shares of our common stock and received approximately $483,000 in net proceeds after legal and other expenses, including approximately $13,000 in legal and accounting fees incurred in 2008 related to the registration of the shares.

We are currently evaluating various financing strategies to be used to expand our business and fund future growth. We believe that our existing cash and cash equivalents and anticipated cash flows from our operating activities and pursuant to our factoring arrangements, including availability under our inventory facilities, should be sufficient to fund our minimum working capital and capital expenditure needs for the next twelve months under our current operating strategy. We anticipate that the advance payments we will receive under our distribution agreement with Charlotte Russe should be adequate to fund our working capital shortages, if any. The aggregate minimum purchase obligation under our distribution agreement with Charlotte Russe for the period from
inception of the agreement through the end of its initial term on December 31, 2012 is $65 million. The amount of the minimum purchase obligation varies by contract year, and may be less than or greater than $65 million if the Agreement is terminated prior to expiration of the initial term or is renewed for one or more additional renewal periods. The extent of our future capital requirements will depend on many factors, including our results of operations. If our cash from operations is less than anticipated or our working capital requirements or capital expenditures are greater than we expect, or if we expand our business by acquiring or investing in additional brands, we may need to raise additional debt or equity financing within the next twelve months. There can be no assurance that additional debt or equity financing will be available on acceptable terms or at all. Pursuant to the operating agreement we entered into with J. Lindeberg USA Corp and J. Lindeberg AB, we contributed $20,000 in cash to our 50% owned subsidiary, J. Lindeberg USA, LLC, and will be required to contribute up to a maximum of $1.5 million in working capital or related guaranties through December 2010. Our J. Lindeberg USA, LLC, factoring agreements currently provide for corporate guaranties from our related entities, People's Liberation, Inc., Bella Rose, LLC, and Versatile Entertainment, Inc. At this point in time, the cash amount in excess of $20,000 that we may be required to contribute to J. Lindeberg USA, LLC, if any, is uncertain and our future cash position may be adversely impacted. Notwithstanding the foregoing, although we currently do not have any material commitments for capital expenditures, we have contractual obligations that may reduce our working capital in the future.

CASH FLOWS

We currently satisfy our working capital requirements primarily through borrowings from our factor and cash flows generated from operations. Cash flows from operating, financing and investing activities for the years ended December 31, 2008 and 2007 are summarized in the following table:

<table>
<thead>
<tr>
<th>YEARS ENDED DECEMBER 31,</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>$ 2,366,047</td>
<td>$ 153,418</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(846,781)</td>
<td>(349,290)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>6,947</td>
<td>495,988</td>
</tr>
<tr>
<td>Net increase in cash</td>
<td>$ 1,526,213</td>
<td>$ 300,116</td>
</tr>
</tbody>
</table>

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities was approximately $2,366,000 and $153,000 for the years ended December 31, 2008 and 2007, respectively. Although we experienced a net loss of $4.5 million during our fiscal year ended December 31, 2008, cash provided from operating activities was positive primarily as a result of decreased receivables and inventories, the receipt of a $1 million deposit from Charlotte Russe in December 2008 upon execution of the distribution agreement, and increased payables, including minority interest payable, accounts payable and accrued expenses. In 2007, although we had a net loss of $768,000, our cash provided by operating activities was $153,000 as a result of decreased receivables, increased accounts payable and accrued expenses, and non-cash stock based compensation expenses, offset by increased inventories and other assets.

Going forward, we believe that we will continue to generate positive cash flow from our operating activities, in part because of our distribution agreement with Charlotte Russe. In consideration for the exclusive rights granted to Charlotte Russe under the distribution agreement, Charlotte Russe has agreed to purchase from us a minimum amount of People's Liberation branded merchandise during each contract year. The aggregate minimum purchase obligation for the period from inception of the agreement through the end of its initial term on December 31, 2012 is $65 million. The amount of the minimum purchase obligation varies by contract year, and may be less than or greater than $65 million if the Agreement is terminated prior to expiration of the initial term.
or is renewed for one or more additional renewal periods.

CASH USED IN INvesting ACTIVITIES

Net cash used in investing activities was approximately $847,000 and $349,000 for the years ended December 31, 2008 and 2007, respectively. Net cash used in investing activities for the year ended December 31, 2008 consisted of capital expenditures primarily for property and equipment and trademark costs. Net cash used in investing activities for the year ended December 31, 2007 consisted of capital expenditures primarily for computer equipment and software and trademark costs.

CASH PROVIDED BY FINANCING ACTIVITIES

Net cash provided by financing activities for the years ended December 31, 2008 and 2007 amounted to approximately $7,000 and $496,000, respectively. Cash provided by financing activities for the year ended December 31, 2008 reflects the capital investment of $20,000 received from J. Lindeberg AB, offset by approximately $13,000 in legal and accounting fees incurred in 2008 related to the registration of the 2007 private placement shares. Effective July 1, 2008, approximately $2.2 million of net assets were received into our newly formed subsidiary, J. Lindeberg USA, LLC in addition to $40,000 cash received from its members. This is presented as a non-cash financing activity in our statement of cash flows for the year ended December 31, 2008. Cash provided by financing activities for the year ended December 31, 2007 amounted to approximately $496,000 and reflects proceeds from a private placement of our common stock. On September 28, 2007 and November 2, 2007, we sold shares of our common stock and received approximately $483,000 in net proceeds after legal and other expenses pursuant to a private placement transaction with various investors, including approximately $13,000 in legal and accounting fees incurred in 2008 related to the registration of the shares.

FACTORING AGREEMENTS

Pursuant to the terms of our factoring agreements, the factor purchases our eligible accounts receivable and assumes the credit risk with respect to those accounts for which the factor has given its prior approval. If the factor does not assume the credit risk for a receivable, the collection risk associated with the receivable remains with us. We pay a fixed commission rate and may borrow up to 85% of eligible accounts receivable and 50% of our eligible inventory. Maximum borrowings under our People's Liberation and William Rast inventory facility are not to exceed $1.3 million of eligible inventory. Maximum borrowings, including borrowings related to factored accounts receivable and inventory, related to our J. Lindeberg facility are not to exceed $1.5 million. Interest is charged at prime plus 1%. As of December 31, 2008 and 2007, total factored accounts receivable included in due (to) from factor amounted to approximately $3,520,000 and $649,000 as of December 31, 2008 and 2007, respectively, and are included in the due (to) from factor balance.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following summarizes our contractual obligations at December 31, 2008 and the effects such obligations are expected to have on liquidity and cash flows in future periods:

<table>
<thead>
<tr>
<th>Contractual Obligations</th>
<th>Total</th>
<th>Less than 1 Year</th>
<th>1-3 Years</th>
<th>4-5 Years</th>
<th>After 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating leases ........</td>
<td>$2,780,327</td>
<td>$1,085,277</td>
<td>$1,653,110</td>
<td>$41,940</td>
<td>--</td>
</tr>
<tr>
<td>Design consulting agreement</td>
<td>388,000</td>
<td>388,000</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Total ...................</td>
<td>$3,168,327</td>
<td>$1,473,277</td>
<td>$1,653,110</td>
<td>$41,940</td>
<td>--</td>
</tr>
</tbody>
</table>
Effective December 1, 2008, the design services agreement with Paris68 LLC and Johan and Marcella Lindeberg was terminated and the parties are currently negotiating the final terms of a new design consulting agreement. We currently have a verbal agreement with Paris68 LLC and Johan and Marcella Lindeberg which provides for the payment of design fees at a rate of $97,000 per month in addition to travel and other expenses incurred by the design team.

At December 31, 2008 and 2007, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Factored accounts receivable may subject us to off-balance sheet risk. We sell the majority of our trade accounts receivable to a factor and are contingently liable to the factor for merchandise disputes, other customer claims and invoices that are not credit approved by the factor. From time to time, our factor also issues letters of credit and vendor guarantees on our behalf. Outstanding letters of credit and vendor guarantees totaled approximately $91,000 as of December 31, 2008. There were no outstanding letters of credit or vendor guarantees as of December 31, 2007.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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AUDITED FINANCIAL STATEMENTS:

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| Consolidated Balance Sheets at December 31, 2008 and 2007 | 31 |
| Consolidated Statements of Operations for the Years Ended December 31, 2008 and 2007 | 32 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2008 and 2007 | 33 |
| Consolidated Statement of Changes in Stockholders' Equity from January 1, 2007 to December 31, 2008 | 34 |
| Notes to the Consolidated Financial Statements | 35 |

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders: People's Liberation, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of People's Liberation, Inc. and Subsidiaries (the "Company") as of December 31, 2008 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of People's Liberation, Inc. and Subsidiaries, as of December 31, 2008 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Crowe Horwath LLP

Sherman Oaks, California
March 27, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders:
People's Liberation, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of People's Liberation, Inc. and Subsidiaries (the "Company") as of December 31, 2007 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of People's Liberation, Inc. and Subsidiaries, as of December 31, 2007 and the results of their operations and their cash flows for the year then ended in
conformity with accounting principles generally accepted in the United States of America.

/s/ Grobstein, Horwath & Company LLP
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Sherman Oaks, California
March 20, 2008

PEOPLE'S LIBERATION, INC.

CONSOLIDATED BALANCE SHEETS

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2008</th>
<th>December 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,888,718</td>
<td>$ 362,505</td>
</tr>
<tr>
<td>Due from factor</td>
<td>--</td>
<td>1,517,029</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from factor</td>
<td>1,307,922</td>
<td>1,029,510</td>
</tr>
<tr>
<td>Doubtful accounts</td>
<td>4,925,438</td>
<td>3,833,170</td>
</tr>
<tr>
<td>Refundable income taxes</td>
<td>--</td>
<td>11,500</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>247,672</td>
<td>196,730</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>--</td>
<td>38,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>8,369,750</td>
<td>6,988,444</td>
</tr>
<tr>
<td><strong>Property and Equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td>837,351</td>
<td>612,264</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>600,609</td>
<td>363,359</td>
</tr>
<tr>
<td>Intangible asset</td>
<td>428,572</td>
<td>428,572</td>
</tr>
<tr>
<td>Other assets</td>
<td>444,266</td>
<td>265,020</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 10,680,548</td>
<td>$ 8,657,659</td>
</tr>
</tbody>
</table>

**Liabilities and Stockholders' Equity**

**Current Liabilities:**
- Accounts payable and accrued expenses $ 3,801,080 $ 2,628,906
- Due to factor 170,369 --
- Customer deposit 1,000,000 --
- Minority interest payable 1,326,293 --
- Due to member 427,623 --
- Income taxes payable 17,789 13,390
- **Total current liabilities** 6,743,154 2,642,296

**Deferred tax liabilities** -- 93,000

**Total liabilities** 6,743,154 2,735,296

**Commitments and contingencies**

**Minority interest** 2,298,583 --

**Stockholders' equity:**
- Common stock, $0.001 par value, 150,000,000 shares authorized; 36,002,563 shares issued and outstanding at December 31, 2008 and 2007 36,002 36,002
- Additional paid-in capital 7,951,960 7,775,255
- Accumulated Deficit (6,349,151) (1,888,894)
- **Total stockholders' equity** 1,638,811 5,922,363
### Total liabilities and stockholders' equity

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 10,680,548</td>
<td>$ 8,657,659</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.

---

### PEOPLE'S LIBERATION, INC.

#### CONSOLIDATED STATEMENTS OF OPERATIONS

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$32,190,093</td>
<td>$20,267,377</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>16,642,415</td>
<td>10,409,159</td>
</tr>
<tr>
<td>Gross profit</td>
<td>15,547,678</td>
<td>9,858,218</td>
</tr>
<tr>
<td>Selling, design and production expenses</td>
<td>11,784,062</td>
<td>5,791,072</td>
</tr>
<tr>
<td>General and administrative</td>
<td>6,796,234</td>
<td>4,681,425</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>18,580,296</td>
<td>10,472,497</td>
</tr>
<tr>
<td>Loss from operations</td>
<td>(3,032,618)</td>
<td>(614,279)</td>
</tr>
<tr>
<td>Interest expense, net</td>
<td>141,844</td>
<td>80,706</td>
</tr>
<tr>
<td>Other income</td>
<td>(16,272)</td>
<td>(120,444)</td>
</tr>
<tr>
<td>Total other expense (income)</td>
<td>125,572</td>
<td>(39,738)</td>
</tr>
<tr>
<td>Loss before income taxes and minority interest</td>
<td>(3,158,190)</td>
<td>(574,541)</td>
</tr>
<tr>
<td>(Benefit) provision for income taxes</td>
<td>(35,250)</td>
<td>80,939</td>
</tr>
<tr>
<td>Loss before minority interest</td>
<td>(3,122,940)</td>
<td>(655,480)</td>
</tr>
<tr>
<td>Minority interest</td>
<td>1,337,317</td>
<td>113,017</td>
</tr>
<tr>
<td>Net loss</td>
<td>$ (4,460,257)</td>
<td>$ (768,497)</td>
</tr>
<tr>
<td>Basic and diluted weighted average loss per common share</td>
<td>$ (0.12)</td>
<td>$ (0.02)</td>
</tr>
<tr>
<td>Basic and diluted weighted average common shares outstanding</td>
<td>36,002,563</td>
<td>35,200,207</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
### Cash flows from operating activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(4,460,257)</td>
<td>$(768,497)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>291,297</td>
<td>170,791</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>1,500,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>(55,000)</td>
<td>46,000</td>
</tr>
<tr>
<td>Impairment of long-lived asset</td>
<td>--</td>
<td>7,955</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>183,058</td>
<td>261,133</td>
</tr>
<tr>
<td>Warrants issued for services</td>
<td>6,700</td>
<td>27,000</td>
</tr>
<tr>
<td>Minority interest</td>
<td>11,023</td>
<td>--</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>143,148</td>
<td>--</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>1,985,177</td>
<td>1,226,118</td>
</tr>
<tr>
<td>Inventories</td>
<td>399,101</td>
<td>(986,999)</td>
</tr>
<tr>
<td>Refundable income taxes</td>
<td>11,500</td>
<td>5,000</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(50,942)</td>
<td>5,756</td>
</tr>
<tr>
<td>Other assets</td>
<td>205,894</td>
<td>(200,050)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>1,172,173</td>
<td>331,011</td>
</tr>
<tr>
<td>Customer deposit</td>
<td>1,000,000</td>
<td>--</td>
</tr>
<tr>
<td>Minority interest payable</td>
<td>1,326,293</td>
<td>--</td>
</tr>
<tr>
<td>Due to member</td>
<td>42,483</td>
<td>--</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>4,399</td>
<td>10,190</td>
</tr>
<tr>
<td>Net cash flows provided by operating activities</td>
<td>2,366,047</td>
<td>153,418</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of trademarks</td>
<td>(270,999)</td>
<td>(164,220)</td>
</tr>
<tr>
<td>Acquisition of property and equipment</td>
<td>(575,782)</td>
<td>(185,070)</td>
</tr>
<tr>
<td><strong>Net cash flows used in investing activities</strong></td>
<td>(846,781)</td>
<td>(349,290)</td>
</tr>
</tbody>
</table>

### Cash flows from financing activities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital investment received from minority interest member</td>
<td>20,000</td>
<td>--</td>
</tr>
<tr>
<td>Net proceeds from private placement of common stock</td>
<td>(13,053)</td>
<td>495,988</td>
</tr>
<tr>
<td><strong>Net cash flows provided by financing activities</strong></td>
<td>6,947</td>
<td>495,988</td>
</tr>
</tbody>
</table>

### Net increase in cash and cash equivalents:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>1,526,213</td>
<td>300,116</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, beginning of year</strong></td>
<td>362,505</td>
<td>62,389</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of year</strong></td>
<td>$ 1,888,718</td>
<td>$ 362,505</td>
</tr>
</tbody>
</table>

### Supplemental disclosures of cash flow information: Cash paid (received) during The year for:

<table>
<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$ 144,064</td>
<td>$ 80,717</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>18,222</td>
<td>19,749</td>
</tr>
<tr>
<td>Income taxes received</td>
<td>(14,578)</td>
<td>--</td>
</tr>
<tr>
<td><strong>Non-cash financing transactions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warrant issued in exchange for services</td>
<td>--</td>
<td>62,000</td>
</tr>
<tr>
<td>Net assets and liabilities received in acquisition of subsidiary:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>726,191</td>
<td>--</td>
</tr>
<tr>
<td>Inventory</td>
<td>1,491,369</td>
<td>--</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>50,000</td>
<td>--</td>
</tr>
<tr>
<td>Deposits</td>
<td>385,140</td>
<td>--</td>
</tr>
<tr>
<td>Due to member</td>
<td>(385,140)</td>
<td>--</td>
</tr>
<tr>
<td>Minority interest, net of cash received from member</td>
<td>(2,267,560)</td>
<td>--</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.
## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Additional</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
<td>Paid-in</td>
<td>Capital</td>
<td>Deficit</td>
<td>Total</td>
</tr>
<tr>
<td>--------------</td>
<td>------------</td>
<td>-----------</td>
<td>-----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Balance at January 1, 2007</td>
<td>34,942,563</td>
<td>$34,942</td>
<td>$6,930,194</td>
<td>$(1,120,397)</td>
<td>$5,844,739</td>
</tr>
<tr>
<td>Private placement of common stock</td>
<td>1,060,000</td>
<td>1,060</td>
<td>494,928</td>
<td>--</td>
<td>495,988</td>
</tr>
<tr>
<td>Warrants issued for services</td>
<td>--</td>
<td>--</td>
<td>89,000</td>
<td>--</td>
<td>89,000</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>--</td>
<td>--</td>
<td>261,133</td>
<td>--</td>
<td>261,133</td>
</tr>
<tr>
<td>Net loss</td>
<td>--</td>
<td>--</td>
<td>(768,497)</td>
<td>--</td>
<td>(768,497)</td>
</tr>
<tr>
<td>Balance at December 31, 2007</td>
<td>36,002,563</td>
<td>36,002</td>
<td>7,775,255</td>
<td>(1,888,894)</td>
<td>5,922,363</td>
</tr>
<tr>
<td>Professional fees related to the registration of the shares issued in the 2007 private placement of common stock</td>
<td>--</td>
<td>--</td>
<td>(13,053)</td>
<td>--</td>
<td>(13,053)</td>
</tr>
<tr>
<td>Warrants issued for services</td>
<td>--</td>
<td>--</td>
<td>6,700</td>
<td>--</td>
<td>6,700</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>--</td>
<td>--</td>
<td>183,058</td>
<td>--</td>
<td>183,058</td>
</tr>
<tr>
<td>Net loss</td>
<td>--</td>
<td>--</td>
<td>(4,460,257)</td>
<td>--</td>
<td>(4,460,257)</td>
</tr>
<tr>
<td>Balance at December 31, 2008</td>
<td>36,002,563</td>
<td>36,002</td>
<td>7,951,960</td>
<td>(6,349,151)</td>
<td>1,638,811</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND NATURE OF CONSOLIDATED OPERATIONS

ORGANIZATION

People's Liberation, Inc. is the parent holding company of Versatile Entertainment, Inc. ("Versatile"), a California corporation established in April of 2001, and Bella Rose, LLC ("Bella Rose"), a California limited liability company established in May 2001, both of which were consolidated on November 22, 2005 and became wholly-owned subsidiaries of the Company on the effective date of the Company's exchange transaction. William Rast Sourcing, LLC ("William Rast Sourcing") and William Rast Licensing, LLC ("William Rast Licensing"), both California limited liability companies, were formed effective October 1, 2006 and are owned 50% by Bella Rose and 50% by William Rast Enterprises, LLC ("WRE"), an entity owned in part by Justin Timberlake. J. Lindeberg USA, LLC ("J. Lindeberg USA"), a California limited liability company, was formed effective July 1, 2008 and is owned 50% by Bella Rose and 50% by J. Lindeberg USA Corp., a New York corporation and an entity owned by J. Lindeberg AB, a Swedish corporation (collectively "Lindeberg Sweden").

People's Liberation, Inc. was incorporated in the State of Delaware on December 29, 1982 under the name Philco Financial Management Corp. The Company had three wholly owned subsidiaries, Global Medical Technologies, Inc., an Arizona corporation, which was operating ("Global Medical"), and Century Pacific Fidelity Corporation and Century Pacific Investment Management Corporation, both of which were inactive and without assets or debts.

On January 31, 2005, the Company contributed all of the shares of common stock of its wholly-owned, inactive subsidiaries, Century Pacific Fidelity Corp. and Century Pacific Investment Management Corporation, to Global Medical. In February 2005, the Company distributed all of the outstanding shares of common stock of Global Medical on a pro rata basis to its stockholders. Following the distribution, Global Medical continued to operate its medical equipment reconditioning business as an independent company. After this distribution, the Company existed as a "shell company" under the name of Century
Pacific Financial Corporation with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge.

On November 22, 2005, the Company acquired all of the outstanding voting securities of Bella Rose and Versatile, each of which became its wholly-owned subsidiaries. The Company issued to the Bella Rose members and the Versatile stockholders an aggregate of 2,460,106.34 shares of its series A convertible preferred stock, which subsequently converted into 26,595,751 shares of common stock on January 5, 2006 on a post reverse stock split basis. The exchange transaction was accounted for as a reverse merger (recapitalization) with Versatile and Bella Rose deemed to be the accounting acquirer, and the Company the legal acquirer.

Effective on January 5, 2006, the Company changed its corporate name from Century Pacific Financial Corporation to People’s Liberation, Inc., completed a 1-for-9.25 reverse split of its common stock, adopted its 2005 Stock Incentive Plan, and its series A convertible preferred stock converted into common stock. Following the conversion of the Series A convertible preferred stock, the reverse stock split on January 5, 2006, and the subsequent issuance of shares to preserve round lot holders, 34,371,134 shares of common stock were outstanding. All share and per share information included in the accompanying consolidated financial statements reflects the effects of the reverse stock split.

Bella Rose commenced operations of its William Rast clothing line in May 2005. Bella Rose began shipping products under the William Rast brand name in the fourth quarter of 2005. Under an apparel brand agreement with WRE, Bella Rose had the exclusive rights to manufacture clothing and accessories under the William Rast trade name. Under long-term definitive agreements entered into effective October 1, 2006, which superseded the apparel brand agreement, two new entities were formed, William Rast Sourcing and William Rast Licensing. All assets and liabilities of the Bella Rose business were transferred to William Rast Sourcing effective October 1, 2006. William Rast Sourcing has the exclusive rights to manufacture clothing with the William Rast brand name. The William Rast trademarks were transferred to William Rast Licensing effective October 1, 2006 and William Rast Licensing has the exclusive rights to promote and license the William Rast brand.

Beginning October 1, 2006, William Rast Sourcing and William Rast Licensing are consolidated under Bella Rose. Until WRE has a basis in the capital of William Rast Sourcing and William Rast Licensing, losses will not be allocated to WRE. Instead, all losses will be recognized by Bella Rose in consolidation. Subsequently, if profits are generated by William Rast Sourcing and William Rast Licensing, then profits will not be allocated to WRE until previously unrecognized minority losses are fully recouped by Bella Rose. Minimum profit allocations to WRE will be accounted for as a minority interest in the consolidated financial statements of the Company.

Effective July 1, 2008, Bella Rose and Lindeberg Sweden entered into an operating agreement and other related agreements for J. Lindeberg USA. Pursuant to the agreements, J. Lindeberg USA has the rights to source, market, and distribute J. Lindeberg(TM) branded apparel in the United States on an exclusive basis. The agreements provide that Bella Rose and Lindeberg Sweden each hold a 50% interest in J. Lindeberg USA with the business of J. Lindeberg USA being operated by Bella Rose. Bella Rose has management control over J. Lindeberg USA and therefore, beginning July 1, 2008, the operations of J. Lindeberg USA are included in the consolidated financial statements of the Company. Profit and loss allocations to Lindeberg Sweden will be recorded as a minority interest in the consolidated financial statements of the Company.

NATURE OF OPERATIONS

The Company markets and sells high-end casual apparel under the brand names "People’s Liberation," "William Rast" and, in the United States, "J.
through Versatile and Bella Rose, its wholly owned subsidiaries, and through Bella Rose's 50% owned subsidiaries, William Rast Sourcing, William Rast Licensing and J. Lindeberg USA. The majority of the merchandise the companies offer consists of premium denim, knits, wovens, golf wear and outerwear for men and women. In the United States, Versatile, William Rast Sourcing and J. Lindeberg USA distribute their merchandise to boutiques, specialty stores and better department stores, such as Nordstrom, Bloomingdales, Saks Fifth Avenue, Neiman Marcus and Fred Segal. The Company also markets and sells J. Lindeberg branded collection and golf apparel through its flagship retail store in New York City and J. Lindeberg golf wear to green grass golf stores and boutiques in the United States. Internationally, in select countries, William Rast Sourcing sells its products directly and through distributors to better department stores and boutiques throughout the world.

The Company commenced its William Rast clothing line in May 2005. The Company's William Rast clothing line is a collaboration with Justin Timberlake and his childhood friend, Trace Ayala. In addition, the Company's William Rast lifestyle collection is being developed and designed in collaboration with Paris68, the independent design consultancy of Johan and Marcella Lindeberg.

The Company began distributing J. Lindeberg branded apparel products in the United States on an exclusive basis beginning July 2008 in collaboration with Lindeberg Sweden. In addition to being sold in the United States through J. Lindeberg USA, J. Lindeberg branded high-end men's fashion and premium golf apparel is marketed and sold by Lindeberg Sweden worldwide.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company commenced its People's Liberation business in July 2004. On December 16, 2008, the Company entered into an agreement with Charlotte Russe pursuant to which it agreed to exclusively sell to Charlotte Russe, in North America and Central America, People's Liberation(TM) branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories. The Company will cease to sell People's Liberation branded merchandise in North America and Central America to parties other than Charlotte Russe effective April 30, 2009. The Company will continue to market and sell People's Liberation branded merchandise internationally, with the exception of Central America. Sales to Charlotte Russe under the terms of this agreement are expected to begin in July 2009.

The Company is headquartered in Los Angeles, California, maintains showrooms in New York, Los Angeles and Atlanta, and has sales representatives in Dallas, Texas, and Orlando, Florida.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accounts of Versatile, Bella Rose, William Rast Sourcing, William Rast Licensing and J. Lindeberg USA have been consolidated for financial statement presentation. All significant inter-company accounts and transactions have been eliminated in the consolidation.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The significant assets and liabilities that require management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements included inventories, accounts receivable and due (to) from factor, intangible assets, deferred taxes, stock based compensation and accrued expenses.
REVENUE RECOGNITION

The Company recognizes revenues in accordance with SEC Staff Accounting Bulletin (SAB) No. 101, as amended by SAB No. 104. Wholesale revenue is recognized when merchandise is shipped to a customer, at which point title transfers to the customer, and when collection is reasonably assured. Customers are not given extended terms or dating or return rights without proper prior authorization. Revenue is recorded net of estimated returns, charge backs and markdowns based upon management's estimates and historical experience. Website revenue is recognized when merchandise is shipped to a customer and when collection is reasonably assured. Retail revenue is recognized on the date of purchase from the Company's retail store.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

COMPREHENSIVE INCOME

The Company has adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. There were no material other comprehensive income items for the years ended December 31, 2008 and 2007.

SEGMENT REPORTING

The Company has adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 requires that public companies report certain information about operating segments, products, services and geographical areas in which they operate. The Company believes that it operates within one segment as there is not enough difference between the types of products developed and distributed by the Company to justify segmented reporting by product type. Management decisions regarding the allocation of resources and the assessment of performance are made on a company-wide basis and are not specific to the type of product. The Company's operations include wholesale sales and retail sales of similar product categories. At this time, the Company's retail operations are not significant enough to require separate disclosure in the consolidated financial statements. See Note 21 for disclosure regarding geographic regions.

ADVERTISING

Advertising costs are charged to expense as of the first date the advertisements take place. Advertising expenses included in selling expenses approximated $1,813,000 and $342,000 for the years ended December 31, 2008 and 2007, respectively.

INVENTORIES

Inventories, consisting of piece goods and trim, work-in-process and finished goods, are stated at the lower of cost (first-in, first-out method) or market value. Inventories are evaluated for obsolescence and slow-moving items based on management's analysis of sales levels, sales projections and inventory levels.

STOCK-BASED COMPENSATION

The Company recognizes compensation costs relating to share-based payment transactions in accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), SHARE-BASED PAYMENT, and has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R). See Note 14 for disclosures regarding stock-based compensation.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Upon retirement or other disposition of property and equipment, applicable cost and accumulated depreciation and amortization are removed from the accounts and any gains or losses are included in results of
Depreciation of property and equipment is computed using the straight-line method based on estimated useful lives of the assets as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and fixtures</td>
<td>5 years</td>
</tr>
<tr>
<td>Office equipment</td>
<td>7 years</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>7 years</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>Term of the lease or the estimated life of the related improvements, whichever is shorter.</td>
</tr>
<tr>
<td>Computer Software</td>
<td>5 years</td>
</tr>
</tbody>
</table>

INTANGIBLE ASSETS

Intangible assets consist of trademarks and operational control rights related to the William Rast Sourcing and William Rast Licensing (Note 9).

Costs incurred related to the Company's trademarks are amortized on a straight-line basis over an estimated useful life of fifteen years.

IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

Long-lived assets, including trademarks and operational control rights related to William Rast Sourcing and William Rast Licensing, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There were no impairment losses related to intangible assets recorded for the year ended December 31, 2008. For the year ended December 31, 2007, the Company recorded an impairment loss of $7,955 related to trade names the Company was no longer using. The impairment loss was charged to general and administrative expense.

INCOME TAXES

Bella Rose, William Rast Sourcing, William Rast Licensing and J. Lindeberg USA are limited liability companies and are subject to California minimum tax of $800 and a fee based on total annual revenue. The earnings of a limited liability company are reported individually by its members.

On November 22, 2005, People's Liberation, Inc. (formerly Century Pacific Financial Corporation) acquired all of the outstanding voting securities of Bella Rose and Versatile, each of which became a wholly-owned subsidiary of the Company. As a result, Versatile and Bella Rose (including its 50% owned subsidiaries, William Rast Sourcing, William Rast Licensing and J. Lindeberg USA) are consolidated and income taxes are reported by the parent, People's Liberation, Inc. Taxes are calculated on a consolidated basis at C-Corporation income tax rates.

Deferred income taxes are recognized using the asset and liability method by applying income tax rates to cumulative temporary differences based on when and how they are expected to affect the tax return. Deferred tax assets and liabilities are adjusted for income tax rate changes.
In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES, an interpretation of SFAS No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company adopted the provisions of FIN 48 on January 1, 2007. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

The Company files U.S. Federal tax returns, California, New York, Georgia and Texas franchise tax returns and anticipates filing New Jersey franchise tax returns. For the U.S. Federal return, all periods are subject to tax examination by the U.S. Internal Revenue Service ("IRS"). The Company does not currently have any ongoing tax examinations with the IRS. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48 during the years ended December 31, 2008 and 2007. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48 and does not anticipate that the total amount of unrecognized tax benefit related to any particular tax position will change significantly within the next 12 months.

Income taxes are further described in Note 15.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentration of credit risk, consist primarily of cash and cash equivalents, trade accounts receivable, and amounts due from factor. Concentration of credit risk with respect to trade accounts receivable is significantly mitigated by the use of a factor, which effectively transfers a substantial amount of credit risk to the factor. The Company and its factor perform on-going credit evaluations of its customers and the Company maintains an allowance for doubtful accounts and chargebacks. The Company may extend unsecured credit to its customers in the normal course of business.

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to $250,000. The Company may be exposed to risk for the amounts of funds held in one bank in excess of the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions.

The Company's products are primarily sold to department stores, specialty retail stores and international distributors. These customers can be significantly affected by changes in economic, competitive or other factors. The Company makes substantial sales to a relatively few, large customers. In order to minimize the risk of loss, the Company assigns the majority of domestic accounts receivable to a factor without recourse. For non-factored and recourse receivables, account-monitoring procedures are utilized to minimize the risk of loss. Collateral is generally not required.
The Company evaluates the collectability of accounts receivable and charge backs (disputes from customers) based upon a combination of factors. In circumstances where the Company is aware of a specific customer’s inability to meet its financial obligations (such as in the case of bankruptcy filings or substantial downgrading by credit sources), a specific allowance for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other customers, the Company recognizes an allowance for bad debts and uncollectible charge backs based on its historical collection experience. If collection experience deteriorates (for example, due to an unexpected material adverse change in a major customer’s ability to meet its financial obligations to the Company), the estimates of the recoverability of amounts due could be reduced by a material amount.

SHIPPING AND HANDLING COSTS

The Company records shipping and handling costs billed to customers as a component of revenue, and shipping and handling costs incurred by the Company for inbound and outbound freight are recorded as a component of cost of sales. Total shipping and handling costs included as a component of revenue for the years ended December 31, 2008 and 2007 amounted to approximately $334,000 and $195,000, respectively. Total shipping and handling costs included as a component of cost of sales amounted to approximately $957,000 and $506,000 for the years ended December 31, 2008 and 2007, respectively.

CLASSIFICATION OF EXPENSES

COST OF GOODS SOLD - Cost of goods sold includes expenses primarily related to inventory purchases and contract labor, freight, duty and overhead expenses. Overhead expenses primarily consist of third party warehouse and shipping costs.

SELLING, DESIGN AND PRODUCTION EXPENSE - Selling, design and production expense primarily includes tradeshows, salaries, advertising, marketing and promotion, design fee payments, samples, travel and showroom expenses.

GENERAL AND ADMINISTRATIVE EXPENSES - General and administrative expenses primarily include salaries, professional fees, facility costs, travel and entertainment, depreciation and amortization expense, and other general corporate expenses.

CONSIDERING THE EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING MISSTATEMENTS IN CURRENT YEAR FINANCIAL STATEMENTS.

Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), was issued in September 2006. SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The adoption of this pronouncement has not had a material impact on the Company's consolidated financial statements.
of the information they need to evaluate and understand the nature and financial
effect of the business combination. SFAS No. 160 improves the relevance,
comparability, and transparency of financial information provided to investors
by requiring all entities to report noncontrolling (minority) interests in
subsidiaries in the same way—as equity in the consolidated financial
statements. Moreover, SFAS No. 160 eliminates the diversity that currently
exists in accounting for transactions between an entity and noncontrolling
interests by requiring they be treated as equity transactions. The two
statements are effective for fiscal years beginning after December 15, 2008 and
management is currently evaluating the impact that the adoption of these
statements may have on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, DISCLOSURES ABOUT
DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES—AN AMENDMENT OF FASB STATEMENT
NO. 133. SFAS No. 161 changes the disclosure requirements for derivative
instruments and hedging activities. Entities are required to provide enhanced
disclosures about (a) how and why an entity uses derivative instruments, (b) how
derivative instruments and related hedged items are accounted for under SFAS No.
133 and its related interpretations, (c) how derivative instruments and related
hedged items affect an entity's financial position, financial performance, and
cash flows and (d) encourages, but does not require, comparative disclosures for
earlier periods at initial adoption. SFAS No. 161 is effective for financial
statements issued for fiscal years and interim periods beginning after November
15, 2008, with early application encouraged. The adoption of this pronouncement
is not expected to have a material impact on the Company's consolidated
financial statements.

In May 2008, the FASB issued SFAS No. 162 THE HIERARCHY OF GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES. SFAS 162 identifies the sources of accounting
principles and the framework for selecting the principles to be used in the
preparation of financial statements of nongovernmental entities that are
presented in conformity with generally accepted accounting principles (GAAP) in
the United States (the GAAP hierarchy). The Statement is effective 60 days
following the SEC's approval of the Public Company Accounting Oversight Board
amendments to AU Section 411, THE MEANING OF Present Fairly in Conformity With
Generally Accepted Accounting Principles. The adoption of this pronouncement is
not expected to have a material impact on the Company's consolidated financial
statements.

Other recent accounting pronouncements issued by the FASB (including
its Emerging Issues Task Force), the American Institute of Certified Public
Accountants, and the United States Securities and Exchange Commission did not or
are not believed to have a material impact on the Company's present or future
consolidated financial statements.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FAIR VALUE OF FINANCIAL INFORMATION

The following methods and assumptions were used to estimate the fair
value of each class of financial instruments for which it is practicable to
estimate that value. ACCOUNTS RECEIVABLE AND DUE (TO) FROM FACTOR: Due to the
short-term nature of the receivables, the fair value approximates the carrying
value. ACCOUNTS PAYABLE AND ACCRUED EXPENSES AND CUSTOMER DEPOSIT: Due to the
short-term nature of the payables, the fair value approximates the carrying
value.

The Company adopted Statement of Financial Accounting Standards
("SFAS") 157 "FAIR VALUE MEASUREMENTS" and SFAS 159 "THE FAIR VALUE OPTION FOR
FINANCIAL ASSETS AND FINANCIAL LIABILITIES" on January 1, 2008. SFAS 157
establishes a fair value hierarchy that prioritizes the inputs to valuation
techniques used to measure fair value into three levels as follows:

- Level I - Quoted prices (unadjusted) in active markets for
  identical asset or liabilities that the Company has the
  ability to access as of the measurement date. Financial assets
  and liabilities utilizing Level I inputs include active
  exchange-traded securities and exchange-based derivatives.

Level II - Inputs other than quoted prices included within Level I that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Financial assets and liabilities utilizing Level II inputs include fixed income securities, non-exchange-based derivatives, mutual funds, and fair-value hedges.

Level III - Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date. Financial assets and liabilities utilizing Level III inputs include infrequently-traded, non-exchange-based derivatives and commingled investment funds, and are measured using present value pricing models.

SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. The Company determined that as of December 31, 2008, there were no significant financial instruments that required fair value measurement pursuant to SFAS 157 or SFAS 159.

NOTE 3 - EARNINGS PER SHARE

The Company computes and presents earnings per share in accordance with SFAS No. 128, "EARNINGS PER SHARE". Basic earnings per share are computed based upon the weighted average number of common shares outstanding during the year.

Warrants representing 3,565,000 shares of common stock at exercise prices ranging from $0.40 to $2.00 per share and stock options representing 2,716,000 shares of common stock at an exercise prices ranging from $0.30 to $1.25 per share were outstanding as of December 31, 2008, but were excluded from the average number of common shares outstanding in the calculation of earnings per share because the effect of inclusion would be anti-dilutive.

Warrants representing 3,525,000 shares of common stock at exercise prices ranging from $0.40 to $2.00 per share and stock options representing 2,416,000 shares of common stock at exercise prices ranging from $0.31 to $1.25 per share were outstanding as of December 31, 2007, but were excluded from the average number of common shares outstanding in the calculation of earnings per share because the effect of inclusion would be anti-dilutive.

The following is a reconciliation of the numerators and denominators of the basic and diluted loss per share computations:

<table>
<thead>
<tr>
<th>YEAR ENDED DECEMBER 31, 2008:</th>
<th>LOSS</th>
<th>SHARES</th>
<th>PER SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(NUMERATOR)</td>
<td>(DENOMINATOR)</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>Basic loss per share:</td>
<td>$(4,460,257)</td>
<td>36,002,563</td>
<td>$(0.12)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(4,460,257)</td>
<td>36,002,563</td>
<td>$(0.12)</td>
</tr>
</tbody>
</table>

Effect of Dilutive Securities:

Options .................................. -- -- --
Warrants .................................. -- -- --
Loss available to common stockholders .... $(4,460,257) 36,002,563 $(0.12)

YEAR ENDED DECEMBER 31, 2007:

Basic loss per share:
Net loss ................................. $ (768,497) 35,200,207 $(0.02)
NOTE 4 - DUE (TO) FROM FACTOR

The Company uses a factor for working capital and credit administration purposes. Under the factoring agreements, the factor purchases a substantial portion of the Company’s trade accounts receivable and assumes credit risk with respect to certain accounts.

The factor agreements provide that the Company can borrow an amount up to 85% of the value of its approved factored customer invoices. The Company can also borrow up to 50% of its eligible inventory (as defined in the agreements). Maximum borrowings under the Company’s People’s Liberation and William Rast inventory facility are not to exceed $1.3 million of eligible inventory. Maximum borrowings, including borrowings related to factored accounts receivable and inventory, related to the Company’s J. Lindeberg facility are not to exceed $1.5 million. The factor commission is 0.8% of the customer invoice amount for terms up to 60 days, plus one quarter of one percent (.25%) for each additional thirty-day term.

Receivables sold in excess of maximums established by the factor are subject to recourse in the event of nonpayment by the customer. The Company is contingently liable to the factor for merchandise disputes and customer claims on receivables sold to the factor.

To the extent that the Company draws funds prior to the deemed collection date of the accounts receivable sold to the factor, interest is charged at the factor’s prime lending rate plus 1% per annum. Factor advances and ledger debt are collateralized by accounts receivable, inventories, equipment and general intangibles. Ledger debt (payables to suppliers that use the same factor as the Company) amounted to approximately $12,000 and $292,000 at December 31, 2008 and 2007, respectively. From time to time, the factor issues letters of credit and vendor guarantees on the Company’s behalf.

PEOPLE’S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Outstanding letters of credit and vendor guarantees totaled approximately $91,000 as of December 31, 2008. There were no outstanding letters of credit or vendor guarantees as of December 31, 2007.

The J. Lindeberg factoring agreements provide for corporate guaranties from the Company’s related entities, People’s Liberation, Inc., Bella Rose, LLC, and Versatile Entertainment, Inc.

Due (to) from factor is summarized as follows:

<table>
<thead>
<tr>
<th>DECEMBER 31,</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without recourse</td>
<td>$ 3,423,524</td>
<td>$ 2,490,588</td>
</tr>
<tr>
<td>With recourse</td>
<td>692,155</td>
<td>61,432</td>
</tr>
<tr>
<td>(without recourse)</td>
<td>4,115,679</td>
<td>2,552,020</td>
</tr>
<tr>
<td>Advances</td>
<td>(3,520,281)</td>
<td>(649,049)</td>
</tr>
<tr>
<td>Open credits</td>
<td>(765,767)</td>
<td>(385,942)</td>
</tr>
<tr>
<td>(without recourse)</td>
<td>$ (170,369)</td>
<td>$ 1,517,029</td>
</tr>
</tbody>
</table>

NOTE 5 - ACCOUNTS RECEIVABLE
Accounts receivable is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>$1,553,922</td>
</tr>
<tr>
<td>Less allowance for doubtful accounts and subsequent credits</td>
<td>(246,000)</td>
</tr>
<tr>
<td></td>
<td>$1,307,922</td>
</tr>
</tbody>
</table>

NOTE 6 - INVENTORIES

Inventories are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Piece goods and trim</td>
<td>$1,564,727</td>
</tr>
<tr>
<td>Work in process</td>
<td>418,710</td>
</tr>
<tr>
<td>Finished goods</td>
<td>2,942,001</td>
</tr>
<tr>
<td></td>
<td>$4,925,438</td>
</tr>
</tbody>
</table>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>$451,854</td>
</tr>
<tr>
<td>Office equipment</td>
<td>256,454</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>48,695</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>119,910</td>
</tr>
<tr>
<td>Computer software</td>
<td>352,176</td>
</tr>
<tr>
<td></td>
<td>1,229,089</td>
</tr>
<tr>
<td>Less accumulated depreciation and amortization</td>
<td>(391,738)</td>
</tr>
<tr>
<td></td>
<td>$837,351</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense amounted to $257,548 and $150,137 for the years ended December 31, 2008 and 2007, respectively.

NOTE 8 - TRADEMARKS

Trademarks are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
</tbody>
</table>

45
Trademarks, at cost ................................ $  662,716 $   391,717
Less accumulated amortization ............... (62,107) (28,358)
-----------      -----------
$   600,609      $   363,359

Future annual estimated amortization expense is summarized as follows:

YEARS ENDING DECEMBER 31,
-------------------------
2009.................................................. $    40,040
2010..................................................          40,040
2011..................................................          40,040
2012..................................................          40,040
2013..................................................          40,040
Thereafter............................................         400,409
----------
$  600,609
==========

Trademark amortization expense amounted to $33,749 and $20,654 for the years ended December 31, 2008 and 2007, respectively. For the year ended December 31, 2007, the Company recorded an impairment loss of $7,955 related to trade names the Company was no longer using. The impairment loss was charged to general and administrative expense. There was no impairment loss recorded for the year ended December 31, 2008.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - INTANGIBLE ASSET AND MINORITY INTEREST PAYABLE

Intangible asset consists of operational control rights related to the William Rast Sourcing and William Rast Licensing entities.

On or around April 27, 2005, Bella Rose entered into letter agreements (the "Letter Agreements") with William Rast Enterprises, LLC ("WRE"). The Letter Agreements contemplated the formation of a joint venture between the parties to exploit the William Rast(TM) trademark. More particularly, the Letter Agreements contemplated the formation of a sourcing company, which would have rights to manufacture and sell William Rast branded apparel, and a licensing company, which would own the William Rast(TM) trademark and license rights to the trademark to the sourcing company and other parties. The Letter Agreements also contemplated a services agreement, pursuant to which Justin Timberlake would provide personal services to the licensing company and its licensees in connection with the exploitation of the William Rast brand.

While the Letter Agreements contemplated that the venture would be operated by a separate operating entity, which entity would be owned and managed 50% by Bella Rose and 50% by WRE, the venture’s business had been operated directly by Bella Rose since inception.

On October 1, 2006, Bella Rose and WRE entered into long-form definitive agreements, including the limited liability company operating agreement of William Rast Sourcing, LLC (the "Sourcing Operating Agreement"), the limited liability company operating agreement of William Rast Licensing, LLC (the "Licensing Operating Agreement", and together with the Sourcing Operating Agreement, the "Operating Agreements"), and the services agreement by and between William Rast Licensing and Justin Timberlake (the Operating Agreements, together with the Services Agreement, the "Transaction Documents") to memorialize the terms set forth in the Letter Agreements, with the exception that Bella Rose has operational control over William Rast Sourcing, LLC and William Rast Licensing, LLC.

WRE received a 50% membership interest in William Rast Sourcing. Bella Rose was granted a 50% membership interest in William Rast Sourcing in exchange for assigning all of the assets and liabilities of the William Rast apparel business operated by Bella Rose. Profits and losses are allocated to each member in accordance with their respective membership interests. WRE is to receive
minimum annual non-cumulative profit allocations of 6% of net sales or, if less, the actual amount of profits for the year. Bella Rose is required to loan William Rast Sourcing up to $1.8 million in unsecured working capital funds through December 31, 2007. The Sourcing Operating Agreement also includes certain rights related to the sale or transfer of membership interests, including right of first refusal and drag along rights.

WRE also received a 50% membership interest in William Rast Licensing. Bella Rose was granted a 50% membership interest in William Rast Licensing in exchange for contributing the William Rast(TM) trademarks to the company. Profits and losses are allocated to each member in accordance with their respective membership interests. WRE is to receive minimum annual non-cumulative profit allocations of 3% of net sales or, if less, the actual amount of profits for the year. Bella Rose was required to loan William Rast Licensing up to $200,000 in unsecured working capital funds through December 31, 2007. The Licensing Operating Agreement also includes certain rights related to the sale or transfer of membership interests, including right of first refusal and drag along rights.

William Rast Licensing granted William Rast Sourcing a perpetual, royalty free, exclusive, worldwide, nontransferable license to use the William Rast trademarks in connection with the sourcing, marketing and distribution of men's, women's and children's apparel.

In consideration for WRE entering into the Operating Agreements on terms which give Bella Rose operational control over the Sourcing Company and the Licensing Company, which operational control the Letter Agreements provided would be 50% in favor of Bella Rose and 50% in favor of WRE, the Company, on October 1, 2006, issued to WRE 571,429 shares of its common stock, par value $0.001 per share. The common stock issued contains restrictions related to the sale or transfer of the shares, including right of first refusal and annual volume limitations. The market price of the Company’s common stock on the date of issuance of the shares was $0.75. The $428,572 value of the common stock issued to WRE has been recorded as an intangible asset on Bella Rose’s financial statements. The intangible asset is expected to have an indefinite life and will be reviewed for impairment on a quarterly basis.

The issuance of the shares of common stock to WRE was exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to an exemption from registration contained in Regulation D, only to accredited investors. The shares of common stock may not be offered or sold in the United States unless they are registered under the Securities Act, or an exemption from the registration requirements of the Securities Act is available. No registration statement covering these securities has been filed with the United States Securities and Exchange Commission or with any state securities commission.

Pursuant to a services agreement entered into between William Rast Licensing and Justin Timberlake, Mr. Timberlake agreed to provide William Rast Licensing and its licensees (which includes William Rast Sourcing) with certain services in connection with the launch, advertising, design, and styling of William Rast branded apparel and other consumer products. During the term of the agreement, except as otherwise provided in the agreement, the services rendered by Mr. Timberlake in the indirect endorsement of William Rast branded apparel and other consumer products were exclusive to William Rast Licensing. The Services Agreement expired on December 31, 2008.

Beginning October 1, 2006, William Rast Sourcing and William Rast Licensing are consolidated under Bella Rose, a wholly-owned subsidiary of the Company. Until WRE has a basis in the capital of William Rast Sourcing and William Rast Licensing, losses will not be allocated to WRE. Instead, all losses will be recognized by Bella Rose in consolidation. Subsequently, if profits are generated by William Rast Sourcing and William Rast Licensing, then profits will not be allocated to WRE until previously unrecognized minority losses are fully recouped by Bella Rose. Minimum profit allocations to WRE will be accounted for as a minority interest in the consolidated financial statements of the Company.
Because net liabilities of Bella Rose were transferred to William Rast Sourcing and William Rast Licensing upon formation of the new entities, the settlement of which is the sole responsibility of Bella Rose, there was no gain or loss recognized upon the transfer of the net liabilities to the new entities.

Assets and liabilities of Bella Rose transferred to William Rast Sourcing and William Rast Licensing on October 1, 2006 were transferred at their carrying value on the books of Bella Rose on the date of transfer.

In May 2007, the limited liability company operating agreements of William Rast Sourcing, LLC and William Rast Licensing, LLC were amended and restated to reflect changes in distributions and the allocation of profits and losses among the entities members. The amended and restated operating agreements provide for minimum quarterly minority interest cash distributions to WRE based on net revenues, as defined in the operating agreements, generated by the companies during the applicable quarter. Effective January 1, 2007, William Rast Sourcing will pay WRE a minimum quarterly minority interest distribution of 6% of applicable net sales generated by William Rast Sourcing during the quarterly period, and William Rast Licensing will pay WRE a minimum quarterly minority interest distribution of 3% of applicable net sales generated by William Rast Licensing during the quarterly period. Minority interest distributions are to be paid 45 days following the applicable quarter.

On November 9, 2007, the limited liability company operating agreement of William Rast Sourcing, LLC was further amended to reflect a modification of the distributions to WRE. For the calendar quarters ending June 30, 2007, September 30, 2007 and December 31, 2007, all cash distributions William Rast Sourcing, LLC is required to pay to WRE pursuant to the amended and restated Operating Agreement shall not be paid or accrued for future payment with respect to such calendar quarters.

Total minority interest recorded for the year ended December 31, 2008 amounted to $1,326,293 and represents minimum distributions accrued for the year ended December 31, 2008. Total minority interest recorded for the year ended December 31, 2007 amounted to $113,017 and represents distributions for the calendar quarter ended March 31, 2007, which were paid in May 2007. Distributions to WRE are recorded as minority interest in the Company's consolidated statements of operations.

On November 13, 2007, the Company issued a warrant to purchase 150,000 shares of its common stock to WRE. The warrant has an exercise price of $0.40, vests immediately and has a term of five years. The warrant was valued at approximately $27,000 using the Black Scholes valuation model.

NOTE 10- OTHER ASSETS

Other assets are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>DECEMBER 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>William Rast lifestyle apparel collection rights</td>
<td>$ --</td>
</tr>
<tr>
<td>Deposits</td>
<td>444,266</td>
</tr>
<tr>
<td></td>
<td>$444,266</td>
</tr>
</tbody>
</table>

WILLIAM RAST LIFESTYLE APPAREL DESIGN AGREEMENTS

Effective November 15, 2007, William Rast Sourcing entered into a design services agreement with Paris68 LLC and Johan and Marcella Lindeberg. The design services agreement provided that the Company's William Rast lifestyle collection be developed and designed in collaboration with Paris68, the independent design consultancy of Johan and Marcella Lindeberg. Johan Lindeberg,
best known for his role as Creative Director of the Swedish brand J. Lindeberg, designs the Company's men's collection while Marcella Lindeberg designs the Company's women's collection. The initial collections were launched in February of 2008. The design services agreement with Paris68 and Johan and Marcella Lindeberg was for a three-year period ending December 2010.

In accordance with the terms of the design services agreement, the Company was required to make minimum design fee payments totaling $6.5 million over the term of the agreement. In addition to the minimum annual design fees, the design services agreement also provided for royalty payments for the contract years ending December 31, 2009 and 2010 of 7% of net sales of the collections products in excess of $7.5 million up to $20 million, and 5% of net sales of the collection's products in excess of $20 million.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As of December 31, 2007, collection rights related to the design collection of the Company's William Rast men's and women's ready-to-wear product line by Johan and Marcella Lindeberg amounted to $200,000 and represented an advance design fee payment made in accordance with the terms of the design services agreement. Future contractual design fee payments due under the design services agreement were to be amortized in accordance with the revenue derived from sales of the collection products. Expense amortized to sales recorded for the year ended December 31, 2008 amounted to approximately $678,000. There was no amortization expense recorded during the year ended December 31, 2007.

Effective December 1, 2008, the design services agreement with Paris68 LLC and Johan and Marcella Lindeberg was terminated and the parties are in the process of negotiating the final terms of a new design consulting agreement. The Company currently has a verbal agreement with Paris68 LLC and Johan and Marcella Lindeberg which provides for the payment of design fees at a rate of $97,000 per month in addition to travel and other expenses incurred by the design team.

As a result of the termination of the design services agreement dated effective November 15, 2007, prepaid design fees incurred through December 1, 2008 amounting to $1.6 million were expensed to selling, design and production expense during the fourth quarter of 2008. Total design fees paid to Paris68 pursuant to the contract from November 15, 2007 through November 30, 2008 amounted to $2.3 million, including the $1.6 million expensed in the fourth quarter of 2008.

NOTE 11 - CHARLOTTE RUSSE DISTRIBUTION AGREEMENT

On December 16, 2008, the Company entered into an agreement (the "AGREEMENT") with Charlotte Russe Holding, Inc. and its wholly-owned subsidiary, Charlotte Russe Merchandising, Inc. (collectively, "CHARLOTTE RUSSE"), pursuant to which the Company's wholly-owned subsidiary, Versatile Entertainment, Inc. ("VE"), agreed to exclusively sell to Charlotte Russe, in North America and Central America, People's Liberation(TM) branded apparel, apparel accessories, eyewear, jewelry, watches, cosmetics and fragrances, and to provide Charlotte Russe with marketing and branding support for People's Liberation branded apparel and apparel accessories.

Pursuant to the Agreement, the Company will continue to design, source, sample, fit and deliver an assortment of finished goods selected by Charlotte Russe and sell such merchandise to Charlotte Russe at wholesale prices. Charlotte Russe has the exclusive right to market, distribute, and sell People's Liberation branded merchandise purchased from the Company in North America and Central America through Charlotte Russe(TM) branded retail stores and related distribution channels, including outlet locations and direct-to-consumer sales. The Company will cease to sell People's Liberation branded merchandise in such territories to parties other than Charlotte Russe effective April 30, 2009. The Company will continue to market and sell its People's Liberation branded merchandise internationally, with the exception of Central America. Product sales to Charlotte Russe under the terms of this agreement are expected to begin shipping in July 2009.

In consideration for the exclusive rights granted to Charlotte Russe
under the Agreement, Charlotte Russe has agreed to purchase from the Company a minimum amount of People's Liberation branded merchandise during each contract year. The aggregate minimum purchase obligation for the period from inception of the Agreement through the end of its initial term on December 31, 2012 is $65 million. The amount of the minimum purchase obligation varies by contract year, and may be less than or greater than $65 million if the Agreement is terminated prior to expiration of the initial term or is renewed for one or more additional renewal periods.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Included in customer deposits as of December 31, 2008, is a $1 million payment received from Charlotte Russe in December 2008 upon execution of the Agreement. This deposit will be applied against future minimum purchase requirements for the first contract year of the Agreement ending June 30, 2010.

The initial term of the Agreement expires on December 31, 2012, and may be extended by Charlotte Russe for two additional one-year renewal periods with minimum purchase requirements of an aggregate of $65 million during such two-year period. Charlotte Russe may elect to terminate the Agreement early by delivering written notice to the Company at any time between January 1, 2011 and June 30, 2011, in which event the Agreement shall terminate, at Charlotte Russe’s election, on either (i) July 1, 2011 with the payment of an early termination fee, or (ii) December 31, 2011.

In addition to its minimum purchase obligations, if Charlotte Russe elects to renew the Agreement beyond the initial term, then commencing January 1, 2013, Charlotte Russe will pay the Company a royalty equal to a negotiated percentage of the amount by which actual wholesale sales of merchandise for a contract year exceed the minimum purchase obligation for such contract year.

NOTE 12 - J. LINDEBERG USA, LLC AND DUE TO MEMBER

Effective July 1, 2008, the Company, through its wholly-owned subsidiary, Bella Rose, LLC, and Lindeberg Sweden entered into an operating agreement and other related agreements for J. Lindeberg USA. Pursuant to the agreements, J. Lindeberg USA will source, market, and distribute J. Lindeberg(TM) branded apparel in the United States on an exclusive basis. The agreements provide that the Company and Lindeberg Sweden each hold a 50% interest in J. Lindeberg USA with the business of J. Lindeberg USA being operated by the Company. Under the terms of the agreements, Lindeberg Sweden was required to contribute to J. Lindeberg USA $20,000 in cash as well as certain assets consisting primarily of accounts receivable and inventory. The Company was required to contribute to J. Lindeberg USA $20,000 in cash and will be required to contribute up to a maximum of $1.5 million in working capital or related guaranties through December 2010. The agreements also provide that Lindeberg Sweden will, among other things, make available to J. Lindeberg USA for purchase all new collections of J. Lindeberg(TM) branded apparel, and provide for the factory-direct purchase by the Company of J. Lindeberg(TM) branded apparel on terms no less favorable to the Company than terms received by Lindeberg Sweden or its affiliates for the same or substantially the same merchandise. In addition, the agreements provide for a license from Lindeberg Sweden to J. Lindeberg USA of the J. Lindeberg(TM) mark and other related marks for use in the United States on an exclusive basis for a period of 25 years. The operating agreement provides that J. Lindeberg AB has the option to purchase the Company’s share of J. Lindeberg USA at a negotiated purchase price as outlined in the agreement.

PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes the estimated fair values of the assets

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and liabilities contributed on July 1, 2008 to J. Lindeberg USA. Member contribution receivable represents in-transit inventory contributed to J. Lindeberg USA by Lindeberg Sweden in July 2008.

Current assets:
Cash ....................................................           $   40,000
Accounts receivable .....................................              726,191
Inventory ...............................................              488,700
Member contribution receivable ..........................            1,002,669
Property and equipment ..................................               50,000
Deposits ................................................              385,140
----------
Total assets contributed ..............................            2,692,700
----------

Current liabilities:
Due to member ...........................................              385,140
----------
Total liabilities assumed .............................              385,140
----------
Net assets contributed ..............................           $2,307,560
==========

This transaction is an acquisition of a business and accounting standards require proforma financial information to be disclosed in the Company's annual financial statements. Unaudited proforma consolidated results of operations for the years ended December 31, 2008 and 2007, as though J. Lindeberg USA had been acquired as of January 1, 2007, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>YEAR ENDED DECEMBER 31, 2008</th>
<th>YEAR ENDED DECEMBER 31, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$36,489,010</td>
<td>$28,598,247</td>
</tr>
<tr>
<td>Net sales</td>
<td>$36,489,010</td>
<td>$28,598,247</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(4,663,099)</td>
<td>$(1,422,924)</td>
</tr>
<tr>
<td>Basis and diluted loss per share</td>
<td>$(0.13)</td>
<td>$(0.04)</td>
</tr>
</tbody>
</table>

The pro-forma consolidated results are not necessarily indicative of the operating results that would have been achieved had the transaction been in effect as of the beginning of the period presented and should not be construed as being representative of future operating results.

Due to member as of December 31, 2008 represents amounts payable to J. Lindeberg AB related to finished good purchases and the New York retail store and showroom deposits.

NOTE 13 - STOCKHOLDERS' EQUITY

On September 28, 2007 and November 2, 2007, the Company sold an aggregate of 1,060,000 shares of its common stock at a purchase price of $0.50 per share for gross proceeds after legal and other expenses amounted to $482,935, including approximately $13,000 in legal and accounting fees incurred in 2008 related to the registration of the shares, to various investors pursuant to the terms of subscription agreements entered into with each investor.

Pursuant to the terms of a certain registration rights agreement entered into with each investor, the Company agreed to provide the investors certain registration rights with respect to the shares under the Securities Act of 1933, as amended. The registration rights agreement required that the Company file a registration statement with the Securities and Exchange Commission to register the resale of the shares by the investors and use commercially reasonable efforts to cause such registration statement to become and remain effective at least for a period ending with the first to occur of (i) the sale of the shares covered by the registration statement and (ii) the availability
under Rule 144 for the investors to resell without restriction all of the shares covered by the registration statement.

NOTE 14 - STOCK INCENTIVE PLAN, OPTIONS AND WARRANTS

On January 5, 2006, the Company adopted its 2005 Stock Incentive Plan (the "Plan"), which authorized the granting of a variety of stock-based incentive awards. The Plan is administered by the Board of Directors, or a committee appointed by the Board of Directors, which determines the recipients and terms of the awards granted. The Plan provides for a total of 5,500,000 shares of common stock to be reserved for issuance under the Plan.

The Company recognizes stock-based compensation costs on a straight-line basis over the vesting period of each award, which is generally between one to four years.

During the year ended December 31, 2008, the Company issued 690,000 options to employees, officers and directors at exercise prices ranging from $0.30 to $0.50 per share. During the year ended December 31, 2007, the Company issued 1,912,000 options to employees, officers, directors and outside consultants at exercise prices ranging from $0.31 to $1.25 per share. Options to purchase 1,539,135 and 972,333 shares were exercisable as of December 31, 2008 and 2007, respectively. Total stock based compensation expense for the years ended December 31, 2008 and 2007 was approximately $183,000 and $261,000, respectively. The compensation expense recognized during the year ended December 31, 2008 did not change basic and diluted loss per share reported in the Company's Statement of Operations. The compensation expense recognized during the year ended December 31, 2007 increased basic and diluted loss per share reported in the Company's Statement of Operations from $0.01 to $0.02 per share. The total fair value of options granted to employees, officers, directors and outside consultants during the years ended December 31, 2008 and 2007 was approximately $101,000 and $535,000, respectively. There were no stock options or warrants exercised during the years ended December 31, 2008 and 2007.

The fair value of options is estimated on the date of grant using the Black-Scholes option pricing model. The valuation determined by the Black-Scholes pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Stock price volatility is estimated based on a peer group of public companies and expected term is estimated using the "safe harbor" provisions provided in SAB 107. Under SAB 110, the safe harbor provisions provided by SAB 107 were extended beyond December 31, 2007 for companies that did not have sufficient historical data to calculate expected term of their related options. During the year ended December 31, 2008, the Company did not have sufficient historical data to calculate expected term and the safe harbor provisions of SAB 107 were used to calculate expected term for options granted during the period. The weighted-average assumptions the Company used as inputs to the Black-Scholes pricing model for options granted during the year ended December 31, 2008 included a dividend yield of zero, a risk-free interest rate of 2.9%, expected term of 3.7 years and an expected volatility of 58%. The weighted-average assumptions the Company used as inputs to the Black-Scholes pricing model for options granted during the year ended December 31, 2007 included a dividend yield of zero, a risk-free interest rate of 4.1%, expected term of 5.7 years and an expected volatility of 71.5%.

For stock-based awards issued to employees and directors, stock-based compensation is attributed to expense using the straight-line single option method. Stock-based compensation expense recognized in the Statement of Operations for the years ended December 31, 2008 and 2007 is included in selling, design and production and general and administrative expenses, and is based on awards ultimately expected to vest. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For the year ended
December 31, 2008, the Company did not have sufficient historical data to calculate the expected forfeiture rate and as such, the Company is recognizing forfeitures as they occur.

Options awarded to non-employees are charged to expense when the services are performed and benefit is received as provided by EITF 96-18.

For the years ended December 31, 2008 and 2007, total stock-based compensation expense included in the consolidated statements of operations was $183,058 and $261,133, charged to the following expense categories:

<table>
<thead>
<tr>
<th>Year ended December 31,</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling expense</td>
<td>$5,733</td>
<td>$26,411</td>
</tr>
<tr>
<td>Design and production</td>
<td>20,142</td>
<td>34,149</td>
</tr>
<tr>
<td>General and administrative</td>
<td>157,183</td>
<td>200,573</td>
</tr>
<tr>
<td>Total stock-based compensation</td>
<td>$183,058</td>
<td>$261,133</td>
</tr>
</tbody>
</table>

The following table summarizes the activity in the Plan:

<table>
<thead>
<tr>
<th>Weighted Average</th>
<th>Number of Shares</th>
<th>Exercise Price Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options outstanding - January 1, 2007</td>
<td>1,878,000</td>
<td>$1.25</td>
</tr>
<tr>
<td>Granted</td>
<td>1,912,000</td>
<td>0.53</td>
</tr>
<tr>
<td>Exercised</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Forfeited</td>
<td>(1,374,000)</td>
<td>1.18</td>
</tr>
</tbody>
</table>

| Options outstanding - December 31, 2007 | 2,416,000 | 0.72 |
| Granted | 690,000 | 0.41 |
| Exercised | -- | -- |
| Forfeited | (390,000) | 0.79 |

| Options outstanding - December 31, 2008 | 2,716,000 | 0.64 |

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PEOPLE'S LIBERATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Additional information relating to stock options and warrants outstanding and exercisable at December 31, 2008, summarized by exercise price, is as follows:

<table>
<thead>
<tr>
<th>Exercise Price Per Share</th>
<th>Outstanding Weighted Average</th>
<th>Exercisable Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Life (years)</td>
<td>Exercise Price</td>
</tr>
<tr>
<td>-------</td>
<td>-------------</td>
<td>----------------</td>
</tr>
<tr>
<td>$0.30 (options)</td>
<td>90,000</td>
<td>9.5</td>
</tr>
<tr>
<td>$0.31 (options)</td>
<td>48,000</td>
<td>8.5</td>
</tr>
<tr>
<td>$0.38 (options)</td>
<td>280,000</td>
<td>8.6</td>
</tr>
<tr>
<td>$0.40 (options)</td>
<td>450,000</td>
<td>9.5</td>
</tr>
<tr>
<td>$0.40 (warrants)</td>
<td>150,000</td>
<td>3.9</td>
</tr>
<tr>
<td>$0.46 (options)</td>
<td>450,000</td>
<td>8.5</td>
</tr>
<tr>
<td>$0.50 (options)</td>
<td>744,000</td>
<td>8.9</td>
</tr>
<tr>
<td>$0.50 (warrants)</td>
<td>290,000</td>
<td>3.9</td>
</tr>
<tr>
<td>$1.25 (options)</td>
<td>654,000</td>
<td>7.6</td>
</tr>
<tr>
<td>$1.25 (warrants)</td>
<td>625,000</td>
<td>1.9</td>
</tr>
<tr>
<td>$2.00 (warrants)</td>
<td>2,500,000</td>
<td>1.9</td>
</tr>
</tbody>
</table>
A summary of the changes in the Company's unvested stock options is as follows:

<table>
<thead>
<tr>
<th>Weighted Average Number of Shares</th>
<th>Grant Date Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unvested stock options - January 1, 2007</td>
<td>1,437,417</td>
</tr>
<tr>
<td>Granted ..................................</td>
<td>1,912,000</td>
</tr>
<tr>
<td>Vested ...................................</td>
<td>(531,750)</td>
</tr>
<tr>
<td>Forfeited ..............................</td>
<td>(1,374,000)</td>
</tr>
</tbody>
</table>

=========  =========

Unvested stock options - December 31, 2007 ........ 1,443,667  0.32
Granted .................................. 690,000  0.15
Vested ................................... (566,802)  (0.27)
Forfeited .............................. (390,000)  (0.32)

Unvested stock options - December 31, 2008 ........ 1,176,865  $0.24

As of December 31, 2008, there were 1,539,135 of vested stock options. As of December 31, 2008, there was approximately $254,000 of total unrecognized compensation expense related to share-based compensation arrangements granted under the Plan. The cost is expected to be recognized on a weighted-average basis over the next three years. The aggregate intrinsic value of stock options outstanding was zero at December 31, 2008 and 2007 as the market value of the options was lower than the exercise value.

The Company has recorded a 100% valuation allowance on its deferred tax asset related to net operating loss carryforwards. As a result, the stock-based compensation has not been tax effected on the consolidated statement of operations. For the years ended December 31, 2008 and 2007, the deferred tax effect related to nonqualified stock options is not material.

NOTE 15 - INCOME TAXES

On November 22, 2005, People’s Liberation (formerly Century Pacific Financial Corporation) acquired all of the outstanding voting securities of Bella Rose and Versatile, each of which became a wholly-owned subsidiary of the Company. As a result, Versatile and Bella Rose (including its 50% owned subsidiaries, William Rast Sourcing, William Rast Licensing and J. Lindeberg USA) are consolidated and taxes are reported by the parent, People's Liberation. Taxes are calculated on a consolidated basis at C-Corporation tax rates.
Deferred income taxes arise principally from temporary differences in the method of depreciating property and equipment for income tax reporting purposes and the recognition of expense related to the allowance for doubtful accounts for income tax reporting purposes. The Company had Federal net operating losses available to carryforward to future periods of approximately $4.5 million as of December 31, 2008. Federal net operating losses expire beginning 2027 and state net operating losses expire beginning 2017. A valuation allowance has been provided for the deferred income tax asset related to net operating loss carryforwards. At this time, the Company cannot determine that it is more likely than not that it will realize the future income tax benefits related to its net operating losses.

The Company files U.S. Federal tax returns and franchise tax returns in several U.S. states. For the U.S. Federal return, all periods are subject to tax examination by the U.S. Internal Revenue Service. There were no examinations by the Internal Revenue Service during the years ended December 31, 2008 and 2007.

The (benefit) provision for income taxes for the years ended December 31, 2008 and 2007 consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current provision</td>
<td>$ 16,788</td>
<td>$ 29,698</td>
</tr>
<tr>
<td>Deferred (benefit) provision</td>
<td>(46,750)</td>
<td>39,100</td>
</tr>
<tr>
<td>(29,962)</td>
<td>68,798</td>
<td></td>
</tr>
<tr>
<td>State:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current provision</td>
<td>2,962</td>
<td>5,241</td>
</tr>
<tr>
<td>Deferred (benefit) provision</td>
<td>(8,250)</td>
<td>6,900</td>
</tr>
<tr>
<td>(5,288)</td>
<td>12,141</td>
<td></td>
</tr>
<tr>
<td>$(35,250)</td>
<td>$ 80,939</td>
<td></td>
</tr>
</tbody>
</table>

The difference between the (benefit) provision for income taxes and the expected income tax (benefit) provision determined by applying the statutory Federal and state income tax rates to pre-tax accounting loss for the years ended December 31, 2008 and 2007 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal statutory rate</td>
<td>34.0 %</td>
<td>34.0 %</td>
</tr>
<tr>
<td>State taxes net of Federal benefit</td>
<td>6.0</td>
<td>(6.0)</td>
</tr>
<tr>
<td>Net operating loss valuation allowance</td>
<td>(40.0)</td>
<td>(40.0)</td>
</tr>
<tr>
<td>LLC gross receipts tax</td>
<td>(0.6)</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Other</td>
<td>1.7</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>1.1%</td>
<td>(14.1)%</td>
</tr>
</tbody>
</table>

The components of the Company's consolidated deferred income tax balances as of December 31, 2008 and 2007 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred income tax assets - current:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bad debt reserve</td>
<td>$ 98,000</td>
<td>$ 38,000</td>
</tr>
<tr>
<td>Other reserves</td>
<td>140,000</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>238,000</td>
<td>38,000</td>
</tr>
</tbody>
</table>
NOTE 16 - RELATED PARTY TRANSACTIONS

Colin Dyne became Chief Executive Officer and a director of the Company on May 21, 2007. Colin Dyne is a significant stockholder of the Company, and served as a consultant prior to joining the Company as its Chief Executive Officer, advising on strategic sales initiatives. The Company paid $192,000 in consulting fees to Mr. Dyne during the year ended December 31, 2007. There were no consulting fees paid to Mr. Dyne during the year ended December 31, 2008.

Mr. Dyne also serves as a member of the Board of Directors of Talon International, Inc. (OTCBB: TALN), owner of Talon zippers. Mr. Dyne founded Tag-It, Inc., a subsidiary of Talon, in 1991. Mr. Dyne served as Talon's President from inception and as its Chief Executive Officer from 1997 to 2005. During the years ended December 31, 2008 and 2007, the Company purchased trim products from Talon amounting to approximately $536,000 and $395,000, respectively.

Kenneth Wengrod, a member of the Company's Board of Directors, currently serves as President of FTC Commercial Corp. ("FTC"), a company which he founded in 2002 and in which he holds a minority equity position. FTC is a global finance commercial service company primarily focused in the apparel industry. The Company is party to various factoring agreements with FTC as further described in Note 4 to the consolidated financial statements. As of December 31, 2008, total factored accounts receivable included in due to factor amounted to approximately $4.1 million. Outstanding advances as of December 31, 2008 amounted to approximately $3.5 million, and are included in the due to factor balance. In connection with Mr. Wengrod's appointment as a director, on September 21, 2007, the Company granted to Mr. Wengrod a ten-year option to purchase 24,000 shares of the Company's common stock at an exercise price of $0.50 per share pursuant to the Company's 2005 Stock Incentive Plan. On June 26, 2008, Mr. Wengrod received an additional 30,000 options to purchase shares of the Company's common stock at an exercise price of $0.30 per share as compensation for director services provided to the Company.

We are party to a consulting arrangement with Susan White, a member of the Company's Board of Directors, pursuant to which Ms. White provides image and marketing consulting services to the Company. During the years ended December 31, 2008 and 2007, the Company paid Ms. White approximately $53,000 and $94,000, respectively, for such consulting services.

Pursuant to a private placement transaction entered into on September 28, 2007, the Company's former international distributor consultant, Andreas Kurz, through an entity of which he is a trustee, Akil Trust, purchased 200,000 shares of the Company's common stock which increased Akil Trust's aggregate holdings to 450,000 shares of the Company's common stock as of December 31, 2007. During the year ended December 31, 2008, Akil Trust sold it holdings in
NOTE 17 - SENIOR MANAGEMENT RESTRUCTURING

In the second quarter of 2007, the Company's Board of Directors authorized management to take certain actions to restructure its senior management team. These actions included the appointment of Colin Dyne as Chief Executive Officer and Co-Chairman of the Board of Directors, the resignation of Daniel Guez as Chief Executive Officer and his appointment as Co-Chairman of the Board of Directors, and a reduction of Mr. Guez's salary. The actions also included the termination of the Company's president and the reduction of base salaries of the Company's Chief Financial Officer and Chief Operating Officer.

On October 2, 2007, Daniel Guez, who served as the Company's Creative Director, resigned from his position with the Company. On October 12, 2007, Mr. Guez resigned as a member of the Board of Directors of the Company and Mr. Dyne became sole Chairman of the Board.

NOTE 18 - OFFICER COMPENSATION

COLIN DYNE

On May 21, 2007, the Board of Directors appointed Colin Dyne as the Company's Chief Executive Officer and Co-Chairman of the Board of Directors. Mr. Dyne received an annual salary of $200,000 through March 30, 2008 and $395,000 through January 31, 2009. On February 1, 2009, the Company temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $355,500 for Mr. Dyne through April 30, 2009. Compensation is payable in accordance with the Company's standard payroll practices. Mr. Dyne also receives medical insurance reimbursements and an auto allowance of $2,000 per month. Annual bonuses are determined at the discretion of the Board of Directors and amounted to $75,000 and $30,000 for the years ended December 31, 2008 and 2007, respectively.

DARRYN BARBER

On January 3, 2006, the Company entered into an employment agreement with Darryn Barber pursuant to which he served as the Company's Chief Financial Officer and Chief Operating Officer. The agreement was for a term of 2 years commencing as of November 22, 2005 and terminating on November 21, 2007. Mr. Barber received a base salary of $212,000 in the first year of his appointment, and was to receive a base salary of $232,000 during the second year of his contract. On June 5, 2007, in connection with a restructuring of senior management, the Company and Mr. Barber agreed to reduce his base salary to $200,000 per annum beginning June 5, 2007. In addition to his base salary, Mr. Barber was to receive an annual bonus of not less than $25,000 and no more than $100,000 based on objectives determined by our Board of Directors. On July 7, 2006, in accordance with his employment agreement, Mr. Barber was granted a stock option to purchase 300,000 shares of the Company's common stock at an exercise price of $1.25 per share which is now fully vested. In the event Mr. Barber was terminated without cause, the Company was to continue to pay Mr.
Barber's then current base salary for the remaining term of the agreement, without regard to any employment of Mr. Barber by a third party.

On November 8, 2006, the Company and Darryn Barber entered into an amendment to his employment agreement. Pursuant to the amendment, Mr. Barber resigned from his position as Chief Operating Officer of the Company, effective the same date, but will continue to serve us as the Company's Chief Financial Officer. The amendment also extended the exercise period of Mr. Barber's option to purchase 300,000 shares of the Company's common stock to a period of one year following termination of Mr. Barber's service with the Company for any reason other than for cause (as defined in the employment agreement). Previously, Mr. Barber's option was to remain exercisable for a period of at least six months following termination of his service with the Company for any reason other than for cause.

On June 5, 2007, the Company's Board of Directors approved an award to Darryn Barber of options to purchase 150,000 shares of its common stock. The options have an exercise price of $0.46 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, are fully vested, and have a term of ten years.

On August 7, 2007, the Company's Board of Directors approved an award to Darryn Barber of options to purchase 100,000 shares of its common stock. The options have an exercise price of $0.38 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, and have a term of ten years. The options vested 50% on August 1, 2008, and the remaining 50% will vest in equal monthly installments thereafter through August 1, 2009.

On November 14, 2007, the Company's Board of Directors approved an award to Darryn Barber of options to purchase 450,000 shares of its common stock. The options have an exercise price of $0.50 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, and have a term of ten years. The options vest in quarterly installments of 45,000 beginning February 14, 2008 through May 14, 2010.

Mr. Barber received an annual salary of $200,000 through March 31, 2008, $250,000 from April 1, 2008 through May 7, 2008 and $275,000 from May 8, 2008 through January 31, 2009. On February 1, 2009, the Company temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $247,500 for Mr. Barber through April 30, 2009. Compensation is payable in accordance with the Company's standard payroll practices. Mr. Barber also receives medical insurance reimbursements and an auto allowance of $1,500 per month. Mr. Barber's annual bonuses amounted to $22,500 and $25,000 for the years ended December 31, 2008 and 2007, respectively.

Mr. Barber was appointed President of the Company on May 8, 2008, in addition to his then and current position of Chief Financial Officer.

THOMAS NIELDS

On November 8, 2006, Thomas Nields was appointed Chief Operating Officer of the Company. Pursuant to an oral agreement between the Company and Mr. Nields, Mr. Nields was to be paid an annual salary of $250,000, and a discretionary bonus to be determined annually by the Company's Board of Directors. On June 5, 2007, in connection with a restructuring of senior management, the Company and Mr. Nields agreed to reduce his base salary to $200,000 per annum beginning June 5, 2007. Beginning April 1, 2008 through January 31, 2009, Mr. Nields salary was increased to $235,000. On February 1, 2009, the Company temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $211,500 for Mr. Nields through April 30, 2009. Compensation is payable in accordance with the Company's standard payroll practices. Mr. Nields also receives medical insurance reimbursements and an auto allowance of $1,200 per month. Mr. Nields's annual bonuses amounted to $22,500 and $20,000 for the years ended December 31, 2008 and 2007, respectively.
On June 22, 2006, the Company's Board of Directors approved an award to Thomas Nields of options to purchase 100,000 shares of the Company's common stock. The options have an exercise price of $1.25 per share and have a term of ten years. The options vest 25% on July 1, 2007, and the remaining 75% shall vest in equal monthly installments thereafter through July 1, 2010.

On June 5, 2007, the Company's Board of Directors approved an award to Thomas Nields of options to purchase 150,000 shares of the Company's common stock. The options have an exercise price of $0.46 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, are fully vested, and have a term of ten years.

On August 7, 2007, the Company's Board of Directors approved an award to Thomas Nields of options to purchase 100,000 shares of its common stock. The options have an exercise price of $0.38 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, and have a term of ten years. The options vested 50% on August 1, 2008, and the remaining 50% shall vest in equal monthly installments thereafter through August 1, 2009.

On August 7, 2008, the Company's Board of Directors approved an award to Thomas Nields of options to purchase 250,000 shares of its common stock. The options have an exercise price of $0.40 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, and have a term of ten years. The options vest in eight quarterly installments of 31,250 shares beginning November 7, 2008 through August 7, 2010.

ANDREA SOBEL

On May 22, 2008, Andrea Sobel was appointed Vice President of Branding and Licensing of the Company. Ms. Sobel entered into an employment agreement with the Company on May 16, 2008. Pursuant to the agreement, Ms. Sobel is employed by the Company on an "at-will" basis, and will be paid a base salary of $200,000 per annum. During the first year of her employment, Ms. Sobel will be entitled to a bonus in the amount of three percent (3%) of license royalties received by the Company. If at any time prior to May 16, 2011, the Company terminates Ms. Sobel's employment without cause and Ms. Sobel delivers to the Company a signed settlement agreement and general release, the Company will pay Ms. Sobel the equivalent of six months base salary, at her then current rate of pay. On February 1, 2009, the Company temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $180,000 for Ms. Sobel through April 30, 2009. Compensation is payable in accordance with the Company's standard payroll practices. Ms. Sobel also receives medical insurance reimbursements and an auto allowance of $500 per month. Ms. Sobel's annual bonus amounted to $7,500 for the year ended December 31, 2008.

On May 16, 2008, the Company's Board of Directors approved an award to Andrea Sobel of options to purchase 200,000 shares of its common stock. The options have an exercise price of $0.40 per share, the closing price of the Company's common stock on the Over-The-Counter Bulletin Board on the date of the award, and have a term of ten years. The options vest 100,000 shares on May 1, 2008 and 5,555 per month thereafter through October 1, 2010.

DANIEL GUEZ

On October 2, 2007, Daniel Guez, who was serving as the Company's Creative Director, resigned from his position with the Company. In connection with Mr. Guez's resignation, the Company entered into a separation agreement and mutual release with Mr. Guez. The separation agreement provided that the certain amended and restated employment agreement dated June 19, 2007 between the Company and Mr. Guez be terminated and of no further force or effect, and that except as provided in the separation agreement, all responsibilities, duties and obligations of Mr. Guez to the Company and of the Company to Mr. Guez under the employment agreement be terminated and of no further force or effect.

The separation agreement provided that the Company pay Mr. Guez three
months of his base salary of $16,667 per month, and three months of his automobile allowance of $1,200 per month. In addition, Mr. Guez and his eligible family members continued to receive medical benefits for a period of twelve months from the date of his resignation. The separation agreement also provided that, prior to November 30, 2007, Mr. Guez would not sell or otherwise dispose of any shares of the Company's common stock beneficially owned by him. In addition, Mr. Guez granted the Company a right of first refusal to purchase any of his shares of common stock if he intended to sell in a public sale prior to the earlier of January 31, 2008 and the date when Mr. Guez beneficially owned less than 10% of the Company's common stock then issued and outstanding.

EDWARD HOUSTON

In connection with the restructuring of its senior management positions in 2007, the Company eliminated the position of President. As a consequence, on June 7, 2007, the Company terminated the employment of Edward Houston, who served as its President. In accordance with the terms of his employment agreement, the Company paid Mr. Houston severance in the amount of $150,000 in equal bi-monthly installments over a six-month period. A total of $154,500, including expenses, was charged to general and administrative expense in June 2007 as a result of this severance liability. Pursuant to the terms of his employment agreement, Mr. Houston was also granted a non-qualified stock option to purchase up to 1,000,000 shares of the Company's common stock at an exercise price of $1.25 per share. On the date of his termination, Mr. Houston held options to purchase 249,999 shares of the Company's common stock which were fully vested, and his remaining options to purchase 750,001 shares of the Company's common stock were forfeited. Mr. Houston did not exercise his fully vested options and these options were subsequently forfeited also.

NOTE 19 - CONSULTING AGREEMENTS

On February 1, 2007, the Company entered into a consulting agreement with Akari Enterprises, LLC, a consulting firm formed and controlled by Andreas Kurz. Akari Enterprises was responsible for negotiating exclusive distribution agreements with distributors outside of the United States and managed People's Liberation and William Rast's international distribution relationships. The consulting agreement provided for commissions to be paid to Akari Enterprises based on a defined formula related to net international sales and terminated on December 31, 2009. Total commissions paid to Akari International pursuant to the consulting agreement amounted to approximately $53,000 and $94,000 for the years ended December 31, 2008 and 2007, respectively. On December 17, 2007, the Company granted Mr. Kurz an option to purchase 50,000 shares of the Company's common stock at an exercise price of $0.50 per share. The option vested monthly through December 17, 2009 and had a term of five years. In May 2008, the consulting agreement was terminated and the stock options granted to Andreas Kurz were subsequently forfeited.

Effective October 1, 2007, the Company entered into a consulting agreement with Europlay Capital Advisors, LLC. Under the terms of the consulting agreement, Europlay Capital Advisors was the Company's exclusive financial advisor to raise capital and provide other financial advisory and investment banking services for a term of one year. Europlay Capital Advisors was to receive a fee for the successful completion of a financing transaction or acquisition at a negotiated rate. In conjunction with the consulting agreement, the Company issued to Europlay Capital Advisors a warrant to purchase 250,000 shares of common stock at an exercise price of $0.50 per share. The warrant vested over the term of the consulting agreement and has a term of five years. No proceeds were received by the Company as a result of the warrant issuance. There were no financing transactions completed by the Company pursuant to the consulting agreement and the consulting agreement was terminated in 2008.

On January 5, 2006, the Company entered into a consulting agreement with MK Sportswear. Under the terms of the agreement, MK Sportswear was to provide sales and customer services functions on behalf of the Company. The agreement provided for commissions at an agreed upon percentage of net sales and
had a term of two years that expired on December 31, 2008. In accordance with
the agreement, on June 22, 2006 the Company issued a non-qualified stock option
to purchase 150,000 shares of the Company's common stock at an exercise price of
$1.25 per share to Mark Kanights. The options vested 25% after one year and
monthly thereafter over two years. On August 22, 2006, the Company terminated
its original agreement and entered into a new agreement with MK Sportswear and
Mark Kanights, whereby Mark Kanights was to provide sales and customer service
functions on behalf of the Company on an exclusive basis through July 1, 2009
and receive a monthly salary and commissions at an agreed upon percentage of net
sales. Pursuant to the new agreement, in exchange for services to be performed
by Mark Kanights through July 1, 2009, the 150,000 stock options granted to Mark
Kanights under the original agreement were to remain granted to him under the
same terms and conditions set forth in the original agreement. Effective January
15, 2008, the parties terminated this agreement. Pursuant to the terms of the
Company's 2005 Stock Incentive Plan, the unexercised options were forfeited
three months following termination of services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 20 - LEASES

The Company leases its principal executive office space under a lease
agreement that expires in March 2012. The facility is approximately 13,000 sq.
ft, and is located in Los Angeles, California. It is from this facility that the
Company conducts all of its executive and administrative functions. The Company
leases 7,500 square feet of warehouse space located in Los Angeles, California,
to conduct its design functions and to store its trim and design library under a
lease that expires in February 2010. Finished goods are shipped from third-party
warehouses in Commerce, California, and Somerset, New Jersey. Internet products
are shipped from a third-party warehouse in Long Beach, California. The Company
has showrooms located in Los Angeles, New York City and Atlanta. The Company's
William Rast New York City showroom lease expires in April 2009 and its J.
Lindeberg New York City showroom lease expires in April 2011. The Company's Los
Angeles showroom lease expires in May 2013 and its Atlanta showroom lease
expires in May 2009. The lease agreement for the Company's J. Lindeberg retail
store located in New York City expires in June 2010. The Company accounts for
its leases in accordance with SFAS No. 13, whereby step provisions, escalation
clauses, tenant improvement allowances, increases based on an existing index or
rate, and other lease concessions are accounted for in the minimum lease
payments and are charged to operations on a straight line basis over the related
lease term. Total rent expense for the years ended December 31, 2008 and 2007
amounted to approximately $540,000 and $341,000, respectively.

Future annual minimum payments due under the leases are summarized as
follows:

YEARS ENDING DECEMBER 31,
-------------------------
2009 .................................              $1,085,277
2010 .................................                 865,330
2011 .................................                 577,524
2012 .................................                 210,256
2013 .................................                  41,940
----------
$2,780,327
----------

NOTE 21 - GEOGRAPHIC INFORMATION

The Company designs, markets and sells high-end casual apparel under
the brand names People's Liberation, William Rast and, in the United States, J.
Lindeberg. The types of products developed and sold by the Company are not
sufficiently different to account for these products separately or to justify
segmented reporting by product type.
The Company distributes its products internationally and has reporting requirements based on geographic regions. All of the Company's long-lived assets are located in the United States. Sales are attributed to countries based on customer delivery locations, as follows:

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
<td>2007</td>
</tr>
<tr>
<td>Net Sales:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>$27,025,241</td>
<td>$17,793,652</td>
</tr>
<tr>
<td>Canada</td>
<td>2,159,282</td>
<td>659,192</td>
</tr>
<tr>
<td>Germany</td>
<td>1,967,116</td>
<td>1,084,940</td>
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<tr>
<td>Italy</td>
<td>646,261</td>
<td>181,967</td>
</tr>
<tr>
<td>Belgium</td>
<td>296,060</td>
<td>126,926</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>237,496</td>
<td>94,553</td>
</tr>
<tr>
<td>Australia</td>
<td>141,788</td>
<td>--</td>
</tr>
<tr>
<td>Norway</td>
<td>84,439</td>
<td>--</td>
</tr>
<tr>
<td>South Africa</td>
<td>65,570</td>
<td>1,571</td>
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<tr>
<td>Greece</td>
<td>61,001</td>
<td>22,259</td>
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<td>Mexico</td>
<td>38,950</td>
<td>15,932</td>
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<tr>
<td>Sweden</td>
<td>--</td>
<td>124,332</td>
</tr>
<tr>
<td>Other</td>
<td>366,889</td>
<td>162,053</td>
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<tr>
<td></td>
<td>$32,190,093</td>
<td>$20,267,377</td>
</tr>
</tbody>
</table>

NOTE 22 - CUSTOMER CONCENTRATION

During the years ended December 31, 2008 and 2007, one customer comprised greater than 10% of the Company's sales. Sales to this customer amounted to 28.9% and 31.1% of net sales for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, receivables due (to) from this customer are included in due from factor.

NOTE 23 - SUPPLIER CONCENTRATION

During the year ended December 31, 2008, three suppliers comprised greater than 10% of the Company's purchases. Purchases from these suppliers amounted to 10.6%, 11.7% and 12.2% for the year ended December 31, 2008. At December 31, 2008, accounts payable and accrued expenses included an aggregate of approximately $715,000 due to these vendors. During the year ended December 31, 2007, four suppliers comprised greater than 10% of the Company's purchases. Purchases from these suppliers amounted to 10.7%, 11.3%, 11.8% and 18.6% for the year ended December 31, 2007. At December 31, 2007, accounts payable and accrued expenses included an aggregate of approximately $934,000 due to these vendors.

During the year ended December 31, 2008, the Company purchased substantially all of its J. Lindeberg brand products from J. Lindeberg AB in Sweden, the beneficial owner of 50% of the Company's subsidiary, J. Lindeberg USA. Total purchases from J. Lindeberg AB for the year ended December 31, 2008 amounted to approximately $905,000. Included in Due to Member as of December 31, 2008 is approximately $42,000 due to J. Lindeberg AB for product purchases.

NOTE 24 - OFF-BALANCE SHEET RISK AND CONTINGENCIES

Financial instruments that potentially subject the Company to off-balance sheet risk consist of factored accounts receivable. The Company sells the majority of its trade accounts receivable to a factor and is contingently liable to the factor for merchandise disputes and other customer...
claims. At December 31, 2008, total factor receivables approximated $4.1 million. The factor also issues letters of credit and vendor guarantees on the Company's behalf. Outstanding letters of credit and vendor guarantees totaled approximately $91,000 as of December 31, 2008.

The Company is subject to certain legal proceedings and claims arising in connection with its business. In the opinion of management, there are currently no claims that will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Pursuant to the operating agreement the Company entered into with J. Lindeberg USA Corp and J. Lindeberg AB, the Company contributed $20,000 in cash to its 50% owned subsidiary, J. Lindeberg USA, LLC, and will be required to contribute up to a maximum of $1.5 million in working capital or related guarantees through December 2010. At this point in time, the cash amount in excess of $20,000 that the Company will be required to contribute to J. Lindeberg USA, LLC, if any, is uncertain. The Company's J. Lindeberg USA, LLC, factoring agreements provide for corporate guaranties from its related entities, People's Liberation, Inc., Bella Rose, LLC, and Versatile Entertainment, Inc.

In accordance with the bylaws of the Company, officers and directors are indemnified for certain events or occurrences arising as a result of the officer or director's serving in such capacity. The term of the indemnification period is for the lifetime of the officer or director. The maximum potential amount of future payments the Company could be required to make under the indemnification provisions of its bylaws is unlimited. At this time, the Company believes the estimated fair value of the indemnification provisions of its bylaws is minimal and therefore, the Company has not recorded any related liabilities.

In addition to the indemnification required in our articles of incorporation and bylaws, we have entered into indemnity agreements with each of our current officers, directors and a key employee. These agreements provide for the indemnification of our directors, officers and key employee for all reasonable expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were our agents. We believe these indemnification provisions and agreements are necessary to attract and retain qualified directors, officers and employees.

The Company enters into indemnification provisions under its agreements in the normal course of business, typically with suppliers, customers, distributors and landlords. Under these provisions, the Company generally indemnifies and holds harmless the indemnified party for losses suffered or incurred by the indemnified party as a result of the Company's activities or, in some cases, as a result of the indemnified party's activities under the agreement. These indemnification provisions often include indemnifications relating to representations made by the Company with regard to intellectual property rights. These indemnification provisions generally survive termination of the underlying agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is unlimited. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. Accordingly, the Company has not recorded any related liabilities.

NOTE 25 - PROFIT SHARING PLAN

The Company has established a 401(k) profit-sharing plan for the benefit of eligible employees. The Company may make contributions to the plan as determined by the Board of Directors. There were no contributions made during the years ended December 31, 2008 and 2007.
EVALUATION OF CONTROLS AND PROCEDURES

Members of the our management, including our Chief Executive Officer, Colin Dyne, and Chief Financial Officer and President, Darryn Barber, have evaluated the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15 or 15d-15, as of December 31, 2008, the end of the period covered by this report. Based upon that evaluation, Messrs. Dyne and Barber concluded that our disclosure controls and procedures were effective as of December 31, 2008.

CHANGES IN CONTROLS AND PROCEDURES

There were no changes in our internal control over financial reporting or in other factors identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the fourth quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed 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. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition our assets that could have a material effect on our financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, we have concluded that our internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report by our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only our management report in this annual report.

ITEM 9B. OTHER INFORMATION

None

PART III
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the name, age and position of each of our executive officers and directors as of December 31, 2008. There are no family relationships between our executive officers and directors.

<table>
<thead>
<tr>
<th>NAME</th>
<th>AGE</th>
<th>POSITION HELD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colin Dyne</td>
<td>45</td>
<td>Chief Executive Officer and Director</td>
</tr>
<tr>
<td>Darryn Barber</td>
<td>33</td>
<td>President and Chief Financial Officer</td>
</tr>
<tr>
<td>Thomas Nields</td>
<td>43</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>Andrea Sobel</td>
<td>41</td>
<td>Vice President of Branding and Licensing</td>
</tr>
<tr>
<td>Dean Oakey</td>
<td>50</td>
<td>Director</td>
</tr>
<tr>
<td>Susan White</td>
<td>58</td>
<td>Director</td>
</tr>
<tr>
<td>Kenneth Wengrod</td>
<td>58</td>
<td>Director</td>
</tr>
</tbody>
</table>

COLIN DYNE became our Chief Executive Officer and a director of the company on May 21, 2007. Colin Dyne is a significant stockholder of the company, and has served as a consultant to the company since December 2005, advising on strategic sales initiatives. Mr. Dyne also serves as a member of the Board of Directors of Talon International, Inc. (OTCBB: TALN), owner of Talon zippers. Mr. Dyne founded Tag-It, Inc., a subsidiary of Talon, in 1991. Mr. Dyne served as Talon’s President from inception and as its Chief Executive Officer from 1997 to 2005.

DARRYN BARBER has served as our Chief Financial Officer since November 22, 2005 and as our President and Chief Financial Officer since May 8, 2008. Prior to joining us, Mr. Barber spent five years as a senior associate at Europyx Capital Advisors, LLC and its affiliates. Mr. Barber has been successful in evaluating, developing, and operating businesses in the entertainment and technology fields. Mr. Barber was responsible for preparing business models, financial planning, evaluating and valuing businesses, providing corporate and strategic advice and preparing businesses for strategic transactions. Mr. Barber brings over 10 years experience in owning and operating businesses. Prior to Europyx Capital Advisors, Mr. Barber was Director of Operations of Trademark Cosmetics, a private label cosmetic manufacturing company. Mr. Barber earned an MBA from California State University Northridge and a BA in business economics from the University of California Santa Barbara.

THOMAS NIELDS has served as our Chief Operating Officer since November 8, 2006. Prior to joining us, Mr. Nields held various positions at Talon International, Inc., owner of Talon zippers, from November 1994 to October 2006. These positions included Director of Global Operations, President of Talon, Inc. (a wholly-owned subsidiary of Talon International, Inc.) and Vice President of Production. During his employment with Talon, Mr. Nields was responsible for implementing and managing production facilities in eight countries including the U.S., Mexico and Hong Kong.

ANDREA SOBEL has served as our Vice President of Branding and Licensing since May 22, 2008. Ms. Sobel has over 15 years of experience in licensing, marketing and brand development. Since 2007, she was Vice President of Marketing with SANRIO, where she was responsible for market development and brand positioning of that company’s Hello Kitty and other character brands. Between 2004 and 2007 and between 1999 and 2002, she was also a principal and licensing, merchandising and marketing consultant with ALS Consulting, a firm specializing in marketing and brand development. Between 2002 and 2004, Ms. Sobel was Director of Licensing and Business Development for Murad, Inc. From 1990 to 1999, she was with Guess?, Inc. in a series of progressively responsible positions culminating with Vice President of Licensing and Product Development from 1995 to 1999. She holds a Bachelor of Arts in History and Spanish from the University of California at Berkeley and an MBA from UCLA’s Anderson School of Business.

DEAN OAKEY has served as a director since November 22, 2005. From June 1997 to present, Mr. Oakey has served as the Managing Director of Investment Banking for SMH Capital, Corp., an investment banking firm. In this capacity, Mr. Oakey has been responsible for business development and management duties, with a focus on the consumer products and services industries.
SUSAN WHITE joined our Board of Directors on May 21, 2007. Ms. White has served as Chief Executive Officer and President of Brand Identity Solutions, LLC, a branding, marketing and licensing consulting company, since 1987. Ms. White also is the CEO and president of Whitespeed, LLC, an internet design, branding and marketing company. Ms. White previously served as Director of Marketing and Advertising Worldwide for Warnaco from November 1997 through August 1999.

KENNETH WENGROD joined our Board of Directors on September 21, 2007. Mr. Wengrod currently serves as President of FTC Commercial Corp., a company which he founded in 2002 (“FTC”) and in which he continues to hold a minority equity position. FTC is a global finance commercial service company primarily focused in the apparel industry. From 1996 to 2002, Mr. Wengrod was the Chief Financial Officer and General Manager of Meridian Textiles f/k/a Mark Fabrics where he was responsible for the operations of the multi-million dollar fabric converting company. Prior to joining Meridian Textiles, Mr. Wengrod was the Chief Operating Officer of Rampage Clothing Co. from 1992 to 1995, and was a Senior Vice President of Barclays Commercial Corp. from 1987 to 1992. Mr. Wengrod holds a Bachelor of Science degree in Economics from Northeastern University.

DIRECTOR INDEPENDENCE

Our board of directors currently consists of four members: Colin Dyne (our Chief Executive Officer), Dean Oakey, Susan White and Kenneth Wengrod. Each of Colin Dyne, Dean Oakey, Susan White and Ken Wengrod were elected at a meeting of shareholders and will serve until our next annual meeting or until his or her successor is duly elected and qualified. Troy Carter served on our board of directors during our fiscal year ending December 31, 2008, but resigned from his position effective as of April 2, 2008.

We do not have a separately designated audit, compensation or nominating committee of our board of directors and the functions customarily delegated to these committees are performed by our full board of directors. We are not a "listed company" under SEC rules and are therefore not required to have separate committees comprised of independent directors. We have, however, determined that none of our current directors are "independent" as that term is defined in Section 4200 of the Marketplace Rules as required by the NASDAQ Stock Market. We have also determined that, while a member of our board of directors, Troy Carter was "independent" in accordance with the aforementioned definition. As we do not maintain an audit committee, we do not have an audit committee "financial expert" within the meaning of Item 407(d) of Regulation S-K.

We intend to establish an audit committee, compensation committee, and nominating and corporate governance committee following the expansion of our board to include at least three directors who are independent under the applicable rules of the SEC and NASDAQ.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires that our executive officers and directors, and persons who own more than ten percent of a registered class of our equity securities, file reports of ownership and changes in ownership with the SEC. Executive officers, directors and greater-than-ten percent stockholders are required by SEC regulations to furnish us with all Section 16(a) forms they file. Based solely on our review of the copies of the forms received by us and written representations from certain reporting persons that they have complied with the relevant filing requirements, we believe that, during the year ended December 31, 2008, all of our executive officers, directors and greater-than-ten percent stockholders complied with all Section 16(a) filing requirements, with the exception of Andrea Sobel, who did not timely file a Form 3 and who did not timely file a Form 4 to report a transaction.

CODE OF ETHICS

We have adopted a Code of Ethics applicable to all of our Board members and to all of our employees, including our Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer and Vice President of Branding...
People's Liberation, Inc.
Attn: Investor Relations
1212 S. Flower Street, 5th Floor
Los Angeles, CA 90015
(213) 745-2123

Any waiver of the Code of Ethics pertaining to a member of our Board or one of our executive officers will be disclosed in a report on Form 8-K filed with the SEC.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth all compensation earned for services to us in all capacities for 2008 and 2007 as to each person serving as our Chief Executive Officer and Chief Financial Officer during 2008. The table also sets forth all compensation earned for services to us in all capacities for 2008 and 2007 as to our two most highly compensated executive officers (other than our Chief Executive Officer and Chief Financial Officer) whose compensation exceeded $100,000 and who were serving as executive officers at the end of 2008. The aforementioned people are collectively referred to as our "named executive officers."

<table>
<thead>
<tr>
<th>Name and Principal Position</th>
<th>Year</th>
<th>Salary</th>
<th>Bonus (1)</th>
<th>Option Awards (2)</th>
<th>Total Compensation (7)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colin Dyne (3)</td>
<td>2008</td>
<td>$346,257</td>
<td>$ 75,000</td>
<td>$35,148</td>
<td>$456,405</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>$125,010</td>
<td>$ 30,000</td>
<td>--</td>
<td>$371,271</td>
<td></td>
</tr>
<tr>
<td>Darryn Barber (4)</td>
<td>2008</td>
<td>$253,626</td>
<td>$ 22,500</td>
<td>$73,154</td>
<td>$371,057</td>
<td></td>
</tr>
<tr>
<td>and President</td>
<td>2007</td>
<td>$213,698</td>
<td>$ 25,000</td>
<td>$55,856</td>
<td>$303,214</td>
<td></td>
</tr>
<tr>
<td>Thomas Nields (5)</td>
<td>2008</td>
<td>$226,260</td>
<td>$ 22,500</td>
<td>$31,179</td>
<td>$299,451</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007</td>
<td>$217,190</td>
<td>$ 20,000</td>
<td>$59,619</td>
<td>$302,861</td>
<td></td>
</tr>
<tr>
<td>Andrea Sobel (6)</td>
<td>2008</td>
<td>$125,779</td>
<td>$ 7,500</td>
<td>$9,072</td>
<td>$151,833</td>
<td></td>
</tr>
<tr>
<td>and Licensing</td>
<td>2007</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td></td>
</tr>
</tbody>
</table>

(1) Represents cash bonuses paid to our named executive officers.
(2) The amounts in this column represent the dollar amounts recognized for financial statement reporting purposes in the applicable fiscal year with respect to stock options granted in the applicable fiscal year as well as prior fiscal years, in accordance with SFAS 123(R). For additional information on the valuation assumptions with respect to option grants, including the options granted in 2007 and 2008, please see Note 14 to our financial statements for the years ended December 31, 2008 and 2007. These amounts do not reflect the actual value that may be realized by the named executive officers which depends on the value of our shares in the future.
(3) Mr. Dyne became our Chief Executive Officer on May 21, 2007. Prior to joining us, Mr. Dyne provided consulting services to us and received consulting fees amounting to approximately $192,000 during the year ended December 31, 2007.
Mr. Barber became our Chief Financial Officer on November 22, 2005 and our President on May 8, 2008. Mr. Barber was subject to an employment agreement which expired on November 21, 2007.

Mr. Nields was named our Chief Operating Officer effective November 6, 2006.

Ms. Sobel joined us in May 2008 as our Vice President of Branding and Licensing. Ms. Sobel has an employment agreement with us, the terms of which are described hereafter.

Other compensation indicated in the above table consists of medical and disability insurance, consulting fees, and car allowances.

NARRATIVE DISCLOSURE TO SUMMARY COMPENSATION TABLE

We do not have a separate compensation committee and therefore, our executive compensation program is administered by our Board of Directors. The Board is responsible for, among other functions: (1) administering our stock incentive plan; and (2) negotiating, reviewing and awarding the annual salary, bonus, stock options and other benefits of our executive officers.

COMPENSATION PHILOSOPHY

The objectives of our executive compensation program include the following:

- ALIGNMENT - to align the interests of executives and shareholders through equity-based compensation awards;
- RETENTION - to attract, retain and motivate highly qualified, high performing executives to lead our growth; and
- PERFORMANCE - to provide rewards that are dependant upon the executive's achievements and company performance.

COMPENSATION ELEMENTS

We compensate senior executives through a variety of components, including base salary, annual incentives, equity incentives, and benefits and perquisites, in order to provide our employees with an overall compensation package which we believe is competitive. The mix and value of these components are impacted by a variety of factors, such as negotiations of an executive with us, the executive's position within the company, and the overall performance of the company and the individual. The purpose and key characteristics for each component are described below.

BASE SALARY

Base salary provides executives with a steady income stream and is based upon the executive's level of responsibility, experience, individual performance and contributions to our overall success.

ANNUAL INCENTIVE BONUSES

Annual incentive bonuses are a variable performance-based component of compensation. The primary objective of an annual incentive bonus is to align a portion of total pay opportunities for executives to the attainment of our company's performance goals, as well as performance goals of the individual.

EQUITY INCENTIVES

Equity incentives are intended to align senior executive and shareholder interests by linking a portion of executive pay to long-term shareholder value creation and financial success over a multi-year period. Equity incentives are also provided to our executives to attract and enhance the retention of executives and other key employees and to facilitate stock ownership by our senior executives. The Board considers individual and company performance when determining long-term incentive opportunities.

HEALTH & WELFARE BENEFITS

The named executive officers participate in a variety of retirement,
health and welfare, and paid time-off benefits designed to enable us to attract and retain our workforce in a competitive marketplace. Health and welfare and paid time-off benefits help ensure that we have a productive and focused workforce.

SEVERANCE AND CHANGE OF CONTROL ARRANGEMENTS

We do not have a formal plan for severance or separation pay for our employees and officers, with the exception of Andrea Sobel (as further described below). In the future, we may include severance provisions in employment agreements of our executive officers that could be triggered in the event of involuntary termination without cause or in the event of a change in control.

OTHER BENEFITS

In order to attract and retain highly qualified executives, we provide some of our named executive officers with automobile allowances that we believe are consistent with current market practices. Our executives also may participate in our 401(k) plan.

PROCESS FOR SETTING EXECUTIVE COMPENSATION

When making pay determinations for named executive officers, the Board may consider factors including: (1) actual company performance as compared to pre-established goals, (2) individual executive performance and expected contribution to our future success, (3) changes in economic conditions and the external marketplace and (4) the recommendation of our Chief Executive Officer. The Board may also consider compensation information from data gathered from annual reports and proxy statements from companies that the Board generally considers comparable to our company. Ultimately, our Board uses its judgment when determining how much to pay our executive officers and attempts to set the pay for our executive officers at levels that it believes are competitive and necessary to attract and retain talented executives capable of achieving our long-term objectives.

COMPENSATION FOR FISCAL YEAR ENDED DECEMBER 31, 2008

In the fiscal year ended December 31, 2008, we compensated our executive officers through a combination of a base salary, a cash bonus, and options to purchase shares of our common stock. In addition, we provided other perquisites to our executive officers, which consisted of medical insurance and car allowances.

Beginning in the second quarter of 2007, each of our executive officers was earning a base salary of $200,000, which the Board considered to be low, in an effort to conserve cash and improve our operating performance. Effective April 1, 2008, after negotiations with our Chief Executive Officer, our Board resolved to increase the annual salary of Colin Dyne to $395,000, and the annual salaries of Darryn Barber and Tom Nields to $250,000 and $235,000, respectively. The salary increases were provided to align the base salary component of our executive officer compensation to levels the Board believed were appropriate at the time. Effective as of February 1, 2009, the Board, in consultation with our Chief Executive Officer and Chief Financial Officer, resolved to temporarily reduce the base salaries of each of our named executive officers by 10% through April 30, 2009. The reduction in salary was made to improve our future operating cash flow in view of the changes in current economic conditions.

Bonuses paid to our senior management team in the fiscal year ended December 31, 2008 were generally low, and were determined by our Board of Directors based on the performance of the company and the executive officer. During 2008, aside from an employment agreement entered into with Andrea Sobel, we were not party to any written employment agreements with our named executive officers. The following is a description of the material terms of each of our named executive officer's employment arrangements with us:
COLIN DYNE

On May 21, 2007, our Board of Directors appointed Colin Dyne as our Chief Executive Officer and Co-Chairman of the Board of Directors. Mr. Dyne received an annual salary of $200,000 from January 1 through March 31, 2008 and $395,000 from April 1, 2008 through January 31, 2009. On February 1, 2009, we temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $355,500 for Mr. Dyne through April 30, 2009. Mr. Dyne also receives medical insurance reimbursements and an auto allowance of $2,000 per month. Annual bonuses are determined at the discretion of the Board of Directors and amounted to $75,000 and $30,000 for the years ended December 31, 2008 and 2007, respectively.

DARRYN BARBER

Mr. Barber became our Chief Financial Officer on November 22, 2005. From January 1 through March 31, 2008, Mr. Barber received an annual salary of $200,000, which was increased to $250,000 on April 1, 2008 as described above. On May 8, 2008, our Board expanded the role of Mr. Barber to focus on business development, international expansion and growth of the company's portfolio of brands both organically and via acquisition, in addition to his responsibilities as Chief Financial Officer of the company. In connection with his added responsibilities, Mr. Barber was appointed as our President, his annual salary was increased to $275,000 per annum, and he was awarded a monthly car allowance of $1,500. As discussed above, on February 1, 2009, we temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $247,500 for Mr. Barber through April 30, 2009. Mr. Barber also receives medical insurance reimbursements. Mr. Barber's annual bonuses amounted to $22,500 and $25,000 for the years ended December 31, 2008 and 2007, respectively.

THOMAS NIELDS

On November 8, 2006, Mr. Nields was appointed our Chief Operating Officer. Mr. Nields earned a base salary of $200,000 from January 1 through April 8, 2008, which was subsequently increased to $235,000 as described above. On February 1, 2009, we temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $211,500 for Mr. Nields through April 30, 2009. Mr. Nields also receives medical insurance reimbursements and an auto allowance of $1,200 per month. Mr. Nields' annual bonuses amounted to $22,500 and $20,000 for the years ended December 31, 2008 and 2007, respectively. On August 8, 2008, we also awarded Mr. Nields an option to purchase 250,000 shares of our common stock at an exercise price of $0.40 per share.

ANDREA SOBEL

On May 22, 2008, Andrea Sobel was appointed our Vice President of Branding and Licensing. Ms. Sobel entered into an employment agreement with the company on May 16, 2008. Pursuant to the agreement, Ms. Sobel is employed on an "at-will" basis, and will be paid a base salary of $200,000 per annum. Pursuant to the terms of her employment agreement, Ms. Sobel was granted an option to purchase 200,000 shares of our common stock at an exercise price of $0.40 per share. During the first year of her employment, Ms. Sobel will be entitled to a bonus in the amount of three percent (3%) of license royalties received by the company. The employment agreement also provides that Ms. Sobel will receive all operative employee compensation, fringe benefit and perquisite, and other benefit and welfare plans or arrangements of the company then in effect from time to time and in which similarly situated executive officers of the company generally are entitled to participate. If at any time prior to May 16, 2011, we terminate Ms. Sobel's employment without cause and Ms. Sobel delivers to us a signed settlement agreement and general release, we will pay Ms. Sobel the equivalent of six months base salary, at her then current rate of pay. On February 1, 2009, we temporarily reduced all officer salaries by 10%, resulting in a new annual salary base of $180,000 for Ms. Sobel through April 30, 2009.

Ms. Sobel also receives medical insurance reimbursements and an auto allowance of $500 per month. Ms. Sobel's annual bonus amounted to $7,500 for the year ended December 31, 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2008
The following table presents information regarding outstanding options held by our named executive officers as of the end of our fiscal year ended December 31, 2008. None of the named executive officers exercised options during the fiscal year ended December 31, 2008.

<table>
<thead>
<tr>
<th>Number of Securities Underlying Unexercised Options (#)</th>
<th>Option Exercise Price ($)</th>
<th>Option Expiration Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>Exercisable</td>
<td>Unexercisable</td>
</tr>
<tr>
<td>--------------------------</td>
<td>---------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>Colin Dyne</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Darryn Barber (1)</td>
<td>300,000</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>150,000</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>66,667</td>
<td>33,333</td>
</tr>
<tr>
<td></td>
<td>180,000</td>
<td>270,000</td>
</tr>
<tr>
<td>Tom Nields (2)</td>
<td>60,417</td>
<td>39,583</td>
</tr>
<tr>
<td></td>
<td>150,000</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>66,667</td>
<td>33,333</td>
</tr>
<tr>
<td></td>
<td>31,250</td>
<td>218,750</td>
</tr>
<tr>
<td>Andrea Sobel (3)</td>
<td>--</td>
<td>200,000</td>
</tr>
</tbody>
</table>

(1) On August 7, 2007, our Board of Directors approved an award to Darryn Barber of options to purchase 100,000 shares of our common stock. The options vested 50% on August 1, 2008, and the remaining 50% vest in equal monthly installments thereafter through August 1, 2009. As of December 31, 2008, 66,667 shares were vested.

On November 14, 2007, our Board of Directors approved an award to Darryn Barber of options to purchase 450,000 shares of our common stock. The options vest in quarterly installments of 45,000 beginning February 14, 2008 through May 14, 2010. As of December 31, 2008, 180,000 shares were vested.

(2) On June 22, 2006, our Board of Directors approved an award to Mr. Nields of options to purchase 100,000 shares of our common stock. The options vested 25% after one year, and the remaining 75% vest in equal monthly installments thereafter through July 1, 2010. As of December 31, 2008, 60,417 shares were vested.

On August 7, 2007, our Board of Directors approved an award to Mr. Nields of options to purchase 100,000 shares of our common stock. The options vested 50% on August 1, 2008, and the remaining 50% vest in equal monthly installments thereafter through August 1, 2009. As of December 31, 2008, 66,667 shares were vested.

On August 7, 2008, our Board of Directors approved an award to Mr. Nields of options to purchase 250,000 shares of our common stock. The options vest in eight quarterly installments of 31,250 beginning November 7, 2008 through August 7, 2010. As of December 31, 2008, 31,250 shares were vested.

(3) On May 16, 2008, our Board of Directors approved an award to Ms. Sobel of options to purchase 200,000 shares of our common stock. The options vest 50% on May 1, 2009, and the remaining 50% vest in equal monthly installments thereafter through October 1, 2010.

DIRECTOR COMPENSATION

The following table presents information regarding compensation paid to our non-employee directors for our fiscal year ended December 31, 2008.

<table>
<thead>
<tr>
<th>Name</th>
<th>Fees Earned or Paid in Cash</th>
<th>Option Awards (5)</th>
<th>All Other Compensation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Oakey (1)</td>
<td>$10,000</td>
<td>$3,235</td>
<td>--</td>
<td>$13,235</td>
</tr>
<tr>
<td>Susan White (2)</td>
<td>$10,000</td>
<td>$3,235</td>
<td>$52,955</td>
<td>$66,190</td>
</tr>
<tr>
<td>Troy Carter (3)</td>
<td>$2,500</td>
<td>$592</td>
<td>--</td>
<td>$3,092</td>
</tr>
</tbody>
</table>
(1) Mr. Oakey has been a member of our Board of Directors since November 2005. On June 26, 2008, Mr. Oakey was granted an option to purchase 30,000 shares of our common stock at a per share exercise price of $0.30. This option vests monthly through June 26, 2009 and has a term of ten years. Mr. Oakey did not exercise any of his option awards during the fiscal year ended December 31, 2008.

(2) Ms. White joined our Board of Directors on May 21, 2007. On June 26, 2008, Ms. White was granted an option to purchase 30,000 shares of our common stock at a per share exercise price of $0.30. This option vests monthly through June 26, 2009 and has a term of ten years. Ms. White also provided consulting services to the Company and received $52,955 of consulting fees during the fiscal year ended December 31, 2008.

(3) Mr. Carter joined our Board of Directors on May 21, 2007 and resigned from this position on April 2, 2008. Mr. Carter did not exercise any of his options during the fiscal year ended December 31, 2008.

(4) Mr. Wengrod joined our Board of Directors on September 21, 2007. On June 26, 2008, Mr. Wengrod was granted an option to purchase 30,000 shares of our common stock at a per share exercise price of $0.30. This option vests monthly through June 26, 2009 and has a term of ten years. Mr. Wengrod did not exercise any of his options during the fiscal year ended December 31, 2008.

(5) The amounts in this column represent the dollar amounts recognized for financial statement reporting purposes in the applicable fiscal year with respect to stock options granted in the applicable fiscal year as well as prior fiscal years, in accordance with SFAS 123(R). For additional information on the valuation assumptions with respect to option grants, including the options granted in 2008 and 2007, please see Note 2 to our financial statements for the years ended December 31, 2008 and 2007. These amounts do not reflect the actual value that may be realized by the Directors which depends on the value of our shares in the future.

The general policy of our Board is that compensation for non-employee directors should be a mix of cash and equity based compensation. We do not pay management directors for Board service in addition to their regular employee compensation. Currently, we pay our non-employee directors an annual fee of $10,000. Our directors are also reimbursed for travel expenses associated with attendance at Board meetings. There were no reimbursements for travel expenses for the fiscal year ended December 31, 2008.

We do not have a formal policy with regard to option grants to our Board of Directors. However, when a director is elected or appointed to our Board, we generally follow a practice of granting an option to such director to purchase up to 30,000 shares of our common stock, with the size of the option grant being determined based on the number of months the new director will serve as a director in the fiscal year in which the option grant is awarded. Thereafter, we generally issue annual option grants to all non-employee directors to purchase up to 30,000 shares. In June 2008, our non-employee directors, Mr. Oakey, Ms. White and Mr. Wengrod, received 30,000 options each to purchase shares of our common stock.

We are party to a consulting arrangement with Susan White, a member of our Board of Directors, pursuant to which Ms. White provides image and marketing consulting services to us. During the year ended December 31, 2008, we paid Ms. White approximately $53,000 for such consulting services.

2005 STOCK INCENTIVE PLAN

Our 2005 Stock Incentive Plan was adopted on November 23, 2005 and became effective on January 5, 2006. A total of 5,500,000 shares of common stock have been reserved for issuance upon exercise of awards granted under the 2005 Stock Incentive Plan. Any shares of common stock subject to an award, which for any reason expires or terminates unexercised, are again available for issuance under the 2005 Stock Incentive Plan.

Our 2005 Stock Incentive Plan will terminate after 10 years from the date on which our board approved the plan, unless it is terminated earlier by
Our board. The plan authorizes the award of stock options and stock purchase grants.

Our 2005 Stock Incentive Plan is administered by our full board of directors. To the extent we expand our board of directors, we intend to form a compensation committee, all of the members of which will be independent directors under applicable federal securities laws and outside directors as defined under applicable federal tax laws. Following its formation, the compensation committee will have the authority to construe and interpret the plan, grant awards and make all other determinations necessary or advisable for the administration of the plan.

Our 2005 Stock Incentive Plan provides for the grant of both incentive stock options that qualify under Section 422 of the Internal Revenue Code and nonqualified stock options. Incentive stock options may be granted only to employees of ours or any parent or subsidiary of ours. All awards other than incentive stock options may be granted to our employees, officers, directors, consultants, independent contractors and advisors of ours or any parent or subsidiary of ours. The exercise price of incentive stock options must be at least equal to the fair market value of our common stock on the date of grant. The exercise price of incentive stock options granted to 10% shareholders must be at least equal to 110% of that value. The exercise price of nonqualified stock options will be determined by our board of directors when the options are granted.

In general, options will vest over a four-year period. The term of options granted under our 2005 Stock Incentive Plan may not exceed 10 years.

Awards granted under our 2005 Stock Incentive Plan may not be transferred in any manner other than by will or by the laws of descent and distribution or as determined by our board of directors. Unless otherwise restricted by our board of directors, nonqualified stock options may be exercised during the lifetime of the optionee only by the optionee, the optionee's guardian or legal representative or a family member of the optionee who has acquired the option by a permitted transfer. Incentive stock options may be exercised during the lifetime of the optionee only by the optionee or the optionee's guardian or legal representative. Options granted under our 2005 Stock Incentive Plan generally may be exercised for a period of three months after the termination of the optionee's service with us or any parent or subsidiary of ours. Options will generally terminate immediately upon termination of employment for cause.

The purchase price for restricted stock will be determined by our board of directors or compensation committee, as applicable, at the time of grant. Stock bonuses may be issued for past services or may be awarded upon the completion of services or performance goals.

If we are subject to a sale, merger, consolidation, reorganization, liquidation or change in control, our Board of Directors may take actions which include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on rights so as to provide for earlier, later, extended or additional time for exercise and other modifications. In addition, the Board of Directors may take such actions with respect to all participants, to certain categories of participants or only to individual participants in the plan. Moreover, the Board of Directors may take such action before or after granting rights to which the action relates and before or after any public announcement with respect to such sale, merger, consolidation, reorganization, liquidation or change in control that is the reason for such action.

**INDEMNIFICATION OF DIRECTORS AND EXECUTIVE OFFICERS AND LIMITATION OF LIABILITY**

Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except for:

- any breach of their duty of loyalty to the corporation or its stockholders;
acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions; or

any transaction from which the director derived an improper personal benefit.

Article Fifth, paragraph D of our articles of incorporation states that no director shall have personal liability to us or our stockholders for monetary damages for breach of fiduciary duty as a director. However, the provision does not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to us or our stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under section 174 of the Delaware General Corporations law, or (iv) for any transaction from which the director derived an improper personal benefit.

Article IX, Section 1 of our bylaws states that we shall indemnify any person who was, or is threatened to be, made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a Director, officer, employee or agent of the company, or is or was serving at the request of the company as a Director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, to the extent and under the circumstances permitted by the General Corporation Law of the State of Delaware. Such indemnification (unless ordered by a court) shall be made as authorized in a specific case upon a determination that indemnification of the Director, officer, employee or agent is proper in the circumstances because he has met the applicable standards of conduct set forth in the General Corporation Law of the State of Delaware. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding, or (2) if such quorum is not obtainable, or even if obtainable a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by our stockholders.

In addition to the indemnification required in our articles of incorporation and bylaws, we have entered into indemnity agreements with each of our current officers, directors and a key employee. These agreements provide for the indemnification of our directors, officers and key employee for all reasonable expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were our agents. We believe these indemnification provisions and agreements are necessary to attract and retain qualified directors, officers and key employees.

A stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees regarding which indemnification by us is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, key employees or persons controlling us pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table presents information regarding the beneficial ownership of our common stock as of March 2, 2009 by:

- each of the executive officers listed in the summary
compensation table;
  o each of our directors;
o all of our directors and executive officers as a group; and
  o each shareholder known to us to be the beneficial owner of
    more than 5% of our common stock.

Beneficial ownership is determined in accordance with the rules of the
SEC and generally includes voting or investment power with respect to
securities. Unless otherwise indicated below, to our knowledge, the persons and
entities named in the table have sole voting and sole investment power with
respect to all shares beneficially owned, subject to community property laws
where applicable. Shares of our common stock subject to options from the Company
that are currently exercisable or exercisable within 60 days of March 2, 2009
are deemed to be outstanding and to be beneficially owned by the person holding
the options for the purpose of computing the percentage ownership of that person
but are not treated as outstanding for the purpose of computing the percentage
ownership of any other person.

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The information presented in this table is based on 36,002,563 shares
of our common stock outstanding on March 2, 2009. Unless otherwise indicated,
the address of each of the executive officers and directors and 5% or more
shareholders named below is c/o People's Liberation, Inc., 1212 S. Flower
Street, 5th Floor, Los Angeles, CA 90015.

<table>
<thead>
<tr>
<th>NAME OF BENEFICIAL OWNER</th>
<th>NUMBER OF SHARES BENEFICIALLY OWNED</th>
<th>PERCENTAGE OF SHARES OUTSTANDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE OFFICERS AND DIRECTORS:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colin Dyne (1) ........................................</td>
<td>7,731,560</td>
<td>21.5%</td>
</tr>
<tr>
<td>Director, Chief Executive Officer and Secretary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Darryn Barber (2) .....................................</td>
<td>895,060</td>
<td>2.4%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomas Nields (3) .....................................</td>
<td>660,857</td>
<td>1.8%</td>
</tr>
<tr>
<td>Chief Operating Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Andrea Sobel (4) ......................................</td>
<td>100,000</td>
<td>*</td>
</tr>
<tr>
<td>Chief Operating Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Oakey (5) ........................................</td>
<td>456,983</td>
<td>1.3%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Susan White (6) .......................................</td>
<td>49,000</td>
<td>*</td>
</tr>
<tr>
<td>Director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kenneth Wengrod (7) ...................................</td>
<td>49,000</td>
<td>*</td>
</tr>
<tr>
<td>Director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Named Directors and officers as a group (7 persons) (8) (8)</td>
<td>9,942,460</td>
<td>26.4%</td>
</tr>
</tbody>
</table>

5% SHAREHOLDERS:

<table>
<thead>
<tr>
<th>NAME OF BENEFICIAL OWNER</th>
<th>NUMBER OF SHARES BENEFICIALLY OWNED</th>
<th>PERCENTAGE OF SHARES OUTSTANDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microcapital Fund LP and Microcapital Fund Ltd (9) .....</td>
<td>2,595,000</td>
<td>7.1%</td>
</tr>
<tr>
<td>Gerard Guez (10) ......................................</td>
<td>10,698,387</td>
<td>29.7%</td>
</tr>
<tr>
<td>Bristol Investment Fund Ltd (11) ..........................</td>
<td>2,903,700</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

* Less than 1%

(1) Consists of 7,731,560 shares of common stock.

(2) Consists of 132,560 shares of common stock and 762,500 options to
purchase common stock.

(3) Consists of 290,024 shares of common stock and 370,833 options to
purchase common stock.

(4) Consists of 100,000 options to purchase common stock.
Consists of 93,483 shares of common stock, warrants to purchase 278,500 shares of common stock and options to purchase 85,000 shares of common stock.

Consists of 49,000 options to purchase common stock.

Consists of 49,000 options to purchase common stock.

Consists of 8,247,627 shares of common stock, warrants to purchase 278,500 shares of common stock and options to purchase 1,416,333 shares of common stock.

Consists of 1,333,600 shares of common stock and warrants to purchase 533,440 shares of common stock at an exercise price of $2.00 per share owned by Microcapital Fund LP and 461,400 shares of common stock and warrants to purchase 266,560 shares of common stock at an exercise price of $2.00 owned by Microcapital Fund Ltd. Ian P. Ellis, the general partner of MicroCapital Fund LP and as Director of Fund of Microcapital Fund Ltd., exercises voting and investment authority over the shares held by these companies. The address of Microcapital Fund LP and Microcapital Fund Ltd is 201 Post Street, San Francisco, California 94108.


Consists of 2,903,700 shares of common stock. Paul Kessler, as Director, exercises voting and investment authority over the shares held by this company. The address of Bristol Investment Fund, Ltd. is Caledonian House, 69 Dr. Roy's Drive, P.O. Box 1043, Grand Cayman KY1-1102, Cayman Islands.

**SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUTITY COMPENSATION PLANS**

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2008.

<table>
<thead>
<tr>
<th>NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE</th>
<th>WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS</th>
<th>NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity compensation plans approved by security holders</td>
<td>5,216,000</td>
<td>$ 1.29</td>
</tr>
<tr>
<td>Equity compensation plans not approved by security holders</td>
<td>1,065,000</td>
<td>$ 0.93</td>
</tr>
<tr>
<td>Total</td>
<td>6,281,000</td>
<td>$ 1.23</td>
</tr>
</tbody>
</table>

**MATERIAL FEATURES OF INDIVIDUAL EQUITY COMPENSATION PLANS NOT APPROVED BY STOCKHOLDERS**

Sanders Morris Harris Inc. acted as placement agent in connection with our capital raise, which we completed on November 23, 2005. In partial consideration for their services as placement agent, we issued to Sanders Morris Harris and its employees, Dean Oakey and Jonah Sulak, warrants to purchase an aggregate of 625,000 shares of common stock at an exercise price of $1.25 per share. The warrants are fully vested and have a term of 5 years.

Effective October 1, 2007, we entered into a consulting agreement with Europlay Capital Advisors, LLC. Under the terms of the consulting agreement, Europlay Capital Advisors will be our exclusive financial advisor to raise
capital and provide other financial advisory and investment banking services to us for a term of one year. In conjunction with the consulting agreement, we issued to Europlay Capital Advisors a warrant to purchase 250,000 shares of our common stock at an exercise price of $0.50 per share. The warrant is fully vested and has a term of five years. No proceeds were received by us as a result of the warrant issuance.

On November 13, 2007, we issued a warrant to purchase 150,000 shares of our common stock to William Rast Enterprises, LLC. The warrant has an exercise price of $0.40, vested immediately and has a term of five years. No proceeds were received by us as a result of the warrant issuance.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Other than the employment arrangements described above in "Executive Compensation" and the transactions described below, since January 1, 2007, there has not been, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party:

- in which the amount involved exceeds the lesser of $120,000 or 1% of the average of our assets at year-end for the last three completed fiscal years; and
- in which any director, executive officer, shareholder who beneficially owns 5% or more of our common stock or any member of their immediate family had or will have a direct or indirect material interest.

TRANSACTIONS WITH OFFICERS AND DIRECTORS AND 5% SHAREHOLDERS

Colin Dyne became our Chief Executive Officer and a director of the company on May 21, 2007. Colin Dyne is a significant stockholder and has served as a consultant to the company since December 2005, advising on strategic sales initiatives. We paid $192,000 in consulting fees to Mr. Dyne during the year ended December 31, 2007. There were no consulting fees paid to Mr. Dyne during the year ended December 31, 2008.

Mr. Dyne also serves as a member of the Board of Directors of Talon International, Inc. (OTCBB: TALN), owner of Talon zippers. Mr. Dyne founded Tag-It, Inc., a subsidiary of Talon, in 1991. Mr. Dyne served as Talon's President from inception and as its Chief Executive Officer from 1997 to 2005. During the years ended December 31, 2008 and 2007, we purchased trim products from Talon amounting to approximately $536,000 and $395,000, respectively.

Kenneth Wengrod, a member of our Board of Directors, currently serves as President of FTC Commercial Corp., a company which he founded in 2002 and in which he continues to hold a minority equity position. We are party to various factoring agreements with FTC as further described in Note 4 to the consolidated financial statements. As of December 31, 2008, total factored accounts receivable included in due to factor amounted to approximately $4.1 million. Outstanding advances as of December 31, 2008 amounted to approximately $3.5 million, and are included in the due to factor balance.

We are party to a consulting arrangement with Susan White pursuant to which Ms. White provides image and marketing consulting services to us. During the years ended December 31, 2008 and 2007, we have paid Ms. White approximately $53,000 and $94,000 for such consulting services.

PROMOTERS AND CONTROL PERSONS

On December 15, 2004, Keating Reverse Merger Fund, LLC, a Delaware limited liability company, David L. Hadley (our former chief executive officer) and Natural Technologies, Inc., an Arizona corporation entered into a purchase agreement pursuant to which certain shareholders of the company sold 5,625,287 shares (on a pre-reverse stock split basis) of the common stock of the company, representing approximately 70.99% of the outstanding shares of common stock of the company, to Keating Reverse Merger Fund, LLC, for an aggregate purchase price of $375,000.
On January 31, 2005, we entered into an Assumption Agreement with Global Medical Technologies, Inc., Natural Technologies, Inc. and Mr. Hadley pursuant to which we contributed all of the shares of common stock of our inactive subsidiaries, Century Pacific Financial Corp. and Century Pacific Investment Management Corporation, to Global Medical Technologies, Inc. Global Medical Technologies, Inc. agreed to assume all of our liabilities and to indemnify us for any loss we incur with respect to such assumed liabilities. Global Medical, Natural Technologies, and Mr. Hadley also released us from all obligations and claims. In February 2005, we distributed all of the outstanding shares of common stock of Global Medical Technologies, Inc. on a pro rata basis to our stockholders. Following the distribution, Global Medical Technologies, Inc. continued to operate its medical equipment reconditioning business as an independent company. After this distribution, we existed as a "shell company" under the name of Century Pacific Financial Corporation with nominal assets whose sole business was to identify, evaluate and investigate various companies to acquire or with which to merge.

On February 16, 2005, we received a non-interest bearing, unsecured demand loan from Keating Reverse Merger Fund in the amount of $50,000 to provide working capital for operating expenses. On June 28, 2005 we issued 5,000,000 restricted common shares (on a pre-reverse stock split basis) in full payment of the $50,000 note payable to Keating Reverse Merger Fund. We granted Keating Reverse Merger Fund piggyback registration rights with respect to these shares.

On November 22, 2005, we consummated an exchange transaction in which we acquired all of the outstanding ownership interests of Bella Rose, LLC, a California limited liability company ("Bella Rose") and Versatile Entertainment, Inc., a California corporation ("Versatile") from their respective shareholders and members, in exchange for an aggregate of 2,460,106.34 shares of our series A convertible preferred stock which, on January 5, 2006, converted into 26,595,751 shares of our common stock on a post reverse stock split basis. At the closing of the exchange transaction, Versatile and Bella Rose became our wholly-owned subsidiaries. The exchange transaction was accounted for as a reverse merger (recapitalization) with Versatile and Bella Rose deemed to be the accounting acquirers, and People's Liberation, Inc. the legal acquirer.

On November 22, 2005, we entered into a certain financial advisory agreement with Keating Securities, LLC under which Keating Securities, LLC was compensated by us for its advisory services rendered to us in connection with the closing of the exchange transaction with Versatile Entertainment, Inc. and Bella Rose, LLC. The transaction advisory fee was $350,000, with the payment thereof made at the closing of the exchange transaction.

Kevin R. Keating, a former director of the company, is the father of the principal member of Keating Investments, LLC. Keating Investments, LLC is the managing member of Keating Reverse Merger Fund and is also the managing member and 90% owner of Keating Securities, LLC, a registered broker-dealer. Kevin Keating resigned from our Board of Directors on May 21, 2007.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Effective November 30, 2005, Grobstein, Horwath & Company, LLP became our principal independent accounting firm. All audit work was performed by the full time employees of Grobstein, Horwath & Company, LLP. Our board of directors does not have an audit committee. The functions customarily delegated to an audit committee are performed by our full board of directors. Our board of directors approves in advance, all services performed by Grobstein, Horwath & Company, LLP. Our board of directors has considered whether the provision of non-audit services is compatible with maintaining the principal accountant's independence, and has approved such services. The personnel of Grobstein, Horwath & Company joined with Crowe Horwath LLP. As a result of this event, the Company's client relationship with Grobstein, Horwath & Company has ceased and, effective February 20, 2009, Crowe Horwath LLP became the Company's principal independent accounting firm.

AUDIT FEES

 Fees for audit and review services provided by Grobstein, Horwath & Company, LLP totaled approximately $150,000 during the year ended December 31,
2008, including fees associated with the December 31, 2007 audit, and the
reviews of our quarterly financial statements for the periods ended March 31,

Fees for audit and review services provided by Grobstein, Horwath &
Company, LLP totaled approximately $146,000 during the year ended December 31,
2007, including fees associated with the December 31, 2006 audit, and the
reviews of our quarterly financial statements for the periods ended March 31,

AUDIT-RELATED FEES

Audit-related services amounted to approximately $70,000 and related to
the audit of the financial statements of J. Lindeberg USA Corp., an entity
acquired in part by the Company during the year ended December 31, 2008. There
were no audit-related services provided for the year ended December 31, 2007.

TAX FEES

Fees for tax services provided by Grobstein, Horwath & Company, LLP
during the year ended December 31, 2008 amounted to approximately $32,000. Tax
services provided during the year ended December 31, 2008 primarily consisted of
the preparation of the Federal and State tax returns for the Company and its
subsidiaries and other tax compliance services.

Fees for tax services provided by Grobstein, Horwath & Company, LLP
during the year ended December 31, 2007 amounted to approximately $27,000. Tax
services provided during the year ended December 31, 2007 primarily consisted of
the preparation of the Federal and State tax returns for the Company and its
subsidiaries and other tax compliance services.

ALL OTHER FEES

No other fees were incurred during the years ended December 31, 2008 and
2007 for services provided by Grobstein, Horwath & Company, LLP.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report

1. FINANCIAL STATEMENTS.

   See Index to Financial Statements in Item 8 of this Annual
   Report on Form 10-K, which is incorporated herein by reference.

2. FINANCIAL STATEMENT SCHEDULES.

   All financial statement schedules are omitted because the
   information is inapplicable or presented in the Notes to Financial
   Statements.

   a. Exhibits. See Item 15(b) below.

(b) Exhibits. We have filed, or incorporated into this Form 10-K by
   reference, the exhibits listed on the accompanying Index to Exhibits
   immediately following the signature page of this Form 10-K.

(c) Financial Statement Schedule. See Item 15(a) above.

SIGNATURES

In accordance with Section 13 or 15(d) 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.
POWER OF ATTORNEY

The undersigned directors and officers of People's Liberation, Inc. do hereby constitute and appoint Colin Dyne and Darryn Barber, and each of them, with full power of substitution and resubstitution, as their true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorney and agent, may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto, and we do hereby ratify and confirm all that said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>NAME</th>
<th>TITLE</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>/S/ COLIN DYNE</td>
<td>Chief Executive Officer, Secretary, and Director</td>
<td>March 31, 2009</td>
</tr>
<tr>
<td>Colin Dyne</td>
<td>(Principal Executive Officer)</td>
<td></td>
</tr>
<tr>
<td>/S/ DARRYN BARBER</td>
<td>Chief Financial Officer and President (Principal Financial and Accounting Officer)</td>
<td>March 31, 2009</td>
</tr>
<tr>
<td>Darryn Barber</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/S/ SUSAN WHITE</td>
<td>Director</td>
<td>March 31, 2009</td>
</tr>
<tr>
<td>Susan White</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/S/ KEN WENGROD</td>
<td>Director</td>
<td>March 31, 2009</td>
</tr>
<tr>
<td>Ken Wengrod</td>
<td></td>
<td></td>
</tr>
<tr>
<td>/S/ DEAN OAKEY</td>
<td>Director</td>
<td>March 31, 2009</td>
</tr>
<tr>
<td>Dean Oaky</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

INDEX TO EXHIBITS

<table>
<thead>
<tr>
<th>EXHIBIT NUMBER</th>
<th>EXHIBIT TITLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Contribution Agreement, effective as of July 1, 2008, by and among J. Lindeberg, USA, LLC, Bella Rose, LLC and J. Lindeberg USA Corp. (1)</td>
</tr>
<tr>
<td>3.1</td>
<td>Amended and Restated Certificate of Incorporation of People's Liberation, Inc. (2)</td>
</tr>
</tbody>
</table>
3.10 Bylaws of People's Liberation, Inc. (3)

4.1 2005 People's Liberation, Inc. Option Plan. (3) **

10.1 Form of Indemnity Agreement. (3)

10.2 Factor Agreement entered into on October 14, 2004 by and between Versatile and FTC Commercial Corp. (3)

10.3 Amendment No. 1 to Factor Agreement between Versatile and FTC Commercial Corp. dated September 30, 2005 (4)

10.4 Factoring Agreement entered into by and between Bella Rose and FTC Commercial Corp. dated October 12, 2005 (4)

10.5 Registration Rights Agreement dated November 23, 2005 among the Registrant and Sanders Morris Harris Inc. as agent and attorney-in-fact for the Investors identified therein. (4)

10.6 Form of Common Stock Purchase Warrant. (4)

10.7 Amended and Restated Limited Liability Company Operating Agreement of William Rast Licensing, LLC, dated as of January 1, 2007 by and between Bella Rose, LLC and William Rast Enterprises, LLC (5)

10.8 Amended and Restated Limited Liability Company Operating Agreement of William Rast Sourcing, LLC, dated as of January 1, 2007 by and between Bella Rose, LLC and William Rast Enterprises, LLC (5)

10.9 Factoring Agreement entered into on October 1, 2006 by and between William Rast Sourcing, LLC and FTC Commercial Corp. (6)

10.10 Letter Agreement by and between William Rast Sourcing, LLC and FTC Commercial Corp. dated October 1, 2006 (6)

10.11 Letter Agreement by and between Versatile Entertainment, Inc. and FTC Commercial Corp. dated September 1, 2006. (6)

10.12 Amendment No. 1 to Inventory Loan Facility Agreement entered into on October 1, 2006 by and between Versatile Entertainment, Inc. and FTC Commercial Corp. (6)

10.13 Letter Agreement by and between Bella Rose, LLC d/b/a William Rast and FTC Commercial Corp. dated September 1, 2006. (6)


10.15 Addendum entered into as of May 21, 2007 by and between People's Liberation, Inc. and Daniel S. Guez. (8) **

10.16 Amended and Restated Employment Agreement dated as of the 19th day of June, 2007 by and between People's Liberation, Inc. and Daniel S. Guez. (9) **

10.17 Separation Agreement dated October 5, 2007, by and between People's Liberation, Inc. and Daniel S. Guez. (10)

10.18 Registration Rights Agreement dated September 28, 2007, by and among People's Liberation and the investors identified on the signature pages thereof. (11)

10.19 Form of Warrant issued to Europlay Capital Advisors, LLC, dated October 1, 2007. (11)

10.20 Form of Warrant issued to William Rast Enterprises, LLC, dated November 13, 2007. (11)
First Amendment to Amended and Restated Operating Agreement of William Rast Sourcing, LLC dated as of November 9, 2007, and effective as of April 1, 2007, by and between Bella Rose, LLC and William Rast Enterprises, LLC. (12)

First Amendment to Amended and Restated Operating Agreement of William Rast Licensing, LLC dated as of November 9, 2007, and effective as of April 1, 2007, by and between Bella Rose, LLC and William Rast Enterprises, LLC. (12)

Consulting Agreement entered into on February 1, 2007, by and between Versatile Entertainment, Inc. and Akari Enterprises, LLC. (12)

Amendment No. 1 to Inventory Loan Facility Agreement entered into as of October 23, 2007, by and between FTC Commercial Corp. and William Rast Sourcing, LLC. (12)

Amendment No. 2 to Inventory Loan Facility Agreement entered into as of October 23, 2007 by and between FTC Commercial Corp. and Versatile Entertainment, Inc. (12)

Engagement Letter by and between People's Liberation and Europlay Capital Advisors dated October 1, 2007. (12)(13)

Design Services Agreement between William Rast Sourcing, LLC and Paris68, LLC dated February 27, 2008. (14)

Employment Agreement by and between People's Liberation, Inc. and Andrea Sobel dated May 16, 2008. (15) **

Operating Agreement of J. Lindeberg USA, LLC, effective as of July 1, 2008, by and among J. Lindeberg USA, LLC, Bella Rose, LLC and J. Lindeberg USA Corp. (1)

JL Sweden Services Agreement, effective as of July 1, 2008, by and between J. Lindeberg AB and J. Lindeberg USA, LLC. (1)

Management Services Agreement, effective as of July 1, 2008, by and between People's Liberation, Inc. and J. Lindeberg USA, LLC. (1)

Trademark License Agreement, effective as of July 1, 2008, by and between J. Lindeberg AB and J. Lindeberg USA, LLC. (1)

Factoring Agreement, dated August 6, 2008, by and between J. Lindeberg USA, LLC and FTC Commercial Corp. (1)

Inventory Loan Facility Agreement, dated August 6, 2008, by and between J. Lindeberg USA, LLC and FTC Commercial Corp. (1)

Form of Guaranty entered into in favor of FTC Commercial Corp. (1)


Standard Office Lease, dated January 22, 2009, by and between 1212 Flower Real Estate, LLC and People's Liberation, Inc.


Addendum to Standard Industrial/Commercial Multi-Tenant Lease-Gross, dated January 22, 2009, by and between 1212 Flower Real Estate, LLC and People's Liberation, Inc.
21.1 Subsidiaries of People's Liberation, Inc.
23.1 Consent of Independent Registered Public Accounting Firm.
23.2 Consent of Independent Registered Public Accounting Firm.
24.1 Power of Attorney (included on signature page)
31.1 Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to our Current Report on Form 8-K (dated August 6, 2008), filed on August 12, 2008.
(2) Incorporated by reference to our Current Report on Form 8-K (dated July 14, 2008), filed on July 18, 2008.
(3) Incorporated by reference to our Registration Statement on Form SB-2 (File No. 333-130930), filed on January 9, 2006.
(10) Incorporated by reference to our Current Report on Form 8-K (dated October 2, 2007), filed with the Securities and Exchange Commission on October 9, 2007.
(12) Incorporated by reference to our Registration Statement on Form SB-2 (File No. 333-147684) filed on November 28, 2007.
(13) Certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for an order granting confidential treatment pursuant to Rule 406 of the General Rules and Regulations under the Securities Act of 1933, as amended.

(17) Certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for an order granting confidential treatment pursuant to Rule 24b-2 of the Rules and Regulations under the Securities and Exchange Act of 1934, as amended.

** Each a management contract or compensatory plan or arrangement required to be filed as an exhibit to this annual report on Form 10-K.
December 16, 2008

Charlotte Russe Merchandising, Inc.
4645 Morena Boulevard
San Diego, CA 92117
Attn: Emilia Fabricant

RE: LETTER AGREEMENT

Ladies and Gentlemen:

Further to our discussions, we are pleased to set forth below the terms of our agreement for the exclusive sale by Versatile Entertainment, Inc., a California corporation, and its parent People's Liberation, Inc., a Delaware corporation (collectively, "VE"), to Charlotte Russe Merchandising, Inc., a California corporation, and its parent Charlotte Russe Holding, Inc., a Delaware corporation (collectively, "CR"), of apparel and apparel accessories bearing the trademark PEOPLE'S LIBERATION in all its forms and variations (collectively, "MARKS"), and the provision of services by VE in connection therewith. When signed by VE and CR, in the manner hereinafter provided, this letter agreement (this "AGREEMENT") shall constitute the binding agreement of VE and CR with respect to the matters described herein.

EXCLUSIVE DISTRIBUTION: During the Term (as defined below), VE shall design, source, manufacture, purchase, import or otherwise acquire each season (as such term is understood in the clothing and apparel industries) such assortment of Products (as defined below) selected by VE and CR for sale to CR, which VE shall offer to sell to CR at such prices as determined by VE and CR in accordance with this Agreement. CR shall issue its standard purchase order for such Products that CR desires to purchase from VE.

During the Term, CR shall have the exclusive right to market, distribute, and sell the Products purchased by CR from VE in the Territory solely through the Approved Stores. Neither VE nor any of its Affiliates, shall sell, distribute or otherwise make available to customers any Products in any part of the Territory or authorize, assist, support, directly or indirectly, any other party to do so.

VE shall cease all distribution and sale of Products to third parties in the Territory from and after April 30, 2009, and shall not market or authorize any third party to market Products in the Territory after April 30, 2009 except as provided herein.

EXCLUSIVE LICENSE: VE licenses to CR on a wholly exclusive basis throughout the Term, the right, but not the obligation (with the exception of the Primary Products as defined hereafter), to use the Marks throughout the Territory on and in connection with the marketing, distribution and sale (but not the sourcing or manufacturing) of the Products solely in the Approved Stores.
MARKS: PEOPLE'S LIBERATION

[GRAPHICS OMITTED]

(ATTACHED HERETO AS EXHIBIT A IS A LISTING OF ALL REGISTERED AND PENDING U.S. TRADEMARK REGISTRATIONS AND APPLICATIONS OF VERSATILE ENTERTAINMENT, INC. FOR THE MARKS, INCLUDING THE REGISTRATION/APPLICATION NUMBER, REGISTRATION/APPLICATION FILING DATE, CLASSIFICATION AND GOODS.)

TERRITORY:

North America and Central America, including all its territories. VE expressly reserves the right to sell, or to grant licensees rights to sell, Products outside the Territory.

PRODUCTS:

Finished goods for all markets (E.G., women's, kids, juniors, etc.) bearing the Marks, either alone or in connection with the Charlotte Russe(TM) trademarks (subject to VE's prior approval), in the following categories, which finished goods have been produced by or at the direction of VE for sale to CR:

Clothing, Footwear, Headgear (INTERNATIONAL CLASS 25) Bags, and Leather Goods in respect of which the Marks are registered or pending registration or are otherwise approved by VE to be marketed, sold, or distributed under the Marks (INTERNATIONAL CLASS 18) Cosmetics, Fragrances (INTERNATIONAL CLASS 3) Eyewear (INTERNATIONAL CLASS 9) Jewelry, Watches (INTERNATIONAL CLASS 14)

Products in International Classes ***(1) are referred to herein as “PRIMARY Products”, and Products in International Classes *** are referred to herein as "SECONDARY PRODUCTS".

PRODUCT QUALITY AND PRICING:

VE will ensure that all Products are commensurate with the current reputation, image, styling and prestige of the Marks; of high quality and design as to workmanship, construction, trim, appearance, fabrication, design and materials used therein; and at least equal in quality to the samples of Products submitted by VE to CR. CR acknowledges that its current intention is to offer the Primary Products for sale at ***, and accordingly *** for the Primary Products may reflect ***(2).

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(1) Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the Securities and Exchange Commission ("SEC") and have been filed separately with the SEC.

VE and CR acknowledge and agree that the categories of Products identified on EXHIBIT B shall have an initial retail price within the ranges set forth on EXHIBIT B or as otherwise agreed by the parties. Products shall be offered to CR at wholesale pricing which shall be determined by the retail pricing set forth in EXHIBIT B or, to the extent not identified on EXHIBIT B, set by CR in its reasonable discretion after consultation with VE in order
OWNERSHIP:

VE acknowledges that, to the best of its knowledge, (i) it is the sole and exclusive owner of the Marks in the United States for the goods in the applications/registrations listed in EXHIBIT A, and (ii) it is not aware of any third party obstacle, or third party challenge or claim to VE's use and/or registration of the Marks or URL (defined below) in the Territory for the Products. CR acknowledges that all use of the Marks and all rights and goodwill attaching to or arising out of such use, shall accrue to the benefit of VE. VE has filed in the U.S. the trademark applications for the Marks listed on EXHIBIT A. Within fourteen (14) days of the execution of this Agreement, VE shall, at its expense and as is necessary, file applications for the national registration of the Marks in the United States (to the extent not already filed), Canada, and Mexico for the Products, and shall vigorously prosecute said applications. CR acknowledges that any refusal to register a Mark by a national trademark office in of itself shall not constitute a breach of this Agreement by VE.

VE acknowledges that it is the sole and exclusive owner of the URL WWW.PEOPLESLIBERATION.COM (the "URL"). (ATTACHED HERETO AS EXHIBIT A IS A LISTING OF SUCH URL, INCLUDING THE "WHOIS" RECORD(S) AND EXPIRATION DATE(S).)

APPROVED DISTRIBUTION:

Charlotte Russe(TM) branded retail stores and related Charlotte Russe(TM) distribution channels in the ordinary course of business in effect on the date hereof, including outlet locations and direct-to-consumer sales (E.G., E-COMMERCE, MAILERS, CATALOG SALES), and any other distribution channels as agreed between the parties.

VE grants to CR the exclusive right to solely utilize the URL for commercial and marketing purposes with respect to the Products in the Territory throughout the Term.

CLOSE-OUTS AND OFF-PRICE SALES:

CR may sell Close-Outs and Off-Price Products in the ordinary course of business, provided that Close-Outs may not exceed ***% of total Net Sales of Products in any Contract Year and Off-Price sales may not exceed ***% percent of total Net Sales of Products in any Contract Year. For the purposes hereof, Close-Outs are first quality Products that cannot be sold or are not sold to regular customers (E.G., excess inventory), and Off-Price sales are any sale at a price that is more than *** (***%) percent less than the listed wholesale price.

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(2) Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.

*** (3), and any outlet stores owned by, operated by or affiliated with Charlotte Russe(TM) are deemed to be approved
distribution channels for such Close-Outs and Off-Price sales.

TERM:

Commencing on the date hereof and continuing until December 31, 2012 (the "INITIAL TERM"), comprised of three Contract Years with the first Contract Year commencing on the date hereof and ending on June 30, 2010, the second commencing July 1, 2010 and ending December 31, 2011, and the third commencing January 1, 2012 and ending December 31, 2012.

EXTENSION OF TERM:

CR shall have two 1-year renewal periods (CONTRACT YEAR 4: JANUARY 1, 2013 - DECEMBER 31, 2013 AND CONTRACT YEAR 5: JANUARY 1, 2014 - DECEMBER 31, 2014) provided that: (a) CR notifies VE of its intent to renew within nine (9) months of the expiration of the then-current term; and (b) CR has not been in material default during the then-current term of this Agreement. The Initial Term and any extension term(s) are collectively referred to herein as the "TERM."

NO SUBLICENSE:

CR shall not sublicense, transfer or assign its rights to the Marks without the prior written consent of VE, which consent may be withheld by VE in its sole discretion. Notwithstanding the foregoing, CR may, upon notice to VE, sublicense, transfer or assign said rights to an entity under the same direction, ownership and control as CR, provided that ***.

QUALITY STANDARDS:

CR agrees that the nature and quality of: (1) all services and goods rendered by CR in connection with the Marks; (2) all goods produced, distributed or sold by CR under the Marks; and (3) all related advertising, promotional, and other related uses of the Marks by CR shall conform to standards set by, and be under the control of, VE. CR acknowledges and agrees that the presentation and image of the Marks should be uniform and consistent with respect to all services, activities and products associated with the Marks. Accordingly, CR agrees to use the Marks solely in the manner which VE shall specify from time to time in VE's sole discretion. Upon VE's request, CR shall furnish to VE representative samples of materials containing the Marks that CR currently distributes and agrees to permit reasonable, periodic inspection of CR's operations, at reasonable times and with reasonable notice. If VE believes that the Marks are being used in a manner that could diminish VE's rights in or protection of the Marks, or the value of any of the Marks, CR agrees to make whatever reasonable and commercially practicable changes and/or corrections VE deems necessary to protect the Marks.

APPROVALS:

Unless otherwise set forth in this Agreement, submissions for approval by either party hereunder shall be deemed approved unless the other party delivers a notice of disapproval within fifteen (15) business days after receipt of request. Approvals shall not be unreasonably withheld or delayed.

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(3) Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.
INFRINGEMENT AND INDEMNIFICATION: CR shall notify VE promptly of any actual or threatened infringements, imitations, or unauthorized use of the Marks by third parties in the Territory of which CR becomes aware. VE shall have the sole right, at its expense, to bring in its discretion any action on account of any such infringements, imitations, or unauthorized use, and CR shall cooperate with VE, as VE may reasonably request, in connection with any such action brought by VE. VE shall retain any and all damages, settlement and/or compensation paid in connection with any such action brought by VE.

CR, at its expense, shall defend and indemnify, and save and hold VE harmless from and against any and all liabilities, claims, causes of action, suits, damages and expenses, including reasonable attorneys' fees and expenses, for which VE becomes liable, or may incur or be compelled to pay by reason of CR's activities or breach of the terms of this Agreement, including but not limited to: (i) claims of infringement of any third party intellectual property or proprietary right, except to the extent such liability arose solely from CR's use of the Marks as specified by VE; (ii) product liability suits by direct or indirect customers of CR with respect to products designed and sourced by CR (if permitted by VE); (iii) failure to comply with any law, rule or regulation in connection with CR directed export, import, sale, and/or distribution of goods/services in the Territory bearing any of the Marks; (iv) violations of applicable labor laws and regulations with respect to products manufactured or sourced by CR (if permitted by VE); and (v) CR's use of the Marks in any manner not expressly authorized herein.

VE, at its expense, shall defend and indemnify, and save and hold CR harmless from and against any and all liabilities, claims, causes of action, suits, damages and expenses, including reasonable attorneys' fees and expenses, for which CR becomes liable, or may incur or be compelled to pay by reason of VE's activities or breach of the terms of this Agreement, including but not limited to: (i) claims that the Marks as used in connection with the Products and as specified by VE infringe any third party intellectual property or proprietary right in the United States, Canada, or Mexico; (ii) product liability and suits by direct or indirect customers of VE with respect to products designed and sourced by VE; and (iii) any violations of applicable labor laws and regulations with respect to products manufactured or sourced by VE.

MINIMUM PURCHASE REQUIREMENTS: In consideration for the exclusivity and rights granted, and the services to be provided, to CR by VE herein, CR shall ensure the following minimum purchases of Products from VE per Contract Year:

<table>
<thead>
<tr>
<th>DATE</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>----</td>
<td>------</td>
</tr>
</tbody>
</table>

CONTRACT YEAR 1
DATE OF EXECUTION - JUNE 30, 2010

CONTRACT YEAR 2
JULY 1, 2010 - DECEMBER 31, 2011

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(4) *** Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.

5

CONTRACT YEAR 3
JANUARY 1, 2012 - DECEMBER 31, 2012

If Applicable:

CONTRACT YEAR 4
JANUARY 1, 2013 - DECEMBER 31, 2013

CONTRACT YEAR 5 (AND THEREAFTER, IF APPLICABLE)
JANUARY 1, 2014 - DECEMBER 31, 2014

Minimum Purchase payments for each Contract Year shall be made in ***, with adjustments made for actual purchase amounts already paid for Products for said ***. Notwithstanding the foregoing, with respect to Contract Years 1 and 2, Minimum Purchase payments shall be made as follows:

<table>
<thead>
<tr>
<th>PAYMENT DATE</th>
<th>PAYMENT AMOUNT</th>
</tr>
</thead>
</table>

CONTRACT YEAR 1
Date of Execution (ADVANCE PAYMENT) $1,000,000

| *** | $*** |
| *** | $*** |
| *** | $*** |
| *** | $*** |
| *** | $*** |

CONTRACT YEAR 2

| *** | $*** |
| *** | $*** |
| *** | $*** |
| *** | $*** |
| *** | $*** |

Payments for Products shall be made within *** of receipt of invoice, except as follows:

- If a Minimum Purchase payment is due and paid at the end of a *** (i.e., actual payments for Products during the *** have not reduced the Minimum Purchase payment for such *** to zero), such Minimum Purchase payment shall be applied in payment of outstanding invoices.

- If the actual payments for Products during a *** have matched or exceeded the Minimum Purchase payment amount for such ***, no Minimum Purchase payment for said *** shall be due and payable.
If the actual payments for Products during a *** exceed the Minimum Purchase payment amount for such ***, the excess amount of actual payment shall be applied to the Minimum Purchase payment in the subsequent ***.

(5) *** Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.

Notwithstanding the foregoing, in no event shall the Minimum Payment due and payable in one Contract Year be applied in payment of Products invoiced in any other Contract Year. If CR terminates this Agreement in a manner permitted hereunder at any time before the expiration of the Term, CR shall only be obligated to make the Minimum Purchase payments that are scheduled, PRO RATA, through the effective termination date of this Agreement.

ADVANCE PAYMENT: With respect to Contract Year 1 only, CR shall make an advance payment to VE to be credited toward the Minimum Purchase amount set forth above, as follows:

<table>
<thead>
<tr>
<th>PAYMENT DATE</th>
<th>PAYMENT AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upon execution of Agreement</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>

ROYALTIES: Royalties shall be due and payable each calendar quarter, no later than *** following the end of the applicable calendar quarter.

CR shall provide VE with a written royalty statement in the form approved by VE from time to time no later than the *** following the end of the applicable calendar quarter. Such royalty statement shall be certified as accurate by a duly authorized officer of CR. The receipt or acceptance by VE of any royalty statement, or the receipt or acceptance of any royalty payment made, shall not prevent VE from challenging the validity or accuracy of such statement or payment.

Commencing January 1, 2013 with Contract Year 4, if applicable, in addition to the Minimum Purchase payments, CR will pay VE a Royalty equal to ***(6) percent (***%) of Wholesale Sales of Primary Products to CR and *** percent (***%) of Wholesale Sales of Secondary Products to CR for each Contract Year, or portion thereof, in excess of the amount of Minimum Purchase payments for such Contract Year, or portion thereof. No royalties shall be payable through December 31, 2012 for sales of Products. For example, for the period January 1, 2013 through December 31, 2013, no royalties shall be payable with respect to the first $*** in Wholesale Sales of Products to CR, and for each Dollar of Wholesale Sales to CR thereafter, CR shall pay VE a royalty of ***(%) for Primary Products and ***(%) for Secondary Products.
Notwithstanding the foregoing, for Secondary Products only, no royalties shall be due with respect to Wholesale Sales of any Products within a category of Secondary Products for the first *** months from the initial launch of the first Product in such category of Secondary Product to account for ***. For example, if CR commences the sale of cosmetics, no royalties shall be due for *** months from the initial sale of the first item of cosmetics.

"WHOLESALE SALES" shall mean the gross wholesale price paid by CR for Products less: (a) returns of Products actually credited; and (b) allowances (credits to a customer after delivery including credits for returns). The foregoing deductions shall not exceed ***(7)% of the gross sales of Products shipped in any Contract Year. Sales taxes on Wholesale Sales, if any, shall be deducted and separately listed. No other deductions shall be taken.

AUDIT RIGHTS:

All books and records relative to CR's obligations hereunder shall be maintained and kept accessible and available to VE for inspection for at least two (2) years after termination of this Agreement.

VE shall have the right, upon at least thirty (30) calendar days written notice and no more than once per calendar year, to inspect those books and records of CR as are necessary for the purpose of confirming the accuracy of the Royalty, at the place or places where such records are normally retained by CR.

In the event that such inspection reveals an underpayment in the amount of the Royalty owed VE from what was actually paid, CR shall immediately pay such underpayment and, if the amount of such underpayment exceeds five (5)% percent, the cost of inspection.

PRODUCT MANAGEMENT SERVICES:

VE shall provide the following Product Management Services described below for Contract Years 1, 2 and 3, and any extension periods, for Primary Products only:

1. Design and Sourcing Services
2. Technical Designs / Cost Sheets Estimates for each CMT style
3. Sample and Fit Approvals
4. Marketing and Advertising Support

Product Management Services shall be provided by VE (i) in a timely manner in accordance with seasonal design, development, production and market calendars as determined by CR; and (ii) with consideration for the commercial needs and merchandising objectives designated by CR.
VE shall provide creative concepts and fashion direction, and develop and source the Primary Products each Season. The Seasons are: Summer, Fall 1, Fall 2, Holiday, Spring 1, Spring 2. Design and Sourcing Services shall consist of the following:

- Initial Merchandising Review - In person meetings with CR personnel to outline SKU plan for the applicable season
- SKU plan Development - VE to present initial SKU plan by category and price. SKU count not to exceed *** SKU's per year
- Product designs, based on agreed SKU plan
- Wash Development
- Fabric Sourcing
- Trim Design
- Sourcing - assist with identifying domestic and international fabric suppliers and production suppliers, and assist with shipping/importation as necessary

**---

*** Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.

VE shall have responsibility for all washes, fabric sourcing, trim design and sourcing, and finished product manufacturing for all Primary Products.

VE shall supervise the manufacturing process and otherwise monitor the production of samples and finished stock to ensure the quality of Primary Products (i) meet the parties' agreed specifications and calendar; and (ii) are accurately priced, invoiced, labeled, and shipped in accordance with the laws and regulations of the Territory.

Technical Design Services shall consist of the following:

- Technical Specifications - VE will provide technical specifications for each Primary Product fabrication
- VE will assisting in providing costing for each Primary Product

VE will deliver at least one (1) full sample line of Primary Products to CR in advance of each Season. VE shall provide and fit approve one (1) standard fit size for each SKU, which will then be marked and graded. VE will be responsible for all product development and associated expenses, including samples and any costs associated with the preparation and submission of designs.

VE will provide Marketing and Branding Support for Primary Products in line with CR's marketing plan and calendar, as follows:

- Assist in PR campaigns, photo shoots,
fixture designs, and fashion shows

- Assist in viral campaign (web)
- Assist in shop-in-shop concept (signage, pop, pos)
- Assist in development of marketing collateral
- Provide CR with access to and copies of any and all marketing material and other collateral bearing the Marks that is developed for the brand outside the Territory

ORGANIZATION:

VE will, at its sole cost and expense, employ a dedicated division head or person with similar title and responsibility (CURRENTLY COLIN DYNE, CHIEF EXECUTIVE Officer), and dedicated design and sourcing staff as mutually agreed upon, who will work exclusively with CR's representatives on CR's business arising under this Agreement. VE acknowledges that the continual participation of Colin Dyne and Marcella Lindeberg (CREATIVE DIRECTOR), in the business arising under this Agreement is an inducement for CR to enter into this Agreement. If Marcella Lindeberg is employed by or providing services to VE or any its affiliates, then VE shall use its best efforts to cause her to be actively involved in the People's Liberation(TM) apparel business during the Term. VE further ensures that Marcella Lindeberg shall participate in the People's Liberation(TM) business at least through ***(8), and shall use its best efforts to provide CR with at least 60 days prior written notice should Marcella Lindeberg cease to be employed by or provide services to VE thereafter. If either (i) Marcella Lindeberg or a designer of comparable quality and reputation, or (ii) Colin Dyne, is not actively involved in the People's Liberation(TM) apparel business at any time during the Term, and CR has not approved a replacement for said person, CR may terminate this Agreement upon 30 days' prior written notice delivered at any time within 60 days' following the date any of the aforesaid persons are no longer so actively involved in the business.

TERMINATION:

This Agreement may be terminated prior to expiration of the Term as follows:

(a) CR may terminate this Agreement for convenience by delivering written notice of termination between January 1 and June 30, 2011. Such termination would be effective, at CR's election, either: i) July 1, 2011, with a payment from CR to VE of $***9 as an early termination fee; or ii) December 31, 2011.
(b) This Agreement shall automatically terminate thirty (30) days after written notice by one party to the other party of any material breach or default by such other party in the performance of its obligations under this Agreement, which notice shall include a detailed description of the breach or default, unless such breach or default is cured within such thirty (30)-day period. If a material breach is timely cured, the notice of breach shall be withdrawn and this Agreement shall not terminate. Any termination of this Agreement resulting from a breach or default by a party shall not relieve such party of its obligations which accrued prior to the effective date of termination.

(c) VE shall have the right to terminate this Agreement immediately upon written notice to CR if: (i) CR asserts any ownership or proprietary interest in any of the Marks or contests VE's ownership rights therein, or assists any third party in any of the foregoing activities; (ii) CR (w) seeks protection under any bankruptcy, receivership, trust deed, creditors arrangement, composition or comparable proceeding, or if any such proceeding is instituted against CR and is not dismissed within sixty (60) days, (x) is declared insolvent, (y) makes an assignment for the benefit of creditors or (z) dissolves, is liquidated, ceases to do business in the ordinary course or otherwise terminates its business operations; (iii) a custodian, trustee or receiver is appointed for CR and is not discharged within thirty (30) days; (iv) CR fails to commence the sale of Clothing included within Products on or before ***; or (v) CR intentionally makes an unauthorized material disclosure of confidential information, trade secrets, or materials provided to CR by VE.

(d) Notwithstanding the Assignment provisions set forth below, CR shall have the right to terminate this Agreement immediately upon written notice to VE if: (i) a purchaser of all or substantially all of VE's People's Liberation(TM) apparel business is a direct retail competitor of CR (A REPRESENTATIVE BUT NOT EXHAUSTIVE LISTING OF SUCH COMPETITORS INCLUDES BUT IS NOT LIMITED TO: ***); (ii) VE (w) seeks protection under any bankruptcy, receivership, trust deed, creditors arrangement, composition or comparable proceeding, or if any such proceeding is instituted against VE and is not dismissed within sixty (60) days, (x) is declared insolvent, (y) makes an assignment for the benefit of creditors or (z) dissolves, is liquidated, ceases to do business in the ordinary course or otherwise terminates its business operations; (iii) a custodian, trustee or receiver is appointed for VE and is not discharged within thirty (30) days; (iv) VE's ownership or

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(9) *** Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.
proprietary interest in any of the Marks is assigned to a third party in a manner prohibited by this Agreement; (v) VE's ownership or proprietary interest in any of the Marks in the United States of America is validly contested; or (vi) VE intentionally makes an unauthorized material disclosure of confidential information, trade secrets, or materials provided to VE by CR.

EFFECT OF EXPIRATION OR TERMINATION:

CR may fill and ship pending orders and consummate all sales of Products to dispose of any remaining inventory for a period of six (6) months after expiration or termination of this Agreement, other than termination of this Agreement by VE following CR's uncured breach. At the end of such six (6) month period (or immediately upon termination by VE for CR's uncured breach), any Products remaining in CR's possession will, at the request of VE, either be destroyed or have all Marks removed therefrom.

ASSIGNMENT:

This Agreement is personal to the parties. Neither party may assign its rights or delegate its performance hereunder, in whole or in part, without the prior written consent of the other party, and any attempted assignment by VE or CR without such prior written consent shall be void and shall constitute a breach by such party of its obligations hereunder. Any change of control of VE or CR shall be deemed an assignment by VE or CR, as applicable, requiring prior written consent hereunder. Notwithstanding the foregoing, (i) VE may assign this Agreement to any purchaser of all or substantially all of VE's People's Liberation(TM) apparel business, and (ii) CR may assign this Agreement to any purchaser of all or substantially all of CR's Charlotte Russe(TM) retail store business. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors and assigns.

RIGHT OF FIRST REFUSAL:

During the Term, VE shall permit CR the opportunity to offer to acquire the Marks from VE prior to VE offering to assign either the Marks or VE's People's Liberation(TM) apparel business or both (collectively, "ASSETS") to a third party. VE shall provide written notice to CR of its willingness to divest the Assets, or of a third party's offer to purchase the Assets from VE and the terms of said offer. CR shall then have fourteen (14) days from receipt of said notice to submit a written purchase offer to VE to acquire the Assets or to match the third party offer, if applicable. Thereafter VE and CR shall negotiate in good faith to finalize the acquisition by CR of the Assets. If the parties are unable to reach agreement within 60 days from VE's receipt of CR's offer, VE may entertain third party offers to acquire the Assets.

DISCLOSURE AND PRESS RELEASE:

Neither party shall issue either formally or informally a press release or public statement regarding this Agreement without first receiving the approval of the other party, which approval shall not be unreasonably withheld or delayed. The parties shall use good faith efforts to issue joint public statements
when possible. The parties agree to keep this Agreement and its contents confidential, and, except as may be required by applicable law or any listing agreement with any national securities exchange or quotation system, will not issue any press release or public statement with respect to this Agreement or the transactions contemplated hereby without the consent of the other party. The parties shall mutually agree upon the redaction of any and all sensitive or confidential information as permitted by law in the event that it is necessary to disclose the terms of (or file) this Agreement, or substantial portions thereof, in a party's filings with the Securities and Exchange Commission or to any national securities exchange or quotation system.

ENTIRE AGREEMENT: This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all previous agreements, promises, representations, understandings, and negotiations, whether written or oral. No modification, amendment, supplement to or waiver of this Agreement or any of its provisions shall be binding upon the parties hereto unless made in writing and duly signed by both of the parties to this Agreement. A waiver by either party of any of the terms or conditions of this Agreement in any one instance shall not be deemed a waiver of such terms or conditions in the future.

APPLICABLE LAW: This Agreement shall be governed by and construed in accordance with the laws of the State of California, United States of America, without regard to principles of conflicts of laws. Any case, controversy, suit, action, or proceeding arising out of, in connection with, or related to, this Agreement shall be brought in any Federal or State court located in Los Angeles County and the State of California.

BINDING AGREEMENT: This Agreement shall be binding on, and shall inure to the benefit of, the parties hereto and their respective heirs, devisees, successors and assigns.

FORCE MAJEURE: If any party to this Agreement is delayed in the performance of any of its obligations under this Agreement or is prevented from performing any such obligations due to causes or events beyond its control, including, without limitation, acts of God, fire, flood, strike or other labor problem, injunction or other legal restraint, present or future law, governmental order, rule or regulation, then such delay or nonperformance shall be excused and the time for performance thereof shall be extended to include the period of such delay or non-performance. In any such event, the non-performing party shall be excused from any further performance or observance of the obligation so affected only for so long as such circumstances prevail and such party continues to use commercially reasonable efforts to recommence performance or observance as soon as reasonably practicable. Should non-performance continue for beyond 30 consecutive days, the affected party may terminate this Agreement.
upon 30 days' prior written notice.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all such counterparts together shall constitute one and the same Agreement. Scanned or faxed signatures shall have the same force and effect as if in original ink.

The invalidity or unenforceability of any provision of this Agreement, or the invalidity or unenforceability of any provision of this Agreement as applied to a particular occurrence or circumstance, shall not affect the validity or enforceability of any of the other provisions of this Agreement or any other applications of such provisions, as the case may be.

The parties hereby covenant and agree to execute and deliver all such documents, make such governmental filings, and do or cause to be done all such acts or things as may reasonably be necessary to complete and effect the transactions contemplated hereby.

The language used in this Agreement shall be deemed to be the language chosen by both parties to express their mutual intent, and no rule of strict construction shall be applied against either party as drafter.

The headings used in this Agreement will be used only for the purpose of reference and shall not be deemed to govern, limit, modify or in any other manner affect the scope, meaning or intent of the provisions of this Agreement or be given any legal effect whatsoever.

Any deadline in this Agreement that should fall on a Saturday, Sunday, or U.S. federal holiday shall be deemed to be the earliest business day thereafter.

This Agreement does not constitute and shall not be construed as constituting a partnership or joint venture between VE and CR. Neither CR nor VE shall have any right to obligate or bind the other party in any manner whatsoever, and nothing herein contained shall give or is intended to give any rights of any kind to any third persons.

(SIGNATURES ON FOLLOWING PAGE)

If this letter meets with your approval, we request that you indicate such approval by returning the enclosed copy of this letter, appropriately signed, whereupon it shall become our binding and enforceable agreement. Each party shall be responsible for payment of its own expenses in connection with these transactions.

Sincerely,

VERSATILE ENTERTAINMENT, INC.
PEOPLE'S LIBERATION, INC.

By: Colin Dyne
Title: Chief Executive Officer

AGREED TO AND ACCEPTED AS OF THE DATE FIRST SET FORTH ABOVE:

CHARLOTTE RUSSE MERCHANDISING, INC.

By: 

Name:
Title:

CHARLOTTE RUSSE HOLDING, INC.

By: 

Name:
Title:

EXHIBIT A

THE MARKS

<table>
<thead>
<tr>
<th>MARK</th>
<th>U.S. APP. NO.</th>
<th>APP. FILING DATE</th>
<th>CLASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous Design</td>
<td>77/619,060</td>
<td>November 20, 2008</td>
<td>14</td>
</tr>
<tr>
<td>PEOPLE'S LIBERATION &amp; Design</td>
<td>77/619,080</td>
<td>November 20, 2008</td>
<td>14</td>
</tr>
<tr>
<td>PEOPLE'S LIBERATION</td>
<td>78/428261</td>
<td>June 1, 2004</td>
<td>25</td>
</tr>
<tr>
<td>PEOPLE'S LIBERATION &amp; Design</td>
<td>78/786043</td>
<td>January 5, 2006</td>
<td>18</td>
</tr>
</tbody>
</table>
EXHIBIT A - CONTINUED

URL

REGISTRANT:
Peoples Liberation
150 W. Jefferson Blvd.
Los Angeles, California 90007
United States

REGISTERED THROUGH:
GoDaddy.com, Inc. (http://www.godaddy.com)

DOMAIN NAME:
PEOPLESLIBERATION.COM
Created on: 01-Jun-04
Expires on: 01-Jun-13
Last Updated on: 13-Mar-08

ADMINISTRATIVE CONTACT:
Barber, Darryn - ahenderson@peopleslib.com
Peoples Liberation
150 W. Jefferson Blvd.
Los Angeles, California 90007
United States
213.745.2123

TECHNICAL CONTACT:
Pandey, Samir samir.pandey@visionaire-us.com
Visionaire
3900 Kilroy Airport Way
Suite 350
Long Beach, California 90806
United States
562.216.7160

EXHIBIT B

PRICING MATRIX

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<th>PRODUCT CATEGORY</th>
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<td>Graphic Tees......................</td>
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(10) *** Terms represented by this symbol are considered confidential. These confidential terms have been omitted pursuant to a Confidential Treatment Request filed with the SEC and have been filed separately with the SEC.
STANDARD OFFICE LEASE

BY AND BETWEEN

1212 FLOWER REAL ESTATE, LLC
a Delaware limited liability company

AS LANDLORD,

AND

PEOPLE'S LIBERATION, INC.,
a California corporation

AS TENANT

SUITE 500

1212 South Flower Street, Los Angeles, California 90015

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STANDARD OFFICE LEASE

This Standard Office Lease ("LEASE") is made and entered into as of January 22, 2009, by and between 1212 FLOWER REAL ESTATE, LLC A DELAWARE LIMITED LIABILITY COMPANY ("LANDLORD"), and PEOPLE'S LIBERATION, INC., a California corporation ("TENANT").

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the premises described as Suite No. 500 of 1212 South Flower Street, as designated on the plan attached hereto and incorporated herein as Exhibit "A" ("PREMISES"), of the project ("PROJECT") now known as 1212 and 1226 South Flower Street, Los Angeles, California 90015, for the Term and upon the terms and

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EXHIBIT E  SIGNING RESOLUTION ............................................ E-1
conditions hereinafter set forth, and Landlord and Tenant hereby agree as
follows:

ARTICLE 1

BASIC LEASE PROVISIONS

A. Term:
   Commencement Date: March 1, 2009
   Expiration Date: March 31, 2012

B. Square Footage: 12,977 rentable square feet

C. Basic Rental:

<table>
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<tr>
<th>LEASE PERIOD</th>
<th>ANNUAL BASIC RENTAL</th>
<th>MONTHLY BASIC RENTAL</th>
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<tr>
<td>3/1/2009 - 2/28/2010</td>
<td>$300,000</td>
<td>$25,000</td>
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<tr>
<td>3/1/2011 - 3/31/2012</td>
<td>$384,000</td>
<td>$32,000</td>
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Notwithstanding the foregoing, so long as Tenant is not in default under this
Lease, Monthly Basic Rental for March 2009 shall be abated.

D. Base Year: 2009

E. Tenant's Proportionate Share: 18.5%

F. Security Deposit: A security deposit of $100,000 shall be due
   and payable by Tenant to Landlord upon Tenant's execution of
   this Lease, subject to adjustment in accordance with Article
   4, below.

G. Permitted Use: General office use

H. Broker(s): CB Richard Ellis, Inc. and Madison Partners

I. Parking Passes: Tenant shall have the use of forty-six (46)
   unreserved parking spaces and four (4) reserved parking
   spaces, at the rate provided in Article 23 hereof. Subject to
   availability and at Landlord's sole discretion, Tenant may
   lease up to twelve (12) additional unreserved parking spaces
   at the rental rate established by Landlord from time to time.

J. First Month's Rent: Basic Rental in the amount of $25,000
   shall be due and payable by Tenant to Landlord upon Tenant's
   execution of this Lease and shall be applied by Landlord to
   the first month of rent actually due from Tenant under this
   Lease.

ARTICLE 2

TERM/PREMISES

The Term of this Lease shall commence on the Commencement Date
as set forth in Article 1.A of the Basic Lease Provisions and shall end on the
Expiration Date set forth in Article 1.A of the Basic Lease Provisions. For
purposes of this Lease, the term "LEASE YEAR" shall mean each consecutive twelve
(12) month period during the Lease Term, with the first Lease Year commencing on
the Commencement Date; however, (a) if the Commencement Date falls on a day
other than the first day of a calendar month, the first Lease Year shall end on
the last day of the eleventh (11th) month after the Commencement Date and the
second (2nd) and each succeeding Lease Year shall commence on the first day of
the next calendar month, and (b) the last Lease Year shall end on the Expiration
Date. Landlord shall use commercially reasonable efforts to provide Tenant
access to the Premises on or before February 27, 2009; provided, however, that if such early access is granted, all terms and provisions of this Lease (except the obligation to pay Basic Rental) shall apply during Tenant's early occupancy of the Premises, including, without limitation, all indemnity and insurance provisions. If Landlord is unable to deliver possession of the Premises to Tenant on or before the anticipated Commencement Date, Landlord shall not be subject to any liability for its failure to do so, and such failure shall not affect the validity of this Lease nor the obligations of Tenant hereunder; provided, however, that Tenant shall be relieved of the obligation to pay Rent until such date as Landlord delivers possession to Tenant, and further provided that such delay in delivery of possession does not exceed sixty (60) days. If Landlord fails to deliver possession of the Premises to Tenant on or before expiration of the sixtieth (60th) day from the date hereby required, then the Lease shall terminate and neither party shall have any obligation to the other, except that all Tenant deposits shall be refunded by Landlord promptly, without the need for further notice. Landlord and Tenant hereby stipulate that the Premises contains the number of square feet specified in Article 1.B of the Basic Lease Provisions. Landlord may deliver to Tenant a Commencement Letter in a form substantially similar to that attached hereto as Exhibit "C," which Tenant shall execute and return to Landlord within five (5) days of receipt thereof. Failure of Tenant to timely execute and deliver the Commencement Letter shall constitute an acknowledgment by Tenant that the statements included in such notice are true and correct, without exception.

ARTICLE 3
RENTAL

(a) BASIC RENTAL. Tenant agrees to pay to Landlord during the Term hereof, at Landlord's office or to such other person or at such other place as directed from time to time by written notice to Tenant from Landlord, the initial monthly and annual sums as set forth in Article 1.C of the Basic Lease Provisions, payable in advance on the first day of each calendar month, without demand, setoff or deduction, and in the event this Lease commences or the date of expiration of this Lease occurs other than on the first day or last day of a calendar month, the rent for such month shall be prorated. Notwithstanding the foregoing, the first full month's rent shall be paid to Landlord in accordance with Article 1.J of the Basic Lease Provisions.

(b) INCREASE IN DIRECT COSTS. The term "BASE YEAR" means the calendar year set forth in Article 1.D of the Basic Lease Provisions. If, in any calendar year during the Term of this Lease, the "DIRECT COSTS" (as hereinafter defined) paid or incurred by Landlord shall be higher than the Direct Costs for the Base Year, Tenant shall pay an additional sum for such and each subsequent calendar year equal to the product of the amount set forth in Article 1.E of the Basic Lease Provisions multiplied by such increased amount of "Direct Costs." In the event either the Premises and/or the Project is expanded or reduced, then Tenant's Proportionate Share shall be appropriately adjusted, and as to the calendar year in which such change occurs, Tenant's Proportionate Share for such year shall be determined on the basis of the number of days during that particular calendar year that such Tenant's Proportionate Share was in effect. In the event this Lease shall terminate on any date other than the last day of a calendar year, the additional sum payable hereunder by Tenant during the calendar year in which this Lease terminates shall be prorated on the basis of the relationship which the number of days which have elapsed from the commencement of said calendar year to and including said date on which this Lease terminates bears to three hundred sixty (360). Any and all amounts due and payable by Tenant pursuant to Article 3(b), (c) and (d) hereof shall be deemed "ADDITIONAL RENT" and Landlord shall be entitled to exercise the same rights and remedies upon default in these
payments as Landlord is entitled to exercise with respect to defaults in monthly Basic Rental payments.

(c) DEFINITIONS. As used herein the term "DIRECT COSTS" shall mean the sum of the following:

(i) "TAX COSTS," which shall mean any and all real estate taxes and other similar charges on real property or improvements, assessments, water and sewer charges, and all other charges assessed, reassessed or levied upon the Project and appurtenances thereto and the parking or other facilities thereof, or the real property thereunder (collectively the "REAL PROPERTY") or attributable thereto or on the rents, issues, profits or income received or derived therefrom which are assessed, reassessed or levied by the United States, the State of California or any local government authority or agency or any political subdivision thereof, and shall include Landlord's reasonable legal fees, costs and disbursements incurred in connection with proceedings for reduction of Tax Costs or any part thereof; provided, however, if at any time after the date of this Lease the methods of taxation now prevailing shall be altered so that in lieu of or as a supplement to or a substitute for the whole or any part of any Tax Costs, there shall be assessed, reassessed or levied (a) a tax, assessment, reassessment, levy, imposition or charge wholly or partially as a net income, capital or franchise levy or otherwise on the rents, issues, profits or income derived therefrom, or (b) a tax, assessment, reassessment, levy (including but not limited to any municipal, state or federal levy), imposition or charge measured by or based in whole or in part upon the Real Property and imposed upon Landlord, or (c) a license fee measured by the rent payable under this Lease, then all such taxes, assessments, reassessments or levies or the part thereof so measured or based, shall be deemed to be included in the term "Direct Costs." In addition, when calculating Tax Costs for the Base Year, special assessments shall only be deemed included in Tax Costs for the Base Year to the extent that such special assessments are included in Tax Costs for the applicable subsequent calendar year during the Term.

(ii) "OPERATING COSTS," which shall mean all costs and expenses incurred by Landlord in connection with the maintenance, operation, replacement, ownership and repair of the Project, the equipment, the intrabuilding network cable, adjacent walks, landscaped and common areas and the parking structure, areas and facilities of the Project, including, but not limited to, non-executive salaries, wages, medical, surgical and general welfare benefits and pension payments, payroll taxes, fringe benefits, employment taxes, workers' compensation, uniforms and dry cleaning thereof for all persons who perform duties reasonably required in connection with the operation, maintenance and repair of the Project, its equipment, the intrabuilding network cable and the adjacent walks and landscaped areas, including janitorial, gardening, security, parking, operating engineer, elevator, painting, plumbing, electrical, carpentry, heating, ventilation, air conditioning, window washing, hired services, a reasonable allowance for depreciation of the cost of acquiring or the rental expense of personal property used in the maintenance, operation and repair of the Project, accountant’s fees incurred
expenses or dues payable pursuant to the terms of any covenants, conditions or restrictions or owners' association pertaining to the Project, capital expenditures incurred to effect economies of operation of, or stability of services to, the Project and capital expenditures required by government regulations, laws, or ordinances including, but not limited to the Americans with Disabilities Act; costs incurred (capital or otherwise) on a regular recurring basis every three (3) or more years for certain maintenance projects (e.g., parking lot slurry coat or replacement of lobby and elevator cab carpeting); the cost of all charges for electricity, gas, water and other utilities furnished to the Project, including any taxes thereon; the cost of all charges for fire and extended coverage, liability and all other insurance for the Project carried by Landlord; the cost of all building and cleaning supplies and materials; the cost of all charges for cleaning, maintenance and service contracts and other services with independent contractors and administration fees; a property management fee not to exceed four percent (4%) of total Direct Costs (which fee may be imputed if Landlord has internalized management or otherwise acts as its own property manager) and license, permit and inspection fees relating to the Project. In the event, during any calendar year, the Project is less than ninety-five percent (95%) occupied at all times, Operating Costs shall be adjusted to reflect the Operating Costs of the Project as though ninety-five percent (95%) were occupied at all times, and the increase or decrease in the sums owed hereunder shall be based upon such Operating Costs as so adjusted. In no event shall costs for any item of utilities included in Direct Costs for any year subsequent to the Base Year be less than the amount included in Direct Costs for the Base Year for such utility item. Notwithstanding anything to the contrary set forth in this Article 3, when calculating Operating Costs for the Base Year, Operating Costs shall exclude (a) market-wide labor-rate increases due to extraordinary circumstances including, but not limited to, boycotts and strikes, (b) utility rate increases due to extraordinary circumstances including, but not limited to, conservation surcharges, boycotts, embargoes or other shortages, and (c) amortization of any capital items including, but not limited to, capital improvements, capital repairs and capital replacements (including such amortized costs where the actual improvement, repair or replacement was made in prior years). Notwithstanding anything to the contrary set forth in this Article 3, when calculating Operating Costs, Landlord shall exclude: (a) Costs incurred by Landlord for the repairs of a capital nature to the Project (as determined in accordance with generally accepted accounting principles) required as a result of a casualty event; (b) Costs of capital improvements and equipment including, without limitation, alterations which are considered capital improvements and replacements under generally accepted accounting principles consistently applied ("Capital Items"), except for (i) the annual amortization (amortized over the useful life) of costs, including financing costs, if
any incurred by Landlord after the Commencement Date for any capital improvements installed or paid for by Landlord and required by any new (or change in) laws, rules or regulations of any governmental or quasi-governmental authority which are enacted after the

Commencement Date; (ii) the cost of Capital Items acquired to reduce the Operating Costs or as a labor-saving measure or to affect other economics in the operation or maintenance of the Property (amortized at an annual rate reasonably calculated, including interest of the actual interest rate incurred by Landlord) to equal the amount of the Operating Costs to be saved in each calendar year throughout the term (as determined at the time Landlord elects to proceed with a capital improvement or the capital equipment to reduce the operating expenses); (iii) minor capital improvements, tools or expenditures; or (iv) capital improvements which otherwise would be included in Operating Costs; (c) rentals for personal property (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased, rather than rented, would constitute a capital improvement (including, without limitation, air conditioning systems and elevators); (d) depreciation, amortization and interest payments on Capital Items, except on materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, not to exceed in the aggregate the amount charged by such third party, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful for life; (e) marketing costs, including leasing commissions and attorneys' fees incurred in connection with the development or leasing of the Project, including without limitation, expenses incurred in relationship to the bankruptcy of any tenant, subtenant or assignee; and, costs, including permit, license and inspection costs, incurred with respect to the installation of tenant or other occupant improvements made for Tenant or other occupants of the Project or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Project; (f) expenses in connection with services or other benefits which are not provided to Tenant or for which Tenant is charged directly but which are not provided to another tenant or occupant of the Project; (g) premiums for earthquake insurance unless such premiums are included in the Base Year calculation of Operating Costs; (h) ground lease rentals, interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Project; (i) Landlord's general corporate overhead and general and administrative expenses and accountant's fees (as distinguished from the costs of operating the Project) except as it specifically relates to the Project; (j) any compensation paid to clerks, attendants, or other persons in commercial concessions (e.g., retail or restaurant operations) operated by Landlord, except
in the parking garage; (k) legal fees and related legal costs (including in connection therewith all attorneys' fees and costs of settlement, judgments and damages awarded against Landlord and payments in lieu thereof) together with any damages awarded against Landlord arising from late payments made by Landlord or violations of law; (l) amounts charged to Tenant or any other tenant in the Project with respect to all items and services for which Tenant or any other tenant in the Project reimburses Landlord or Landlord is obligated to reimburse Landlord (other than through the Tenant's proportionate share of Operating Costs) or which Landlord provides selectively to one or more tenants without reimbursement without benefit to Tenant; (m) advertising and promotional expenditures, and costs of signs in or on the Project; (n) services provided, taxes attributable to, and cost incurred in connection with the operation of any retail and restaurant operations in the Project, if any, except to the extent the square footage of such operations are included in the rentable square footage of the Project and do not exceed the services, utility and tax costs which would have been incurred had the retail and/or restaurant space been used for general office purposes; (o) costs incurred as a result of the failure by the original owner of the Project to comply with laws enacted on or before the date the temporary certificate of occupancy (or similar permit) for the shell and core of the Project was validly issued; (p) costs of complying with laws, codes, regulations or ordinances relating to Hazardous Materials in building materials or otherwise in the Project, or Hazardous Materials in the soil or groundwater under the Project, which exist in violation of applicable Laws on the Commencement Date; (q) Costs incurred with upgrading the Project to comply with the current interpretation of disability, life, fire and safety codes, ordinances, statutes, or other laws in effect prior to the Effective Date; or (r) costs arising from Landlord's charitable or political contributions.

(d) DETERMINATION OF PAYMENT.

(i) If for any calendar year ending or commencing within the Term, Tenant's Proportionate Share of Direct Costs for such calendar year exceeds Tenant's Proportionate Share of Direct Costs for the Base Year, then Tenant shall pay to Landlord, in the manner set forth in Article 3(d)(ii) and (iii), below, and as additional rent, an amount equal to the excess (the "EXCESS").

(ii) Landlord shall give Tenant a yearly expense estimate statement (the "ESTIMATE STATEMENT") which shall set forth Landlord's reasonable estimate (the "ESTIMATE") of what the total amount of Direct Costs for the then-current calendar year shall be and the estimated Excess (the "ESTIMATED EXCESS") as calculated by comparing Tenant's Proportionate Share of Direct Costs for such calendar year, which shall be based upon the Estimate, to Tenant's Proportionate Share of Direct Costs for the Base Year. The failure of Landlord to timely furnish the Estimate Statement for any calendar year prior to the expiration of eighteen (18) months from the end of such calendar year, shall not preclude Landlord from enforcing its rights to collect any Estimated Excess under this Article 3. If
pursuant to the Estimate Statement an Estimated Excess is calculated for the then-current calendar year, Tenant shall pay, with its next installment of

Monthly Basic Rental due, a fraction of the Estimated Excess for the then-current calendar year (reduced by any amounts paid pursuant to the last sentence of this Article 3(d)(ii)). Such fraction shall have as its numerator the number of months which have elapsed in such current calendar year to the month of such payment, both months inclusive, and shall have twelve (12) as its denominator. Until a new Estimate Statement is furnished, Tenant shall pay monthly, with the Monthly Basic Rental installments, an amount equal to one-twelfth (1/12) of the total Estimated Excess set forth in the previous Estimate Statement delivered by Landlord to Tenant.

(iii) In addition, Landlord shall endeavor to give to Tenant on or before the first day of April following the end of each calendar year, a statement (the "STATEMENT") which shall state the Direct Costs incurred or accrued for such preceding calendar year, and which shall indicate the amount, if any, of the Excess. Upon receipt of the Statement for each calendar year during the Term, if amounts paid by Tenant as Estimated Excess are less than the actual Excess as specified on the Statement, Tenant shall pay, with its next installment of Monthly Basic Rental due, the full amount of the Excess for such calendar year, less the amounts, if any, paid during such calendar year as Estimated Excess. If, however, the Statement indicates that amounts paid by Tenant as Estimated Excess are greater than the actual Excess as specified on the Statement, such overpayment shall be credited against Tenant's next installments of Estimated Excess. The failure of Landlord to timely furnish the Statement for any calendar year shall not prejudice Landlord from enforcing its rights under this Article 3. Even though the Term has expired and Tenant has vacated the Premises, provided that Landlord delivers the report to Tenant within eighteen (18) months after expiration of the period covered thereby, when the final determination is made of Tenant's Proportionate Share of the Direct Costs for the calendar year in which this Lease terminates, if an Excess is present, Tenant shall immediately pay to Landlord an amount as calculated pursuant to the provisions of this Article 3(d). The provisions of this Article 3(d)(iii) shall survive the expiration or earlier termination of the Term.

(iv) Within one hundred twenty (120) days after receipt of a Statement by Tenant ("REVIEW PERIOD"), if Tenant disputes the amount set forth in the Statement, Tenant's employees or an independent certified public accountant (which accountant is a member of a nationally or regionally recognized accounting firm), designated by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records at Landlord's offices, provided that Tenant is not then in default after expiration of all applicable cure periods and provided further that Tenant and such accountant or representative shall, and each of them shall use their commercially reasonable efforts to cause their respective agents and employees to, maintain all information contained in Landlord's records in strict confidence. Notwithstanding the
foregoing, Tenant shall only have the right to review Landlord's records one (1) time during any twelve (12) month period. Tenant's failure to dispute the amounts set forth in any Statement within the Review Period shall be deemed to be Tenant's approval of such Statement, and Tenant thereafter waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, but within thirty (30) days after the Review Period, Tenant notifies Landlord in writing that Tenant still disputes such amounts, a certification as to the proper amount shall be made by an independent certified public accountant selected by Landlord and who is a member of a nationally or regionally recognized accounting firm, but who is not affiliated with Landlord and has performed, directly or indirectly, no work for Landlord for a period of twenty-four (24) months prior to the selection made hereunder. Landlord shall cooperate in good faith with Tenant and the accountant and provide the accountant reasonable access at normal business hours to the information upon which the certification is to be based. The accountant may make copies of pertinent documents in support of the accountant's findings as long as a commercially reasonable confidentiality agreement is provided to Landlord, in a form acceptable to Landlord, before any such copies are made. The accountant shall render a final certification within forty-five (45) days of commencement of the audit contemplated hereby. Tenant shall pay all costs of the accountant, including fees and expenses, provided, however, that if such certification by the accountant proves that the Direct Costs set forth in the Statement were overstated by more than ten percent (10%), then the cost of the accountant and the cost of such certification shall be paid for by Landlord. Promptly following the parties' receipt of such certification, the parties shall make such appropriate payments or reimbursements, as the case may be, to each other, as are determined to be owing pursuant to such certification.

(v) If the Project is a part of a multi-building development, those Direct Costs attributable to such development as a whole (and not attributable solely to any individual building therein) shall be allocated by Landlord to the Project and to the other buildings within such development on an equitable basis.

ARTICLE 4
SECURITY DEPOSIT

(a) Tenant has deposited with Landlord the sum set forth in Article 1.F of the Basic Lease Provisions as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant breaches any provision of this Lease, including but not limited to the payment of rent, Landlord may use all or any part of this Security Deposit for the payment of any rent or any other sums in default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said deposit is so used or applied, Tenant
shall, within five (5) days after written demand therefor, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount. If Monthly Basic Rental is increased, the amount of the Security Deposit required to be maintained by Tenant shall also be increased so as to maintain, at all times and from time to time, the same ratio to Monthly Basic Rental as applicable on the Commencement Date. Tenant agrees that Landlord shall not be required to keep the Security Deposit in trust, segregate it or keep it separate from Landlord's general funds, but Landlord may commingle the Security Deposit with its general funds and Tenant shall not be entitled to interest on such deposit. At the expiration of the Lease Term, and provided there exists no default by Tenant hereunder, the Security Deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to Tenant's assignee), provided that subsequent to the expiration of this Lease, Landlord may retain from said Security Deposit (i) an amount reasonably estimated by Landlord to cover potential Direct Cost reconciliation payments due with respect to the calendar year in which this Lease terminates or expires (such amount so retained shall not, in any event, exceed ten percent (10%) of estimated Direct Cost payments due from Tenant for such calendar year through the date of expiration or earlier termination of this Lease and any amounts so retained and not applied to such reconciliation shall be returned to Tenant within thirty (30) days after Landlord's delivery of the Statement for such calendar year), (ii) any and all amounts reasonably estimated by Landlord to cover the anticipated costs to be incurred by Landlord to remove any signage provided to Tenant under this Lease and to repair any damage caused by such removal (in which case any excess amount so retained by Landlord shall be returned to Tenant within thirty (30) days after such removal and repair), and (iii) any and all amounts permitted by law or this Article 4. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code and all other provisions of law, now or hereafter in effect, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums specified in this Article 4 above and/or those sums reasonably necessary to compensate Landlord for any other loss or damage, foreseeable or unforeseeable, caused by the acts or omissions of Tenant or any officer, employee, agent, contractor or invitee of Tenant.

(b) On the first and second anniversary of the Commencement Date, provided no events or conditions have occurred or are occurring that would constitute an Event of Default under this Lease, the amount of the Security Deposit required hereunder shall be reduced according to the following schedule:

<table>
<thead>
<tr>
<th>LEASE PERIOD</th>
<th>AMOUNT OF SECURITY DEPOSIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease Year 1</td>
<td>$100,000.00</td>
</tr>
<tr>
<td>Lease Year 2</td>
<td>$ 75,000.00</td>
</tr>
<tr>
<td>Lease Year 3- Exp. Date</td>
<td>$ 50,000.00</td>
</tr>
</tbody>
</table>

So long no Event of Default is occurring or has previously occurred on the first and second anniversary of the Commencement Date, Landlord shall apply amounts held by Landlord that are in excess of the Security Deposit required pursuant to the above schedule to the next installment of Monthly Basic Rent due and payable under this Lease. In the event that an Event of Default by Tenant occurs under this Lease, Tenant shall no longer be entitled to any reduction of the Security Deposit, and the Security Deposit required
hereunder shall be the amount then held by Landlord, subject to Tenant's obligations to replenish in accordance with Article 4(a), above.

ARTICLE 5

HOLDING OVER

Should Tenant, without Landlord's written consent, hold over after termination of this Lease, Tenant shall become a tenant from month to month only upon each and all of the terms herein provided as may be applicable to a month to month tenancy, and any such holding over shall not constitute an extension of this Lease. During such holding over, Tenant shall pay in advance, monthly, rent at one hundred fifty percent (150%) of the rate in effect for the last month of the Term of this Lease, in addition to, and not in lieu of, all other payments required to be made by Tenant hereunder, including but not limited to Tenant's Proportionate Share of any increase in Direct Costs. Nothing contained in this Article 5 shall be construed as consent by Landlord to any holding over of the Premises by Tenant, and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises to Landlord as provided in this Lease upon the expiration or earlier termination of the Term. If Tenant fails to surrender the Premises upon the expiration or termination of this Lease, Tenant agrees to indemnify, defend and hold Landlord harmless from all costs, loss, expense or liability, including without limitation, claims made by any succeeding tenant, and real estate brokers' claims and attorneys' fees.

ARTICLE 6

PERSONAL PROPERTY TAXES

Tenant shall pay, prior to delinquency, all taxes assessed against or levied upon trade fixtures, furnishings, equipment and all other personal property of Tenant located in the Premises. In the event any or all of Tenant's trade fixtures, furnishings, equipment and other personal property shall be assessed and taxed with property of Landlord, or if the cost or value of any leasehold improvements in the Premises exceeds the cost or value of a Project-standard buildout as determined by Landlord and, as a result, real property taxes for the Project are increased, Tenant shall pay to Landlord its share of such taxes within ten (10) days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's property or above-standard improvements. Tenant shall assume and pay to Landlord at the time of paying Basic Rental, any excise, sales, use, rent, occupancy, garage, parking, gross receipts or other taxes (other than net income taxes) which may be imposed on or on account of letting of the Premises or the payment of Basic Rental or any other sums due or payable hereunder, and which Landlord may be required to pay or collect under any law now in effect or hereafter enacted. Tenant shall pay directly to the party or entity entitled thereto all business license fees, gross receipts taxes and similar taxes and impositions which may from time to time be assessed against or levied upon Tenant, as and when the same become due and before delinquency. Notwithstanding anything to the contrary contained herein, any sums payable by Tenant under this Article 6 shall not be included in the computation of "Tax Costs."

ARTICLE 7

USE

Tenant shall use and occupy the Premises only for the use set forth in Article 1.G of the Basic Lease Provisions and shall not use or occupy the Premises or permit the same to be used or occupied for any other purpose without the prior written consent of Landlord, which consent may be given or withheld in Landlord's sole and absolute discretion, and Tenant agrees that it will use the Premises in such a manner so as not to interfere with or infringe the rights of other tenants in the Project. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances and governmental regulations or requirements now in force or which may hereafter be in force relating to or affecting (i) the condition, use or occupancy of the Premises or the Project, excluding structural changes to the Project not related to Tenant's
particular use of the Premises, and (ii) improvements installed or constructed in the Premises by or for the benefit of Tenant. Tenant shall not do or permit to be done anything which would invalidate or increase the cost of any fire and extended coverage insurance policy covering the Project and/or the property located therein, and Tenant shall comply with all rules, orders, regulations and requirements of any organization which sets out standards, requirements or recommendations commonly referred to by major fire insurance underwriters. Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charges for any such insurance policy assessed or increased by reason of Tenant’s failure to comply with the provisions of this Article.

ARTICLE 8
CONDITIONS OF PREMISES

Tenant hereby agrees that the Premises shall be taken “as is,” “with all faults,” “without any representations or warranties,” and Tenant hereby agrees and warrants that it has investigated and inspected the condition of the Premises and the suitability of same for Tenant’s purposes, and Tenant does hereby waive and disclaim any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Premises or the Project or the suitability of same for Tenant’s purposes, subject to Landlord’s obligation to deliver the Premises free from Landlord’s personal property, broom clean and in the condition existing as of the date of this Lease, reasonable wear and tear excepted. Tenant acknowledges that neither Landlord nor any agent nor any employee of Landlord has made any representation or warranty with respect to the Premises or the Project or with respect to the suitability of either for the conduct of Tenant’s business, and Tenant expressly warrants and represents that Tenant has relied solely on its own investigation and inspection of the Premises and the Project in its decision to enter into this Lease and let the Premises in an “As Is” condition. The existing leasehold improvements in the Premises as of the date of this Lease shall be referred to herein as the “TENANT IMPROVEMENTS.” The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Project were at such time in satisfactory condition. Tenant hereby waives Sections 1941 and 1942 of the Civil Code of California or any successor provision of law.

Landlord reserves the right from time to time, but subject to payment by and/or reimbursement from Tenant as otherwise provided herein: (i) to install, use, maintain, repair, replace and relocate for service to the Premises and/or other parts of the Project pipes, ducts, conduits, wires, appurtenant fixtures, and mechanical systems, wherever located in the Premises or the Project, (ii) to alter, close or relocate any facility in the Premises or the Common Areas or otherwise conduct any of the above activities for the purpose of complying with a general plan for fire/life safety for the Project or otherwise and (iii) to comply with any federal, state or local law, rule or order with respect thereto or the regulation thereof not currently in effect. Landlord shall attempt to perform any such work with the least inconvenience to Tenant as possible, but in no event shall Tenant be permitted to withhold or reduce Basic Rental or other charges due hereunder as a result of same or otherwise make claim against Landlord for interruption or interference with Tenant’s business and/or operations.

ARTICLE 9
REPAIRS AND ALTERATIONS

Landlord shall maintain the structural portions of the Project including the foundation, floor/ceiling slabs, roof, curtain wall, exterior glass, columns, beams, shafts, stairs, stairwells, elevator cabs and common areas and shall also maintain and repair the basic mechanical, electrical, life safety, plumbing, sprinkler systems and heating, ventilating and air-conditioning systems (provided, however, that Landlord’s obligation with respect to any such systems shall be to repair and maintain those portions of the systems located in the core of the Project or in other areas outside of the Premises, but Tenant shall be responsible to repair and maintain any distribution of such systems throughout the Premises). Except as expressly provided as Landlord’s obligation in this Article 9, Tenant shall keep the
Premises in good condition and repair. All damage or injury to the Premises or the Project resulting from the act or negligence of Tenant, its employees, agents or visitors, guests, invitees or licensees or by the use of the Premises shall be promptly repaired by Tenant, at its sole cost and expense, to the satisfaction of Landlord; PROVIDED, HOWEVER, that for damage to the Project as a result of casualty or for any repairs that may impact the mechanical, electrical, plumbing, heating, ventilation or air-conditioning systems of the Project, Landlord shall have the right (but not the obligation) to select the contractor and oversee all such repairs. Landlord may make any repairs which are not promptly made by Tenant after Tenant's receipt of written notice and the reasonable opportunity of Tenant to make said repair within five (5) business days from receipt of said written notice, and charge Tenant for the cost thereof, which cost shall be paid by Tenant within five (5) days from invoice from Landlord. Tenant shall be responsible for the design and function of all nonstandard improvements of the Premises, whether or not installed by Landlord at Tenant's request. Tenant waives all rights to make repairs at the expense of Landlord, or to deduct the cost thereof from the rent. Tenant shall make no alterations, changes or additions in or to the Premises (collectively, "ALTERATIONS") without Landlord's prior written consent, and then only by contractors or mechanics approved by Landlord in writing and upon the approval by Landlord in writing of fully detailed and dimensioned plans and specifications pertaining to the Alterations in question, to be prepared and submitted by Tenant at its sole cost and expense. Tenant shall at its sole cost and expense obtain all necessary approvals and permits pertaining to any Alterations approved by Landlord. If Landlord, in approving any Alterations, specifies a commencement date therefor, Tenant shall not commence any work with respect to such Alterations prior to such date. Tenant hereby indemnifies, defends and agrees to hold Landlord free and harmless from all liens and claims of lien, and all other liability, claims and demands arising out of any work done or material supplied to the Premises by or at the request of Tenant in connection with any Alterations. If permitted Alterations are made, they shall be made at Tenant's sole cost and expense and shall be and become the property of Landlord, except that Landlord may, by written notice to Tenant given at least thirty (30) days prior to the end of the Term, require Tenant at Tenant's expense to remove all partitions, counters, railings and other Alterations installed by Tenant, and to repair any damages to the Premises caused by such removal. Any and all costs attributable to or related to the applicable building codes of the city in which the Project is located (or any other authority having jurisdiction over the Project) arising from Tenant's plans, specifications, improvements, alterations or otherwise shall be paid by Tenant at its sole cost and expense. With regard to repairs, Alterations or any other work arising from or related to this Article 9, Landlord shall be entitled to receive an administrative/supervision fee (which fee shall vary depending upon whether or not Tenant orders the work directly from Landlord) sufficient to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's involvement with such work.

ARTICLE 10
LIENS

Tenant shall keep the Premises and the Project free from any mechanics' liens, vendors' liens or any other liens arising out of any work performed, materials furnished or obligations incurred by Tenant, and agrees to defend, indemnify and hold harmless Landlord from and against any such lien or claim or action thereon, together with costs of suit and reasonable attorneys' fees incurred by Landlord in connection with any such claim or action. Before commencing any work of alteration, addition or improvement to the Premises, Tenant shall give Landlord at least ten (10) business days' written notice of the proposed commencement of such work (to afford Landlord an opportunity to post appropriate notices of non-responsibility). In the event that there shall be recorded against the Premises or the Project or the property of which the Premises is a part any claim or lien arising out of any such work performed, materials furnished or obligations incurred by Tenant and such claim or lien
shall not be removed or discharged within ten (10) days of filing, Landlord shall have the right but not the obligation to pay and discharge said lien without regard to whether such lien shall be lawful or correct or to require that Tenant deposit with Landlord in cash, lawful money of the United States, one hundred fifty percent (150%) of the amount of such claim, which sum may be retained by Landlord until such claim shall have been removed of record or until judgment shall have been rendered on such claim and such judgment shall have become final, at which time Landlord shall have the right to apply such deposit in discharge of the judgment on said claim and any costs, including attorneys' fees incurred by Landlord, and shall remit the balance thereof to Tenant.

ARTICLE 11

PROJECT SERVICES

(a) Landlord agrees to furnish to the Premises, at a cost to be included in Operating Costs, from 8:00 a.m. to 6:00 p.m. Mondays through Fridays and 8:00 a.m. to 1:00 p.m. on Saturdays, excepting local and national holidays, air conditioning and heat, all in such reasonable quantities as in the judgment of Landlord is reasonably necessary for the comfortable occupancy of the Premises. In addition, Landlord shall provide electric current for normal lighting and normal office machines, elevator service and water on the same floor as the Premises for lavatory and drinking purposes in such reasonable quantities as in the judgment of Landlord is reasonably necessary for general office use. Janitorial and maintenance services shall be furnished five (5) days per week, excepting local and national holidays. Tenant shall comply with all rules and regulations which Landlord may reasonably establish for the proper functioning and protection of the common area air conditioning, heating, elevator, electrical intrabuilding network cable and plumbing systems. Landlord shall not be liable for, and there shall be no rent abatement as a result of, any stoppage, reduction or interruption of any such services caused by governmental rules, regulations or ordinances, riot, strike, labor disputes, breakdowns, accidents, necessary repairs or other cause. Except as specifically provided in this Article 11, Tenant agrees to pay for all utilities and other services utilized by Tenant and additional building services furnished to Tenant not uniformly furnished to all tenants of the Project at the rate generally charged by Landlord to tenants of the Project.

(b) Tenant will not, without the prior written consent of Landlord, use any apparatus or device in the Premises which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises as general office space; nor connect any apparatus, machine or device with water pipes or electric current (except through existing electrical outlets in the Premises), for the purpose of using electric current or water.

(c) If Tenant shall require electric current in excess of that which Landlord is obligated to furnish under Article 11(a) above, Tenant shall first obtain the written consent of Landlord, which Landlord may refuse in its sole and absolute discretion, to the use thereof and Landlord may cause an electric current meter or submeter to be installed in the Premises to measure the amount of such excess electric current consumed by Tenant in the Premises. The cost of any such meter and of installation, maintenance and repair thereof shall be paid for by Tenant and Tenant agrees to pay to Landlord, promptly upon demand therefor by Landlord, for all such excess electric current consumed by any such use as shown by said meter at the rates charged for such service by the city in which the Project is located or the local public utility, as the case may be, furnishing the same, plus any additional
expense incurred by Landlord in keeping account of the
electric current so consumed.

(d) If any lights, machines or equipment (including but not
limited to computers) are used by Tenant in the Premises which
materially affect the temperature otherwise maintained by the
air conditioning system, or generate substantially more heat
in the Premises than would be generated by the building
standard lights and usual office equipment, Landlord shall
have the right to install any machinery and equipment which
Landlord reasonably deems necessary to restore temperature
balance, including but not limited to modifications to the
standard air conditioning equipment, and the cost
thereof, including the cost of installation and any additional
cost of operation and maintenance occasioned thereby, shall be
paid by Tenant to Landlord upon demand by Landlord. Landlord
shall not be liable under any circumstances for loss of or
injury to property, however occurring, through or in
connection with or incidental to failure to furnish any of the
foregoing.

(e) If Tenant requires heating, ventilation and/or air
conditioning during times other than the times provided in
Article 11(a) above, Tenant shall give Landlord such advance
notice as Landlord shall reasonably require and shall pay
Landlord's standard charge for such after-hours use.

(f) Landlord may impose a reasonable charge for any utilities or
services (other than electric current and heating, ventilation
and/or air conditioning which shall be governed by Articles
11(c) and (e) above) utilized by Tenant in excess of the
amount or type that Landlord reasonably determines is typical
for general office use.

ARTICLE 12
RIGHT OF LANDLORD

Landlord and its agents shall have the right to enter the
Premises at all reasonable times for the purpose of cleaning the Premises,
examining or inspecting the same, serving or posting and keeping posted thereon
notices as provided by law, or which Landlord deems necessary for the protection
of Landlord or the Property, showing the same to prospective tenants, lenders or
purchasers of the Project, in the case of an emergency, and for making such
alterations, repairs, improvements or additions to the Premises or to the
Project as Landlord may deem necessary or desirable. If Tenant shall not be
personally present to open and permit an entry into the Premises at any time
when such an entry by Landlord is necessary or permitted hereunder, Landlord may
enter by means of a master key or may enter forcibly, only in the case of an
emergency, without liability to Tenant and without affecting this Lease.

ARTICLE 13
INDEMNITY: EXEMPTION OF LANDLORD FROM LIABILITY

(a) INDEMNITY. Tenant shall indemnify, defend and hold Landlord
harmless from any and all claims arising from Tenant's use of
the Premises or the Project or from the conduct of its
business or from any activity, work or thing which may be
permitted or suffered by Tenant in or about the Premises or
the Project and shall further indemnify, defend and hold
Landlord harmless from and against any and all claims arising
from any breach or default in the performance of any
obligation on Tenant's part to be performed under this Lease
or arising from any negligence of Tenant or any of its agents,
contractors, employees or invitees, patrons, customers or
members in or about the Project and from any and all costs,
attorneys' fees, expenses and liabilities incurred in the
defense of any claim or any action or proceeding brought
thereon, including negotiations in connection therewith.
Tenant hereby assumes all risk of damage to property or injury to persons in or about the Premises from any cause, and Tenant hereby waives all claims in respect thereof against Landlord, excepting where the damage is caused solely by the gross negligence or willful misconduct of Landlord.

EXEMPTION OF LANDLORD FROM LIABILITY. Landlord shall not be liable for injury to Tenant's business, or loss of income therefrom, or exception in connection with damage or injury resulting from the gross negligence or willful misconduct of Landlord, or its authorized agents, for damage that may be sustained by the person, goods, wares, merchandise or property of Tenant, its employees, invitees, customers, agents, or contractors, or any other person in, on or about the Premises directly or indirectly caused by or resulting from fire, 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, light fixtures, or mechanical or electrical systems or from intrabuilding network cable, whether such damage or injury results from conditions arising upon the Premises or upon other portions of the Project or from other sources or places and regardless of whether the cause of such damage or injury or the means or repairing the same is inaccessible to Tenant. Landlord shall not be liable to Tenant for any damages arising from any act or neglect of any other tenant of the building.

 Tenant acknowledges that Landlord's election to provide mechanical surveillance or to post security personnel in the project is solely within Landlord's discretion; Landlord shall have no liability in connection with the decision whether or not to provide such services and Tenant hereby waives all claims based thereon. Landlord shall not be liable for losses due to theft, vandalism, or like causes. Tenant shall defend, indemnify, and hold Landlord harmless from any such claims made by any employee, licensee, invitee, contractor, agent, or other person whose presence in, on or about the Premises or the Project is attendant to the business of Tenant.

ARTICLE 14

INSURANCE

(a) TENANT'S INSURANCE. Tenant shall, at all times during the Term of this Lease, and at its own cost and expense, procure and continue in force the following insurance coverage: (i) Commercial General Liability Insurance with a combined single limit for bodily injury and property damages of not less than Two Million Dollars ($2,000,000) per occurrence and Three Million Dollars ($3,000,000) in the annual aggregate, including products liability coverage if applicable, covering the insuring provisions of this Lease and the performance of Tenant of the indemnity and exemption of Landlord from liability agreements set forth in Article 13 hereof; (ii) a policy of standard fire, extended coverage and special extended coverage insurance (all risks), including a vandalism and malicious mischief endorsement, sprinkler leakage coverage and earthquake sprinkler leakage where sprinklers are provided in an amount equal to the full replacement value new without deduction for depreciation of all (A) Tenant Improvements, Alterations, fixtures and other improvements in the Premises and (B) trade fixtures, furniture, equipment and other personal property installed by or at the expense of Tenant; (iii) Worker's Compensation coverage as required by law; and (iv) business interruption, loss of income and extra expense insurance covering failure of Tenant's telecommunications equipment and covering all other perils, failures or
interruptions. Tenant shall carry and maintain during the entire Lease Term (including any option periods, if applicable), at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to this Article 14 and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, as may be reasonably required by Landlord.

(b) FORM OF POLICIES. The aforementioned minimum limits of policies and Tenant's procurement and maintenance thereof shall in no event limit the liability of Tenant hereunder. The Commercial General Liability Insurance policy shall name Landlord, Landlord's property manager, Landlord's lender(s) and such other persons or firms as Landlord specifies from time to time, as additional insureds with an appropriate endorsement to the policy(s). All such insurance policies carried by Tenant shall be with companies having a rating of not less than A-VIII in Best's Insurance Guide. Tenant shall furnish to Landlord, from the insurance companies, or cause the insurance companies to furnish, certificates of coverage. No such policy shall be cancelable or subject to reduction of coverage or other modification or cancellation except after thirty (30) days' prior written notice to Landlord by the insurer. All such policies shall be endorsed to agree that Tenant's policy is primary and that any insurance covered by Landlord is excess and not contributing with any Tenant insurance requirement hereunder. Tenant shall, at least twenty (20) days prior to the expiration of such policies, furnish Landlord with renewals or binders. Tenant agrees that if Tenant does not take out and maintain such insurance or furnish Landlord with renewals or binders, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the cost thereof, which amount shall be payable by Tenant upon demand with interest (at the rate set forth in Article 20(e) below) from the date such sums are extended. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant, provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

(c) LANDLORD'S INSURANCE. Landlord shall, as a cost to be included in Operating Costs, procure and maintain at all times during the Term of this Lease, a policy or policies of insurance covering loss or damage to the Project in the amount of the full replacement costs without deduction for depreciation thereof (exclusive of Tenant's trade fixtures, inventory, personal property and equipment), providing protection against all perils included within the classification of fire and extended coverage, vandalism coverage and malicious mischief, sprinkler leakage, water damage, and special extended coverage on building. Additionally, Landlord may (but shall not be required to) carry: (i) Bodily Injury and Property Damage Liability Insurance and/or Excess Liability Coverage Insurance; and (ii) Earthquake and/or Flood Damage Insurance; and (iii) Rental Income Insurance at its election or if required by its lender from time to time during the Term hereof, in such amounts and with such limits as Landlord or its lender may deem appropriate. The costs of such insurance shall be included in Operating Costs.

(d) WAIVER OF SUBROGATION. Tenant hereby agrees to have its insurers issuing the insurance described in Articles 14(a)(ii) and (a)(iv) waive any rights of subrogation that such companies may have against Landlord. Tenant hereby waives any
right that Tenant may have against Landlord as a result of any loss or damage to the extent such loss or damage is insurable under such policies.

(e) COMPLIANCE WITH LAW. Tenant agrees that it will not, at any time, during the Term of this Lease, carry any stock of goods or do anything in or about the Premises that will in any way tend to increase the insurance rates upon the Project. Tenant agrees to pay Landlord immediately upon demand the amount of any increase in premiums for insurance against loss by fire that may be charged during the Term of this Lease on the amount of insurance to be carried by Landlord on the Project resulting from the foregoing, or from Tenant doing any act in or about said Premises that does so increase the insurance rates, whether or not Landlord shall have consented to such act on the part of Tenant. If Tenant installs upon the Premises any electrical equipment which constitutes an overload of electrical lines of the Premises, Tenant shall at its own cost and expense in accordance with all other Lease provisions, and subject to the provisions of Articles 9, 10 and 11, hereof, make whatever changes are necessary to comply with requirements of the insurance underwriters and any governmental authority having jurisdiction thereover, but nothing herein contained shall be deemed to constitute Landlord's consent to such overloading. Tenant shall, at its own expense, comply with all requirements of the insurance authority having jurisdiction over the Project necessary for the maintenance of reasonable fire and extended coverage insurance for the Premises, including without limitation thereto, the installation of fire extinguishers or an automatic dry chemical extinguishing system.

ARTICLE 15

ASSIGNMENT AND SUBLETTING

Tenant shall have no power to, either voluntarily, involuntarily, by operation of law or otherwise, sell, assign, transfer or hypothecate this Lease, or sublet the Premises or any part thereof, or permit the Premises or any part thereof to be used or occupied by anyone other than Tenant or Tenant's employees without the prior written consent of Landlord which shall not be unreasonably delayed, conditioned or withheld. If Tenant is a corporation, unincorporated association, partnership or limited liability company, the sale, assignment, transfer or hypothecation of any class of stock or other ownership interest in such corporation, association, partnership or limited liability company in excess of forty-nine percent (49%) in the aggregate shall be deemed an assignment within the meaning and provisions of this Article 15. Tenant may transfer its interest pursuant to this Lease only upon the following express conditions, which conditions are agreed by Landlord and Tenant to be reasonable:

(a) That the proposed transferee shall be subject to the prior written consent of Landlord, which consent will not be unreasonably delayed, conditioned or withheld but, without limiting the generality of the foregoing, it shall be reasonable for Landlord to deny such consent if:

(i) The use to be made of the Premises by the proposed transferee is (a) not generally consistent with the character and nature of all other tenancies in the Project, or (b) a use which conflicts with any so-called "exclusive" then in favor of, or for any use which is the same as that stated in any percentage rent lease to, another tenant of the Project or any other buildings which are in the same complex as the Project, or (c) a use which would be prohibited by any other portion of this Lease (including, but not limited to, any Rules and
(ii) The financial responsibility of the proposed transferee relative to Tenant is not reasonably satisfactory to Landlord or in any event not at least equal to those which were possessed by Tenant as of the date of execution of this Lease;

(iii) The proposed transferee is either a governmental agency or instrumentality thereof; or

(iv) Either the proposed transferee or any person or entity which directly or indirectly controls, is controlled by or is under common control with the proposed transferee (A) occupies space in the Project at the time of the request for consent, or (B) is negotiating with Landlord or has negotiated with Landlord during the six (6) month period immediately preceding the date of the proposed transfer, to lease space in the Project.

(b) Whether or not Landlord consents to any such transfer, Tenant shall pay to Landlord Landlord's then standard processing fee and reasonable attorneys' fees incurred in connection with the proposed transfer in an amount not to exceed the aggregate sum of $2,500.00;

(c) That the proposed transferee shall execute an agreement pursuant to which it shall agree to perform faithfully and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease applicable to that portion of the Premises so transferred; and

(d) That an executed duplicate original of said assignment and assumption agreement or other transfer on a form reasonably approved by Landlord, shall be delivered to Landlord within five (5) days after the execution thereof, and that such transfer shall not be binding upon Landlord until the delivery thereof to Landlord and the execution and delivery of Landlord's consent thereto. It shall be a condition to Landlord's consent to any subleasing, assignment or other transfer of part or all of Tenant's interest in the Premises (hereinafter referred to as a "TRANSFER") that (i) upon Landlord's consent to any Transfer, Tenant shall pay and continue to pay fifty percent (50%) of any "Transfer Premium" (defined below), received by Tenant from the transferee; (ii) any sublessee of part or all of Tenant's interest in the Premises shall agree that in the event Landlord gives such sublessee notice that Tenant is in default under this Lease, such sublessee shall thereafter make all sublease or other payments directly to Landlord, which will be received by Landlord without any liability whether to honor the sublease or otherwise (except to credit such payments against sums due under this Lease), and any sublessee shall agree to attorn to Landlord or its successors and assigns at their request should this Lease be terminated for any reason, except that in no event shall Landlord or its successors or assigns be obligated to accept such attornment; (iii) any such Transfer and consent shall be effected on forms supplied by Landlord and/or its legal counsel; (iv) Landlord may require that Tenant not then be in default hereunder in any respect; and (v) Tenant or the proposed subtenant or assignee (collectively, "TRANSFEREE") shall agree to pay Landlord, upon demand, as additional rent, a sum equal to the additional costs, if any, incurred by Landlord for maintenance and repair as a result of any change in the nature of occupancy caused by such subletting or assignment. "TRANSFER PREMIUM" shall mean all rent, additional rent or other consideration payable by a Transferee in connection with a Transfer in excess of the rent and
Additional Rent payable by Tenant under this Lease during the term of the Transfer and if such Transfer is less than all of the Premises, the Transfer Premium shall be calculated on a rentable square foot basis. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by a transferee to Tenant in connection with such Transfer, and any payment in excess of fair market value for services rendered by Tenant, to the Transferee and any payment in excess of fair market value for assets, fixtures, inventory, equipment, or furniture transferred by Tenant to the Transferee in connection with such Transfer. Any sale assignment, hypothecation, transfer or subletting of this Lease which is not in compliance with the provisions of this Article 15 shall be void and shall, at the option of Landlord, terminate this Lease. In no event shall the consent by Landlord to an assignment or subletting be construed as relieving Tenant, any assignee, or sublessee from obtaining the express written consent of Landlord to any further assignment or subletting, or as releasing Tenant from any liability or obligation hereunder whether or not then accrued and Tenant shall continue to be fully liable therefor. No collection or acceptance of rent by Landlord from any person other than Tenant shall be deemed a waiver of any provision of this Article 15 or the acceptance of any assignee or subtenant hereunder, or a release of Tenant (or of any successor of Tenant or any subtenant). Notwithstanding anything to the contrary in this Lease, if Tenant or any proposed Transferee claims that Landlord has unreasonably withheld or delayed its consent under this Article 15 or otherwise has breached or acted unreasonably under this Article 15, their sole remedies shall be a declaratory judgment and an injunction for the relief sought without any monetary damages, and Tenant hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee. Notwithstanding anything to the contrary contained in this Article 15, Landlord agrees that it shall grant its approval of a Transfer by Tenant resulting from a stock offering to Justin Timberlake or an affiliate, so long as Tenant reasonably demonstrates to Landlord that: (x) the financial condition of the proposed transferee relative to Tenant is at least equal to the financial condition of Tenant as of the date of execution of this Lease; and (y) Tenant retains control of the entity comprising "Tenant".

ARTICLE 16
DAMAGE OR DESTRUCTION

If the Project is damaged by fire or other insured casualty and the insurance proceeds have been made available therefor by the holder or holders of any mortgages or deeds of trust covering the Premises or the Project, the damage shall be repaired by Landlord to the extent such insurance proceeds are available therefor and provided such repairs can, in Landlord's sole opinion, be completed within two hundred seventy (270) days after the necessity for repairs as a result of such damage becomes known to Landlord without the payment of overtime or other premiums, and until such repairs are completed rent shall be abated in proportion to the part of the Premises which is unusable by Tenant in the conduct of its business (but there shall be no abatement of rent by reason of any portion of the Premises being unusable for a period equal to one (1) day or less). However, if the damage is due to the fault or neglect of Tenant, its employees, agents, contractors, guests, invitees and the like, there shall be no abatement of rent, unless and to the extent Landlord receives rental income insurance proceeds. Upon the occurrence of any damage to the Premises, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Article 14(a)(ii)(A) above; PROVIDED, HOWEVER, that if the cost of repair of improvements within the Premises by Landlord exceeds the amount of insurance proceeds received by Landlord from
Tenant's insurance carrier, as so assigned by Tenant, such excess costs shall be paid by Tenant to Landlord prior to Landlord's repair of such damage. If repairs cannot, in Landlord's opinion, be completed within two hundred seventy (270) days after the necessity for repairs as a result of such damage becomes known to Landlord without the payment of overtime or other premiums, Landlord may, at its option, either (i) make them in a reasonable time and in such event this Lease shall continue in effect and the rent shall be abated, if at all, in the manner provided in this Article 16, or (ii) elect not to effect such repairs and instead terminate this Lease, by notifying Tenant in writing of such termination within sixty (60) days after Landlord learns of the necessity for repairs as a result of damage, such notice to include a termination date giving Tenant sixty (60) days to vacate the Premises. In addition, Landlord may elect to terminate this Lease if the Project shall be damaged by fire or other casualty or cause, whether or not the Premises are affected, and the damage is not fully covered, except for deductible amounts, by Landlord's insurance policies. Finally, if the Premises or the Project is damaged to any substantial extent during the last twelve (12) months of the Term, then notwithstanding anything contained in this Article 16 to the contrary, Landlord shall have the option to terminate this Lease by giving written notice to Tenant of the exercise of such option within sixty (60) days after Landlord learns of the necessity for repairs as the result of such damage. A total destruction of the Project shall automatically terminate this Lease. Except as provided in this Article 16, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business or property arising from such damage or destruction or the making of any repairs, alterations or improvements in or to any portion of the Project or the Premises or in or to fixtures, appurtenances and equipment therein. Tenant understands that Landlord will not carry insurance of any kind on Tenant's furniture, furnishings, trade fixtures or equipment, and that Landlord shall not be obligated to repair any damage thereto or replace the same. Except for proceeds relating to Tenant's furniture, furnishings, trade fixtures and equipment, Tenant acknowledges that Tenant shall have no right to any proceeds of insurance relating to property damage. With respect to any damage which Landlord is obligated to repair or elects to repair, Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases its rights under the provisions of Sections 1932 and 1933 of the California Civil Code.

ARTICLE 17

SUBORDINATION

This Lease is subject and subordinate to all ground or underlying leases, mortgages and deeds of trust which affect the property or the Project, including all renewals, modifications, consolidations, replacements and extensions thereof; PROVIDED, HOWEVER, if the lessor under any such lease or the holder or holders of any such mortgage or deed of trust shall advise Landlord that they desire or require this Lease to be prior and superior thereto, upon written request of Landlord to Tenant, Tenant agrees to promptly execute, acknowledge and deliver any and all documents or instruments which Landlord or such lessor, holder or holders deem necessary or desirable for purposes thereof. Landlord shall have the right to cause this Lease to be and become and remain subject and subordinate to any and all ground or underlying leases, mortgages or deeds of trust which may hereafter be executed covering the Premises, the Project or the property or any renewals, modifications, consolidations, replacements or extensions thereof, for the full amount of all advances made or to be made thereunder and without regard to the time or character of such advances, together with interest thereon and subject to all the terms and provisions thereof; PROVIDED, HOWEVER, that Landlord obtains from the lender or other party in question a written undertaking in favor of Tenant to the effect that such lender or other party will not disturb Tenant's right of possession under this Lease if Tenant is not then or thereafter in breach of any covenant or provision of this Lease. Tenant agrees, within ten (10) days after Landlord's written request therefor, to execute, acknowledge and deliver upon request any and all documents or instruments requested by Landlord or necessary or proper to assure the subordination of this Lease to any such mortgages, deeds of trust, or leasehold estates. Tenant agrees that in the event any proceedings are brought for the foreclosure of any mortgage or deed of trust or any deed in lieu thereof, to attorn to the purchaser or any successors thereto upon any such foreclosure sale or deed in lieu thereof as so requested to do so by such
as the lessor under this Lease; Tenant shall, within five (5) days after request execute such further instruments or assurances as such purchaser may reasonably deem necessary to evidence or confirm such attornment. Tenant agrees to provide copies of any notices of Landlord's default under this Lease to any mortgagee or deed of trust beneficiary whose address has been provided to Tenant and Tenant shall provide such mortgagee or deed of trust beneficiary a commercially reasonable time after receipt of such notice within which to cure any such default. Tenant waives the provisions of any current or future statute, 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 the Tenant hereunder in the event of any foreclosure proceeding or sale.

ARTICLE 18

EMINENT DOMAIN

If the whole of the Premises or the Project or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, or is sold, transferred or conveyed in lieu thereof, this Lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, at Landlord's option. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; PROVIDED, HOWEVER, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for the taking of personal property and trade fixtures belonging to Tenant and removable by Tenant at the expiration of the Term hereof as provided hereunder or for the interruption of, or damage to, Tenant's business. In the event of a partial taking described in this Article 18, or a sale, transfer or conveyance in lieu thereof, which does not result in a termination of this Lease, the rent shall be apportioned according to the ratio that the part of the Premises remaining usable by Tenant bears to the total area of the Premises. Tenant hereby waives any and all rights it might otherwise have pursuant to Section 1265.130 of the California Code of Civil Procedure.

ARTICLE 19

DEFAULT

Each of the following acts or omissions of Tenant or of any guarantor of Tenant's performance hereunder, or occurrences, shall constitute an "EVENT OF DEFAULT":

(a) Failure or refusal to pay Basic Rental, Additional Rent or any other amount to be paid by Tenant to Landlord hereunder within three (3) calendar days after notice that the same is due or payable hereunder; said three (3) day period shall be in lieu of, and not in addition to, the notice requirements of Section 1161 of the California Code of Civil Procedure or any similar or successor law;

(b) Except as set forth in items (a) above and (c) through and including (g) below, failure to perform or observe any other covenant or condition of this Lease to be performed or observed within thirty (30) days following written notice to Tenant of such failure. Such thirty (30) day notice shall be in lieu of, and not in addition to, any required under Section 1161 of the California Code of Civil Procedure or any similar or successor law;
Abandonment or vacating or failure to accept tender of possession of the Premises or any significant portion thereof;

The taking in execution or by similar process or law (other than by eminent domain) of the estate hereby created;

The filing by Tenant or any guarantor hereunder in any court pursuant to any statute of a petition in bankruptcy or insolvency or for reorganization or arrangement for the appointment of a receiver of all or a portion of Tenant's property; the filing against Tenant or any guarantor hereunder of any such petition, or the commencement of a proceeding for the appointment of a trustee, receiver or liquidator for Tenant, or for any guarantor hereunder, or of any of the property of either, or a proceeding by any governmental authority for the dissolution or liquidation of Tenant or any guarantor hereunder, if such proceeding shall not be dismissed or trusteeship discontinued within thirty (30) days after commencement of such proceeding or the appointment of such trustee or receiver; or the making by Tenant or any guarantor hereunder of an assignment for the benefit of creditors. Tenant hereby stipulates to the lifting of the automatic stay in effect and relief from such stay for Landlord in the event Tenant files a petition under the United States Bankruptcy laws, for the purpose of Landlord pursuing its rights and remedies against Tenant and/or a guarantor of this Lease;

Tenant's failure to cause to be released any mechanics' liens filed against the Premises or the Project within twenty (20) days after the date the same shall have been filed or recorded; or

Tenant's failure to observe or perform according to the provisions of Article 17 or 25 within two (2) business days after notice from Landlord.

All defaults by Tenant of any covenant or condition of this Lease shall be deemed by the parties hereto to be material.

ARTICLE 20

REMEDIES

Upon the occurrence of an Event of Default under this Lease as provided in Article 19 hereof, Landlord may exercise all of its remedies as may be permitted by law, including but not limited to the remedy provided by Section 1951.4 of the California Civil Code, and including without limitation, terminating this Lease, reentering the Premises and removing all persons and property therefrom, which property may be stored by Landlord at a warehouse or elsewhere at the risk, expense and for the account of Tenant. If Landlord elects to terminate this Lease, Landlord shall be entitled to recover from Tenant the aggregate of all amounts permitted by law, including but not limited to (i) the worth at the time of award of the amount of any unpaid rent which had been earned at the time of such termination; plus (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including but not limited to, brokerage commissions and
advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; and (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law. The term "rent" as used in this Article 20(a) shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease to Landlord. As used in items (i) and (ii), above, the "worth at the time of award" shall be computed by allowing interest at the rate set forth in item (e), below, but in no case greater than the maximum amount of such interest permitted by law. As used in item (iii), above, the "worth at the time of award" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(b) Nothing in this Article 20 shall be deemed to affect Landlord's right to indemnification for liability or liabilities arising prior to the termination of this Lease for personal injuries or property damage under the indemnification clause or clauses contained in this Lease.

(c) Notwithstanding anything to the contrary set forth herein, Landlord's re-entry to perform acts of maintenance or preservation of or in connection with efforts to relet the Premises or any portion thereof, or the appointment of a receiver upon Landlord's initiative to protect Landlord's interest under this Lease shall not

(d) All rights, powers and remedies of Landlord hereunder and under any other agreement now or hereafter in force between Landlord and Tenant shall be cumulative and not alternative and shall be in addition to all rights, powers and remedies given to Landlord by law, and the exercise of one or more rights or remedies shall not impair Landlord's right to exercise any other right or remedy.

(e) Any amount due from Tenant to Landlord hereunder which is not paid when due shall bear interest at the lower of twelve percent (12%) per annum or the maximum lawful rate of interest from the due date until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease. In addition to such interest: (i) if Basic Rental is not paid within ten (10) days after the same is due, a late charge equal to five percent (5%) of the amount overdue or $100, whichever is greater, shall be assessed and shall accrue for each calendar month or part thereof until such rental, including the late charge, is paid in full, which late charge Tenant hereby agrees is a reasonable estimate of the damages Landlord shall suffer as a result of Tenant's late payment and (ii) an additional charge of $25 shall be assessed for any check given to Landlord by or on behalf of Tenant which is not honored by the drawee thereof; which damages include Landlord's additional administrative and other costs associated with such late payment and unsatisfied checks and the parties agree that it would be impracticable or extremely difficult to fix Landlord's actual damage in such event. Such charges for interest and late payments and unsatisfied checks are separate and cumulative and are in addition to and shall not diminish or represent a substitute for any or all of Landlord's rights or remedies under any other provision of this Lease.
In the event of any transfer or termination of Landlord's interest in the Premises or the Project by sale, assignment, transfer, foreclosure, deed-in-lieu of foreclosure or otherwise, whether voluntary or involuntary, Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord from and after the date of such transfer or termination, including furthermore without limitation, the obligation of Landlord under Article 4 and California Civil Code 1950.7, above, to return the security deposit, provided said security deposit is transferred to said transferee and that said transferee agrees to be bound by the terms of this Lease. Tenant agrees to attorn to the transferee upon any such transfer and to recognize such transferee as the lessor under this Lease and Tenant shall, within five (5) days after request, execute such further instruments or assurances as such transferee may reasonably deem necessary to evidence or confirm such attornment.

ARTICLE 22

BROKER

In connection with this Lease, Tenant Warrants and represents that it has had dealings only with firm(s) set forth in Article 1.H of the Basic Lease Provisions and that it knows of no other person or entity who is or might be entitled to a commission, finder's fee or other like payment in connection herewith and does hereby indemnify and agree to hold Landlord, its agents, members, partners, representatives, officers, affiliates, shareholders, employees, successors and assigns harmless from and against any and all loss, liability and expenses that Landlord may incur should such warranty and representation prove incorrect, inaccurate or false.

ARTICLE 23

PARKING

Tenant shall rent from Landlord, commencing on the Commencement Date, the number of unreserved parking passes set forth in Article 1.I of the Basic Lease Provisions, which parking passes shall pertain to the Project parking facility. Tenant shall pay to Landlord for automobile parking passes the prevailing rate charged from time to time at the location of such parking passes. Landlord's prevailing rate as of the Effective Date is $100.00 per unreserved space and $150.00 per reserved space, subject to change in accordance with this Article. In addition, Tenant shall be responsible for the full amount of any taxes imposed by any governmental authority in connection with the renting of such parking passes by Tenant or the use of the parking facility by Tenant. Tenant's continued right to use the parking passes is conditioned upon Tenant abiding by all rules and regulations which are prescribed from time to time for the orderly operation and use of the parking facility where the parking passes are located, including any sticker or other identification system established by Landlord, Tenant's cooperation in seeing that Tenant's employees and visitors also comply with such rules and regulations, and Tenant not being in default under this Lease. Landlord specifically reserves the right to change the size, configuration, design, layout and all other aspects of the Project parking facility at any time, and Tenant acknowledges and agrees that Landlord may, without incurring any liability to Tenant and without any abatement of rent under this Lease, from time to time, close-off or restrict access to the Project parking facility for purposes of permitting or facilitating any such construction, alteration or improvements. Landlord may delegate its responsibilities hereunder to a parking operator or a lessee of the parking facility in which case such parking operator or lessee shall have all the rights of control attributed hereby to the Landlord. Landlord reserves the right to require that parking be valet or attended, requiring parkers to leave keys with parking management personnel, at Landlord's election. The parking passes rented by Tenant pursuant to this Article 23 are provided to
Tenant solely for use by Tenant's own personnel and such passes may not be transferred, assigned, subleased or otherwise alienated by Tenant without Landlord's prior approval. Tenant may validate visitor parking by such method or methods as the Landlord may establish, at the validation rate from time to time generally applicable to visitor parking.

ARTICLE 24

WAIVER

No waiver by Landlord of any provision of this Lease shall be deemed to be a waiver of any other provision hereof or of any subsequent breach by Tenant of the same or any other provision. No provision of this Lease may be waived by Landlord, except by an instrument in writing executed by Landlord. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant, whether or not similar to the act consented to or approved. No act or thing done by Landlord or Landlord's agents during the Term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender shall be valid unless in writing and signed by Landlord. Any payment by Tenant or receipt by Landlord of an amount less than the total amount then due hereunder shall be deemed to be in partial payment only thereof and not a waiver of the balance due or an accord and satisfaction, notwithstanding any statement or endorsement to the contrary on any check or any other instrument delivered concurrently therewith or in reference thereto. Accordingly, Landlord may accept any such amount and negotiate any such check without prejudice to Landlord's right to recover all balances due and owing and to pursue its other rights against Tenant under this Lease, regardless of whether Landlord makes any notation on such instrument of payment or otherwise notifies Tenant that such acceptance or negotiation is without prejudice to Landlord's rights.

ARTICLE 25

ESTOPPEL CERTIFICATE

Tenant shall, at any time and from time to time, upon not less than ten (10) days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying the following information, (but not limited to the following information in the event further information is requested by Landlord): (i) that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as modified, is in full force and effect); (ii) the dates to which the rental and other charges are paid in advance, if any; (iii) the amount of Tenant's security deposit, if any; and (iv) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, and no events or conditions then in existence which, with the passage of time or notice or both, would constitute a default on the part of Landlord hereunder, or specifying such defaults, events or conditions, if any are claimed. It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Real Property. Tenant's failure to deliver such statement within such time shall constitute an admission by Tenant that all statements contained therein are true and correct. Tenant agrees to execute all documents required in accordance with this Article 25 within ten (10) days after delivery of said documents. Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact and in Tenant's name, place and stead to execute any and all documents described in this Article 25 if Tenant fails to do so within the specified time period.

ARTICLE 26

LIABILITY OF LANDLORD

Notwithstanding anything in this Lease to the contrary, any remedy of Tenant for the collection of a judgment (or other judicial process) requiring the payment of money by Landlord in the event of any default by Landlord hereunder or any claim, cause of action or obligation, contractual, statutory or otherwise by Tenant against Landlord concerning, arising out of or
relating to any matter relating to this Lease and all of the covenants and conditions or any obligations, contractual, statutory, or otherwise set forth herein, shall be limited solely and exclusively to an amount which is equal to the interest of Landlord in and to the Project. No other property or assets of Landlord, or any member, officer, director, shareholder, partner, trustee, agent, servant or employee of Landlord (the "REPRESENTATIVE") shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease or Landlord's obligations to Tenant, whether contractual, statutory or otherwise, the relationship of Landlord and Tenant hereunder, or Tenant's use or occupancy of the Premises. Tenant further understands that any liability, duty or obligation of Landlord to Tenant shall automatically cease and terminate as of the date that Landlord or any of Landlord's Representatives no longer have any right, title or interest in or to the Project for any liabilities occurring from and after such date.

ARTICLE 27

INABILITY TO PERFORM

Except as otherwise provided hereafter, and except for the obligation to make payments of any kind hereunder, each party shall be entitled to an extension of the date of any performance required of such party under this Lease in accordance with the terms of this Article 27; if the failure of the party to duly perform was solely because of a Force Majeure Event (defined below); provided however, that a Force Majeure Event shall not be recognized under this lease unless (1) the party seeking to assert such an event gives written notice to the other party, which notice shall explain in reasonable detail the nature of the Force Majeure Event, the obligations that have been that have been affected by the Force Majeure Event, and how such Force Majeure Event has impaired the performance of such obligations ("FORCE MAJEURE EVENT NOTICE"), and (2) such Force Majeure Event actually and materially impairs the due performance of such parties' obligations and continues for not less than five consecutive business days. So long as Force Majeure Event Notice has been delivered, the performance required by the notifying party shall be extended on a day-to-day basis commencing on the date the Force Majeure Event first occurred until such Force Majeure Event continues for more than sixty (60) business days, either party may, on the giving of written notice to the other, terminate this Lease. "FORCE MAJEURE EVENT" shall be an act of God, riot, war, civil unrest, flood, earthquake, or other cause beyond a party's reasonable control (including, without limitation, any mechanical, electronic, or communications failure, but excluding failure caused by a party's financial condition or an act of negligence).

ARTICLE 28

HAZARDOUS WASTE

(a) Tenant shall not cause or permit any Hazardous Material (as defined in Article 28(d), below) to be brought, kept or used in or about the Project by Tenant, its agents, employees, contractors, or invitees. Tenant indemnifies Landlord from and against any breach by Tenant of the obligations stated in the preceding sentence, and agrees to defend and hold Landlord harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses (including, without limitation, diminution in value of the Project, damages for the loss or restriction or use of rentable or usable space or of any amenity of the Project, damages arising from any adverse impact or marketing of space in the Project, and sums paid in settlement of claims, attorneys' fees, consultant fees, and expert fees) which arise during or after the Term of this Lease as a result of such breach. This indemnification of Landlord by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal, or restoration work required by any federal, state, or local governmental agency or political subdivision because
of Hazardous Material present in the soil or ground water on or under the Project. Without limiting the foregoing, if the presence of any Hazardous Material on the Project caused or permitted by Tenant results in any contamination of the Project and subject to the provisions of Articles 9, 10 and 11 hereof, Tenant shall promptly take all actions at its sole expense as are necessary to return the Project to the condition existing prior to the introduction of any such Hazardous Material, and the contractors to be used by Tenant for such work must be approved by Landlord, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-

(b) Landlord and Tenant acknowledge that Landlord may become legally liable for the costs of complying with Laws (as defined in Article 28(e) below) relating to Hazardous Material which are not the responsibility of Landlord or the responsibility of Tenant, including the following: (i) Hazardous Material present in the soil or ground water on the Project of which Landlord has no knowledge as of the Effective Date of this Lease; (ii) a change in Laws which relate to Hazardous Material which make that Hazardous Material which is present on the Real Property as of the Effective Date of this Lease, whether known or unknown to Landlord, a violation of such new Laws; (iii) Hazardous Material that migrates, flows, percolates, diffuses, or in any way moves on to, or under, the Project after the Effective Date of this Lease; or (iv) Hazardous Material present on or under the Project as a result of any discharge, dumping or spilling (whether accidental or otherwise) on the Project by other lessees of the Project or their agents, employees, contractors, or invitees, or by others. Accordingly, Landlord and Tenant agree that the cost of complying with Laws relating to Hazardous Material on the Project for which Landlord is legally liable and which are paid or incurred by Landlord shall be an Operating Cost (and Tenant shall pay Tenant's Proportionate Share thereof in accordance with Article 3) unless the cost of such compliance as between Landlord and Tenant is made the responsibility of Tenant pursuant to Article 28(a), above. To the extent any such Operating Cost relating to Hazardous Material is subsequently recovered or reimbursed through insurance, or recovery from responsible third parties or other action, Tenant shall be entitled to a proportionate reimbursement to the extent it has paid its share of such Operating Cost to which such recovery or reimbursement relates.

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

(d) As used herein, the term "HAZARDOUS MATERIAL" means any hazardous or toxic substance, material, or waste which is or becomes regulated by any local governmental authority, the State of California or the United States Government. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as "Hazardous Material present in the soil or ground water on or under the Project. Without limiting the foregoing, if the presence of any Hazardous Material on the Project caused or permitted by Tenant results in any contamination of the Project and subject to the provisions of Articles 9, 10 and 11 hereof, Tenant shall promptly take all actions at its sole expense as are necessary to return the Project to the condition existing prior to the introduction of any such Hazardous Material, and the contractors to be used by Tenant for such work must be approved by Landlord, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-

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Waste," "Extremely Hazardous Waste," or "Restricted Hazardous Waste" under Section 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5

-Hazardous Waste Control Law), (ii) defined as a "Hazardous Substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "Hazardous Material," "Hazardous Substance," or "Hazardous Waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iv) defined as a "Hazardous Substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 or defined as Hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "Hazardous Substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. ss. 1317), (ix) defined as a "Hazardous Waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. ss. 6901 et seq. (42 U.S.C. ss. 6903), or (x) defined as a "Hazardous Substance" pursuant to Section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss. 9601 et seq. (42 U.S.C. ss. 9601).

As used herein, the term "LAWS" means any applicable federal, state or local laws, ordinances, or regulations relating to any Hazardous Material affecting the Project, including, without limitation, the laws, ordinances, and regulations referred to in Article 28(d), above.

ARTICLE 29
SURRENDER OF PREMISES; REMOVAL OF PROPERTY

(a) The voluntary or other surrender of this Lease by Tenant to Landlord, or a mutual termination hereof, shall not work a merger, and shall at the option of Landlord, operate as an assignment to it of any or all subleases or subtenancies affecting the Premises.

(b) Upon the expiration of the Term of this Lease, or upon any earlier termination of this Lease, Tenant shall quit and surrender possession of the Premises to Landlord in as good order and condition as the same are now and hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, moveable partitioning and other articles of personal property owned by Tenant or installed or placed by Tenant at its own expense in the Premises, and all similar articles of any other persons claiming under Tenant unless Landlord exercises its option to have any subleases or subtenancies assigned to it, and Tenant shall repair all damage to the Premises resulting from the installation and removal of such items to be removed.

(c) Whenever Landlord shall reenter the Premises as provided in
Article 12 hereof, or as otherwise provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the Term of this Lease (or within forty-eight (48) hours after a termination by reason of Tenant's default), as provided in this Lease, shall be considered abandoned and Landlord may remove any or all of such items and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account and at the expense and risk of Tenant, and if Tenant shall fail to pay the cost of storing any such property after it has been stored for a period of ninety (90) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such times and places as Landlord, in its sole discretion, may deem proper, without notice or to demand upon Tenant, for the payment of all or any part of such charges or the removal of any such property, and shall apply the proceeds of such sale as follows: first, to the cost and expense of such sale, including reasonable attorneys' fees for services rendered; second, to the payment of the cost of or charges for storing any such property; third, to the payment of any other sums of money which may then or thereafter be due to Landlord from Tenant under any of the terms hereof; and fourth, the balance, if any, to Tenant.

(d) All fixtures, equipment, Alterations and/or appurtenances attached to or built into the Premises prior to or during the Term, whether by Landlord or Tenant and whether at the expense of Landlord or Tenant, or of both, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the Term unless otherwise expressly provided for in this Lease or unless such removal is required by Landlord pursuant to the provisions of Article 9 above. Such fixtures, equipment, Alterations, additions, improvements and/or appurtenances shall include but not be limited to: all floor coverings, drapes, paneling, built-in cabinetry, molding, doors, vaults (including vault doors), plumbing systems, electrical systems, lighting systems, silencing equipment, communication systems, all fixtures and outlets for the systems mentioned above and for all telephone, radio, telegraph and television purposes, and any special flooring or ceiling installations.

ARTICLE 30
OPTION TO EXTEND

(a) If, at the end of the Term of this Lease, (a) Tenant is not in default of any of the terms, conditions or covenants of this Lease, beyond any applicable delivered notice and subsequent cure period, and (b) Tenant has not assigned or sublet the Premises in violation of Article 17, then Tenant shall have the option to extend the Lease Term for one (1) additional period of three (3) years (hereinafter referred to as the "OPTION PERIOD") upon the same terms and conditions contained in this Lease with the following exceptions:

(i) The Basic Rental for the Option Period shall be as set forth in Article 30(c), below;

(ii) There shall be no further extensions of the Lease Term following the expiration of the Option Period unless granted by Landlord in writing, in Landlord's sole discretion; and

(iii) Tenant will not be granted any rental concessions, rental abatement or finish-out allowances during any Option Period.

(b) If Tenant desires to exercise its option to extend the Lease Term (subject to Tenant's compliance with the standards set forth herein), Tenant will notify Landlord in writing of
Tenant's intention to do so no later than nine (9) months and no more than twelve (12) months prior to the expiration date of the then current Lease Term. After proper and timely exercise of the extension option by Tenant, all references in this Lease to "Lease Term" or "Term" shall be considered to mean the Lease Term as extended, and all references in this Lease to the Expiration Date or to the end of the Lease Term shall be considered to mean the termination or end of the Option Period.

The Basic Rental for the Option Period shall be the Fair Market Rent (as defined hereinafter) for the Premises and shall increase annually if so dictated by the then current market; provided, however, that such Basic Rental shall in no event be less than the Basic Rental in effect at the end of the then-expiring Term. Tenant's exercise of the option to extend shall, if Landlord so elects in its absolute discretion be ineffective in the event that an Event of Default by Tenant remains uncured at the time of exercise or at the commencement of the Option Period. Tenant's option to extend the Term described in this Article 30 is personal to Tenant and may not be exercised by or on behalf of any assignee or subtenant.

FAIR MARKET RENT. The provisions of this Section shall apply in any instance in which this Lease provides that the Fair Market Rent is to apply.

FAIR MARKET RENT. "FAIR MARKET RENT" means the annual amount per square foot (exclusive of occupancy costs) that a willing tenant would pay and a willing landlord would accept in arm's length negotiations, without any additional inducements, for a lease of the applicable space on the applicable terms and conditions (including the Additional Rent terms) for the applicable period of time. Fair Market Rent shall be determined by considering the most recent new leases (and market renewals and extensions, if applicable) in the Project and in comparable office buildings in the downtown Los Angeles area. If there are no such leases that are recent, consideration shall be given to the most recent new leases (and market renewals and extensions, if applicable) in other comparable office building locations near the Project.

DETERMINATION BY LANDLORD. Landlord shall initially determine the Fair Market Rent in each instance, and shall give Tenant notice (the "MARKET RENT NOTICE") of such determination and the basis on which such determination was made on or before the 60th day prior to the date on which such determination is to take effect, or as soon thereafter as is reasonably practicable.

DISPUTES REGARDING FAIR MARKET RENT. In the event that Tenant notifies Landlord in writing, on or before the 10th business day following any Market Rent Notice, that Tenant disagrees with the applicable determination, Landlord and Tenant shall negotiate in good faith to resolve such dispute within 10 business days thereafter. If not resolved within such period, the issue shall be referred to an individual (the "EXPERT") reasonably agreed upon by Landlord and Tenant or (failing such agreement) appointed by two individuals, one of which shall be chosen by Landlord and one of which shall be chosen by Tenant. The Expert shall in any event have at least 5 years of experience in leasing office space in downtown Los Angeles and shall be independent. The
Expert shall be deemed to be acting as an expert and not as an arbitrator, and shall determine the applicable Fair Market Rent within 30 days following his or her appointment. The Fair Market Rent which shall apply for purposes of the applicable provision of this Lease shall be the rent determined by either Landlord or Tenant which is closest to the Expert's determination, and the party that is not closest shall pay all of the costs and expenses incurred in connection with the appointment of, and services of, the Expert. Until any such dispute is resolved, any applicable payments due under this Lease shall correspond to Landlord's determination and, if applicable, Landlord shall refund any overpayments to Tenant, within thirty (30) business days following the final resolution of the dispute.

(e) LANDLORD'S TERMINATION RIGHT. In the event that Tenant has properly and timely exercised its option to extend the Term as described in this Article 30, Landlord shall at any time during the Option Period have the right to terminate the Lease if Landlord has received governmental approvals for the redevelopment of the Project. Such termination shall be effective one hundred eighty (180) days after Landlord has delivered written notice of its election to terminate to Tenant, and so long as Tenant is not in default under this Lease, Basic Rental for the final ninety (90) days of the reduced Term shall be abated.

ARTICLE 31

MISCELLANEOUS

(a) SEVERABILITY; ENTIRE AGREEMENT. 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 other provisions shall remain in full force and effect. This Lease and the Exhibits and any Addendum attached hereto constitute the entire agreement between the parties hereto with respect to the subject matter hereof, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or supplemented except by an agreement in writing signed by the parties hereto or their successor in interest.

(b) ATTORNEYS' FEES; WAIVER OF JURY TRIAL.

(i) In any action to enforce the terms of this 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 in such suit and such attorneys' fees 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.

(ii) 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 by license of 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 incurred by Landlord in connection with such litigation.
When legal services are rendered by an attorney at law who is an employee of a party, attorneys' fees incurred by that party shall be deemed to include an amount based upon the number of hours spent by such employee on such matters multiplied by an appropriate billing rate determined by taking into consideration the same factors, including but not limited by, the importance of the matter, time applied, difficulty and results, as are considered when an attorney not in the employ of a party is engaged to render such service.

EACH PARTY HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION SEEKING SPECIFIC PERFORMANCE OF ANY PROVISION OF THIS LEASE, FOR DAMAGES FOR ANY BREACH UNDER THIS LEASE, OR OTHERWISE FOR ENFORCEMENT OF ANY RIGHT OR REMEDY HEREUNDER.

TIME OF ESSENCE. Each of Tenant's covenants herein is a condition and time is of the essence with respect to the performance of every provision of this Lease.

HEADINGS; JOINT AND SEVERAL. The article headings contained in this Lease are for convenience only and do not in any way limit or amplify any term or provision hereof. The terms "Landlord" and "Tenant" as used herein shall include the plural as well as the singular, the neuter shall include the masculine and feminine genders and the obligations herein imposed upon Tenant shall be joint and several as to each of the persons, firms or corporations of which Tenant may be composed.

RESERVED AREA. Tenant hereby acknowledges and agrees that the exterior walls of the Premises and the area between the finished ceiling of the premises and the slab of the floor of the project thereabove have not been demised hereby and the use thereof together with the right to install, maintain, use, repair and replace pipes, ducts, conduits and wires leading through, under or above the Premises in locations which will not materially interfere with Tenant's use of the Premises and serving other parts of the Project are hereby excepted and reserved unto Landlord.

NO OPTION. THE SUBMISSION OF THIS LEASE BY LANDLORD, ITS AGENT OR REPRESENTATIVE FOR EXAMINATION OR EXECUTION BY TENANT DOES NOT CONSTITUTE AN OPTION OR OFFER TO LEASE THE PREMISES UPON THE TERMS AND CONDITIONS CONTAINED HEREBIN OR A RESERVATION OF THE PREMISES IN FAVOR OF TENANT, IT BEING INTENDED HEREBY THAT THIS LEASE SHALL ONLY BECOME EFFECTIVE UPON THE EXECUTION HEREOF BY LANDLORD AND DELIVERY OF A FULLY EXECUTED LEASE TO TENANT.

USE OF PROJECT NAME; IMPROVEMENTS. Tenant shall not be allowed to use the name, picture or representation of the Project, or words to that effect, in connection with any business carried on in the Premises or otherwise (except as Tenant's address) without the prior written consent of Landlord. In the event that Landlord undertakes any additional improvements on the Real Property including, but not limited to, new construction or renovation or additions to the existing improvements, Landlord shall not be liable to Tenant for any noise, dust, vibration or interference with access to the Premises or disruption in Tenant's business caused thereby.

RULES AND REGULATIONS. Tenant shall observe faithfully and comply strictly with the Rules and Regulations attached to this Lease as Exhibit "B" and made a part hereof, and such other Rules and Regulations as Landlord may from time to time
reasonably adopt for the safety, care and cleanliness of the 
Project, the facilities thereof, or the preservation of good 
order therein. Landlord shall not be liable to Tenant for 
violation of any such Rules and Regulations, or for the breach 
of any covenant or condition in any lease by any other tenant 
in the Project. A waiver by Landlord of any Rule or Regulation 
for any other tenant shall not constitute nor be deemed a 
waiver of the Rule or Regulation for this Tenant.

(i) **QUIET POSSESSION.** Upon Tenant's paying the Basic Rent, 
Additional Rent and other sums provided hereunder and 
observing and performing all of the covenants, conditions and 
provisions on Tenant's part to be observed and performed 
hereunder, Tenant shall have quiet possession of the Premises 
for the entire Term hereof, subject to all of the provisions 
of this Lease.

(j) **RENT.** All payments required to be made hereunder to Landlord 
shall be deemed to be rent, whether or not described as such.

(k) **SUCCESSIONS AND ASSIGNS.** Subject to the provisions of Article 
15 hereof, all of the covenants, conditions and provisions of 
this Lease shall be binding upon and shall inure to the 
benefit of the parties hereto and their respective heirs, 
personal representatives, successors and assigns.

(l) **NOTICES.** Any notice required or permitted to be given 
hereunder shall be in writing and may be given by personal 
service evidenced by a signed receipt or sent by registered or 
certified mail, return receipt requested, addressed to Tenant 
at the Premises or to Landlord at:

c/o Kor Realty Group, L.L.C.  
1212 S. Flower Street, Suite 400  
Los Angeles, California 90015  
Attention: Frank Iaffaldano

or at the address from time to time established for the payment of rent 
and which shall be effective upon proof of delivery. Either party may by notice 
to the other specify a different address for notice purposes except that, upon 
Tenant's taking possession of the Premises, the Premises shall constitute 
Tenant's address for notice purposes. A copy of all notices to be given to 
Landlord hereunder shall be concurrently transmitted by Tenant to such party 
hereafter designated by notice from Landlord to Tenant. Any notices sent by 
Landlord regarding or relating to eviction procedures, including without 
limitation three-day notices, may be sent by regular mail. Until further written 
otice from Landlord, Landlord's address for remittance of rent shall be:

c/o Kor Realty Group, L.L.C.  
1212 S. Flower Street, Suite 400  
Los Angeles, California 90015  
Attention: Accounting - 1212 S. Flower Street

(m) **PERSISTENT DELINQUENCIES.** In the event that Tenant shall be 
delinquent by more than fifteen (15) days in the payment of 
rent on three (3) separate occasions in any twelve (12) month 
period, Landlord shall have the right to terminate this Lease 
by thirty (30) days' written notice given by Landlord to 
Tenant within thirty (30) days of the last such delinquency.

(n) **RIGHT OF LANDLORD TO PERFORM.** All covenants and agreements to 
be performed by Tenant under any of the terms of this Lease 
shall be performed by Tenant at Tenant's sole cost and expense 
and without any abatement of rent. If Tenant shall fail to pay 
any sum of money, other than rent, required to be paid by it 
hereunder or shall fail to perform any other act on its part 
to be performed hereunder, and such failure shall continue 
beyond any applicable cure period set forth in this Lease, 
Landlord may, but shall not be obligated to, without waiving
or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed as is in this Lease provided. All sums so paid by Landlord and all reasonable incidental costs, together with interest thereon at the rate of ten percent (10%) per annum from the date of such payment by Landlord, shall be payable to Landlord on demand and Tenant covenants to pay any such sums, and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of the nonpayment thereof by Tenant as in the case of default by Tenant in the payment of the rent.

(o) ACCESS, CHANGES IN PROJECT, FACILITIES, NAME.

(i) Every part of the Project except the inside surfaces of all walls, windows and doors bounding the Premises (including exterior building walls, core corridor walls and doors and any core corridor entrance), and any space in or adjacent to the Premises used for shafts, stacks, pipes, conduits, fan rooms, ducts, electric or other utilities, sinks or other building facilities, and the use thereof, as well as access thereto through the Premises for the purposes of operation, maintenance, decoration and repair, are reserved to Landlord.

(ii) Tenant shall permit Landlord to install, use and maintain pipes, ducts and conduits within the walls, columns and ceilings of the Premises.

(iii) Landlord reserves the right, without incurring any liability to Tenant therefor, to make such changes in or to the Project and the fixtures and equipment thereof, as well as in or to the street entrances, halls, passages, elevators, stairways and other improvements thereof, as it may deem necessary or desirable.

(iv) Landlord may adopt any name for the Project and Landlord reserves the right to change the name or address of the Project at any time.

(p) SIGNING AUTHORITY. If Tenant is a corporation, partnership or limited liability company, each individual executing this Lease on behalf of said entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity in accordance with: (i) if Tenant is a corporation, a duly adopted resolution of the Board of Directors of said corporation or in accordance with the by-laws of said corporation, (ii) if Tenant is a partnership, the terms of the partnership agreement, and (iii) if Tenant is a limited liability company, the terms of its operating agreement, and that this Lease is binding upon said entity in accordance with its terms. Concurrently with Tenant's execution of this Lease, Tenant shall provide to Landlord a copy of: (i) of Tenant is a corporation, such resolution of the Board of Directors authorizing the execution of this Lease on behalf of such corporation, which copy of resolution shall be duly certified by the secretary or an assistant secretary of the corporation and shall be in the form of Exhibit "E" or in some other form reasonably acceptable to Landlord, (ii) if Tenant is a partnership, a copy of the provisions of the partnership agreement granting the requisite authority to each individual executing this Lease on behalf of said
partnership, and (iii) if Tenant is a limited liability company, a copy of the provisions of its operating agreement granting the requisite authority to each individual executing this Lease on behalf of said limited liability company. In the event Tenant fails to comply with the requirements set forth in this subparagraph (p), then each individual executing this Lease shall be personally liable for all of Tenant's obligations in this Lease. (q)

IDENTIFICATION OF TENANT.

(i) If Tenant constitutes more than one person or entity, (A) each of them shall be jointly and severally liable for the keeping, observing and performing of all of the terms, covenants, conditions and provisions of this Lease to be kept, observed and performed by Tenant, (B) the term "Tenant" as used in this Lease shall mean and include each of them jointly and severally, and (C) the act of or notice from, or notice or refund to, or the signature of, any one or more of them, with respect to the tenancy of this Lease, including, but not limited to, any renewal, extension, expiration, termination or modification, of this Lease, shall be binding upon each and all of the persons or entities executing this Lease as Tenant with the same force and effect as if each and all of them had so acted or so given or received such notice or refund or so signed.

(ii) If Tenant is a partnership (or is comprised of two or more persons, individually and as co-partners of a partnership) or if Tenant's interest in this Lease shall be assigned to a partnership (or to two or more persons, individually and as co-partners of a partnership) pursuant to Article 15 hereof (any such partnership and such persons hereinafter referred to in this Article 31(q)(ii) as "PARTNERSHIP TENANT"), the following provisions of this Lease shall apply to such Partnership Tenant:

(A) The liability of each of the parties comprising Partnership Tenant shall be joint and several.

(B) Each of the parties comprising Partnership Tenant hereby consents in advance to, and agrees to be bound by, any written instrument which may hereafter be executed, changing, modifying or discharging this Lease, in whole or in part, or surrendering all or any part of the Premises to the Landlord, and by notices, demands, requests or other communication which may hereafter be given, by the individual or individuals authorized to execute this Lease on behalf of Partnership Tenant under Subparagraph (p) above.

(C) Any bills, statements, notices, demands, requests or other communications given or rendered to Partnership Tenant or to any of the parties comprising Partnership Tenant shall be deemed given or rendered to Partnership Tenant and to all such parties and shall be binding upon Partnership Tenant and all such parties.

(D) If Partnership Tenant admits new partners,
all of such new partners shall, by their admission to Partnership Tenant, be deemed to have assumed performance of all of the terms, covenants and conditions of this Lease on Tenant's part to be observed and performed.

(E) Partnership Tenant shall give prompt notice to Landlord of the admission of any such new partners, and, upon demand of Landlord, shall cause each such new partner to execute and deliver to Landlord an agreement in form satisfactory to Landlord, wherein each such new partner shall assume performance of all of the terms, covenants and conditions of this Lease on Partnership Tenant's part to be observed and performed (but neither Landlord's failure to request any such agreement nor the failure of any such new partner to execute or deliver any such agreement to Landlord shall terminate the provisions of clause (D) of this Article 31(q)(ii) or relieve any such new partner of its obligations thereunder).

(r) SUBSTITUTE PREMISES. Landlord shall have the right at any time during the Term hereof, upon giving Tenant not less than sixty (60) days' prior notice, to provide and furnish Tenant with space elsewhere in the Project of approximately the same size as the Premises and remove and place Tenant in such space, with Landlord to pay all verified and previously approved costs and expenses incurred as a result of such movement to such new space. If Landlord moves Tenant to such new space, this Lease and each and all of its terms, covenants and conditions shall remain in full force and effect and shall be deemed applicable to such new space and such new space shall thereafter be deemed to be the "Premises" as though Landlord and Tenant had entered into an express written amendment of this Lease with respect thereto.

(s) SURVIVAL OF OBLIGATIONS. Any obligations of Tenant occurring prior to the expiration or earlier termination of this Lease shall survive such expiration or earlier termination.

(t) CONFIDENTIALITY. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants and any proposed subtenants or assignees.

(u) GOVERNING LAW. This Lease shall be governed by and construed in accordance with the laws of the State of California. No conflicts of law rules of any state or country (including, without limitation, California conflicts of law rules) shall be applied to result in the application of any substantive or procedural laws of any state or country other than California. All controversies, claims, actions or causes of action arising between the parties hereto and/or their respective successors and assigns, shall brought, heard and adjudicated by the courts of the State of California, with venue in the County of Los Angeles. Each of the parties hereto hereby consents to personal jurisdiction by the courts of the State of California in connection with any such controversy, claim, action or cause of action, and each of the parties hereto consents to service of process by any means authorized by California law and consent to the enforcement of any judgment so obtained in the courts of the State of California on the
same terms and conditions as if such controversy, claim, action or cause of action had been originally heard and adjudicated to a final judgment in such courts. Each of the parties hereto further acknowledges that the laws and courts of California were freely and voluntarily chosen to govern this Lease and to adjudicate any claims or disputes hereunder.

(v) PROPERTY MANAGER. Any services which Landlord is required to furnish pursuant to the provisions of this Lease may, at Landlord's option, be furnished from time to time, in whole or in part, by employees of Landlord or by one or more third persons hired by Landlord or the Property Manager. Tenant agrees that upon Landlord's written request it will enter into direct agreements with the Property Manager or other parties designated by Landlord for the furnishing of any such services required to be furnished by Landlord hereunder, in form and content approved by Landlord, provided however that no such contract shall result in Tenant having to pay in the aggregate more money on account of its occupancy of the Premises under the terms of this Lease (i.e., any costs directly paid by Tenant to Property Manager shall not be included in Direct Costs and the total amounts paid by Tenant under this paragraph plus Tenant's share of Direct Costs shall not exceed what Tenant would have otherwise paid in Direct Costs should Landlord have been the contracting party rather than Tenant), and provided further that no such contract shall result in Tenant receiving less services than it is presently entitled to receive under this Lease, or services of a lesser quality.

(w) REPRESENTATIONS NOT PERSONAL. It is expressly understood and agreed by and between the parties hereto, anything herein to the contrary notwithstanding, that each and all of the representations, warranties, covenants, undertakings and agreements herein made on the part of any Landlord while in form purporting to be the representations, warranties, covenants, undertakings and agreements of such Landlord are nevertheless each and every one of them made and intended, not as personal representations, warranties, covenants, undertakings and agreements by such Landlord, or for the purpose or with the intention of binding such Landlord personally, but are made and intended for the purpose only of subjecting such Landlord's interest in the Premises and the Project to the terms of this Lease and for no other purpose whatsoever, and in case of default hereunder by such Landlord (or default through, under or by any of the representatives, servants, employees or representatives of such Landlord), Tenant shall look solely to the interests of such Landlord in the Premises and the Project; that no Landlord shall have any personal liability to pay any indebtedness accruing hereunder or to perform any covenant, either express or implied, herein contained; that no personal liability or personal responsibility of any sort is assumed by, nor shall at any time be asserted or enforceable against, Landlord, or Landlord's Property Manager, employees or representatives, on account of this Lease or on account of any representation, warranty, covenant, undertaking or agreement of Landlord contained, either express or implied. All such personal liability, if any, is hereby expressly waived and released by Tenant and by all persons claiming by, through or under Tenant.

(x) ANTI-TERRORISM REPRESENTATION. Neither Tenant nor any of its affiliates have engaged in any dealings or transactions, directly or indirectly, (i) in contravention of any U.S., international or other money laundering regulations or conventions, including, without limitation, the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, Trading...
with the Enemy Act (50 U.S.C. ss.1 et seq., as amended), or any foreign asset control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto, or (ii) in contravention of Executive Order No. 13,244, 66 Fed. Reg. 49,079 (2001) issued by the President of the United States (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, Support Terrorism), as may be amended or supplemented from time to time ("Anti-Terrorism Order") or on behalf of terrorists or terrorist organizations, including those persons or entities that are included on any relevant lists maintained by the United Nations, North Atlantic Treaty Organization, Organization of Economic Cooperation and Development, Financial Action Task Force, U.S. Office of Foreign Assets Control, U.S. Securities & Exchange Commission, U.S. Federal Bureau of Investigation, U.S. Central Intelligence Agency, U.S. Internal Revenue Service, or any country or organization, all as may be amended from time to time. Neither Tenant nor any of its affiliates are a person described in section 1 of the Anti-Terrorism Order and neither Tenant nor any of its affiliates have engaged in any dealings or transactions, or otherwise been associated with any such person. If at any time this representation becomes false then it shall be considered a default under this Lease and Landlord shall have the right to exercise all of the remedies set forth in this Lease in the event of a default.

(y) SIGNAGE. Subject to the provisions of this paragraph, Tenant shall be entitled to twelve (12) lines on the Project's building directory and Project-standard suite signage outside the Premises, subject to Project standard. In addition to the foregoing, in the event that the Premises are hereafter increased so that Tenant is leasing more square footage than any other tenant in the Project, Tenant shall have the right to "building-top" identity signage ("BUILDING SIGNAGE") on top of the Project, subject to any rights of any third party to Building Signage that are existing at the time Tenant becomes entitled to the Building Signage. The Building Signage shall (A) comply with all governmental laws, regulations, rules, codes and ordinances pertaining thereto, (B) comply with all provisions of this Lease, (C) have received the prior approval of all appropriate governmental bodies, including required permits, (D) have received the prior written approval of Landlord as to all aspects of the Building Signage, including, without limitation, design and location thereof, and (E) conform to Landlord's signage criteria for the Project. All costs and expenses relating to the Building Signage, including without limitation, (i) the cost of the installation of the Building Signage, (ii) the costs of obtaining permits and approvals, (iii) the costs for the maintenance, repair and replacement of the Building Signage, (iv) the cost for the maintenance of the Building Signage and any electrical consumption for illuminating the Building Signage, if any, and (v) the costs associated with the removal of the Building Signage and the restoration of the area required due to such removal, including, but not limited to, costs associated with the restoration of landscaping damaged by removal of the Building Signage, to the condition existing prior to the installation of the Building Signage, shall be at the sole cost and expense of Tenant. Tenant shall pay to Landlord, upon written demand any and all such costs within ten (10) days after receipt (except for such costs payable directly by Tenant to any governmental entity). In the event of an Event of Default or the expiration or earlier termination of this Lease, Landlord may elect to repair, maintain, replace and remove the Building Signage at Tenant's cost. The Building Signage shall at all times during the term hereof be maintained in working,
first-class condition. The signage rights granted in this paragraph are personal to Tenant and may not be transferred by Tenant. If Tenant shall assign this Lease, sublet the Premises or otherwise Transfer any interest of Tenant in this Lease or the Premises or attempt to transfer any signage right in violation of this Lease, then the rights granted Tenant under this paragraph shall terminate and Landlord shall have the right to immediately remove the Building and restore the area as hereinabove provided. Tenant acknowledges and agrees that it has familiarized itself with the signage that Landlord has currently installed on the facades of the buildings within the Project. Landlord shall have the ongoing right to install similar signage on the Project building facades.

(z) CROSS DEFAULT. Landlord and Tenant acknowledge and agree that the concurrent delivery by Tenant to Landlord of a fully-executed AIR Commercial Real Estate Association Standard Industrial/Commercial Multi-Tenant Lease - Gross for the lease of premises at 1226 South Flower Street by Tenant (the "CONCURRENT AGREEMENT") is a material consideration for Landlord's execution of this Lease and that Landlord would not execute and deliver this Lease but for such Concurrent Agreement. Accordingly, concurrently with the execution and delivery of this Lease by Tenant, Tenant shall deliver to Landlord the duly executed Concurrent Agreement. If Tenant fails to deliver to Landlord the executed Concurrent Agreement concurrently with the delivery of this Lease, Landlord may terminate this Lease by written notice to Tenant given at any time thereafter. In such event, this Lease shall terminate upon Tenant's receipt of Landlord's notice, Tenant shall bear both parties' expenses and fees incurred in the negotiations and preparation of this Lease and the Concurrent Agreement and in complying herewith through the date of termination (including, without limitation, Landlord's legal fees) and Landlord shall have no further obligation to Tenant or any related party under this Lease or under the Concurrent Agreement shall be deemed a default of Tenant under this Lease and any breach or default of Tenant under this Lease shall be deemed a default of Tenant, as lessee, under the Concurrent Agreement.

(aa) EXHIBITS AND ADDENDUM. The Exhibits and Addendum, if applicable, attached hereto are incorporated herein by this reference as if fully set forth herein.

IN WITNESS WHEREOF, the parties have executed this Lease, consisting of the foregoing provisions and Articles, including all exhibits and other attachments referenced therein, as of the date first above written.

"LANDLORD"

1212 FLOWER REAL ESTATE, LLC,
a Delaware limited liability company

By: Petit Real Estate Limited Partnership,
a Delaware limited partnership,
its sole member

By: Kor Trio, LLC
a Delaware limited liability company, its general partner
EXHIBIT B

RULES AND REGULATIONS

1. No sign, advertisement or notice shall be displayed, printed or affixed on or to the Premises or to the outside or inside of the Project or so as to be visible from outside the Premises or Project without Landlord's prior written consent. Landlord shall have the right to remove any non-approved sign, advertisement or notice, without notice to and at the expense of Tenant, and Landlord shall not be liable in damages for such removal. All approved signs or lettering on doors and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by Landlord or by a person selected by Landlord and in a manner and style acceptable to Landlord.

2. Tenant shall not obtain for use on the Premises ice, waxing, cleaning, interior glass polishing, rubbish removal, towel or other similar services, or accept barbering or bootblackening, or coffee cart services, milk, soft drinks or other like services on the Premises, except from persons authorized by Landlord and at the hours and under regulations fixed by Landlord. No vending machines or machines of any description shall be installed, maintained or operated upon the Premises without Landlord's prior written consent, which shall not be unreasonably delayed, conditioned or withheld.

3. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Tenant or used for any purpose other than for ingress and egress from Tenant's Premises. Under no circumstances is trash to be stored in the corridors. Notice must be given to Landlord for any large deliveries. Furniture, freight and other large or heavy articles, and all other deliveries may be brought into the Project only at times and in the manner designated by Landlord, and always at Tenant's sole responsibility and risk. Landlord may impose reasonable charges for use of freight elevators after or before normal business hours. All damage done to the Project by moving or maintaining such furniture,
freight or articles shall be repaired by Landlord at Tenant's expense. Tenant shall not take or permit to be taken in or out of entrances or passenger elevators of the Project, any item normally taken, or which Landlord otherwise reasonably requires to be taken, in or out through service doors or on freight elevators. Tenant shall move all supplies, furniture and equipment as soon as received directly to the Premises, and shall move all waste that is at any time being taken from the Premises directly to the areas designated for disposal.

4. Toilet rooms, toilets, urinals, wash bowls and other apparatus shall not be used for any purpose other than for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein.

5. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, ceilings or floor or in any way deface the Premises. Tenant shall not place typed, handwritten or computer generated signs in the corridors or any other common areas. Should there be a need for signage additional to the Project standard tenant placard, a written request shall be made to Landlord to obtain approval prior to any installation. All costs for said signage shall be Tenant's responsibility.

6. In no event shall Tenant place a load upon any floor of the Premises or portion of any such flooring exceeding the floor load per square foot of area for which such floor is designed to carry and which is allowed by law, or any machinery or equipment which shall cause excessive vibration to the Premises or noticeable vibration to any other part of the Project. Prior to bringing any heavy safes, vaults, large computers or similarly heavy equipment into the Project, Tenant shall inform Landlord in writing of the dimensions and weights thereof and shall obtain Landlord's consent thereto. Such consent shall not constitute a representation or warranty by Landlord that the safe, vault or other equipment complies, with regard to distribution of weight and/or vibration, with the provisions of this Rule 6 nor relieve Tenant from responsibility for the consequences of such noncompliance, and any such safe, vault or other equipment which Landlord determines to constitute a danger of damage to the Project or a nuisance to other tenants, either alone or in combination with other heavy and/or vibrating objects and equipment, shall be promptly removed by Tenant, at Tenant's cost, upon Landlord's written notice of such determination and demand for removal thereof.

7. Tenant shall not use or keep in the Premises or Project any kerosene, gasoline or inflammable, explosive or combustible fluid or material, or use any method of heating or air-conditioning other than that supplied by Landlord.

8. Tenant shall not lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by Landlord.

9. Tenant shall not install or use any blinds, shades, awnings or screens in connection with any window or door of the Premises and shall not use any drape or window covering facing any exterior glass surface other than the standard drapes, blinds or other window covering established by Landlord.

10. Tenant shall cooperate with Landlord in obtaining maximum effectiveness of the cooling system by closing window coverings when the sun's rays fall directly on windows of the Premises. Tenant shall not obstruct, alter, or in any way impair the efficient operation of Landlord's heating,
ventilating and air-conditioning system. Tenant shall not tamper with or change the setting of any thermostats or control valves.

11. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the permitted use of the Premises. Tenant shall not, without Landlord's prior written consent, occupy or permit any portion of the Premises to be occupied or used for the manufacture or sale of liquor or tobacco in any form, or a barber or manicure shop, or as an employment bureau. The Premises shall not be used for lodging or sleeping or for any improper, objectionable or immoral purpose. No auction shall be conducted on the Premises.

12. Tenant shall not make, or permit to be made, any unseemly or disturbing noises, or disturb or interfere with occupants of Project or neighboring buildings or premises or those having business with it by the use of any musical instrument, radio, phonographs or unusual noise, or in any other way.

13. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the Premises, and no cooking shall be done or permitted by any tenant in the Premises, except that the preparation of coffee, tea, hot chocolate and similar items for tenants, their employees and visitors shall be permitted. No tenant shall cause or permit any unusual or objectionable odors to be produced in or permeate from or throughout the Premises. The foregoing notwithstanding, Tenant shall have the right to use a microwave and to heat microwavable items typically heated in an office. No hot plates, toasters, toaster ovens or similar open element cooking apparatus shall be permitted in the Premises.

14. The sashes, sash doors, skylights, windows and doors that reflect or admit light and air into the halls, passageways or other public places in the Project shall not be covered or obstructed by any tenant, nor shall any bottles, parcels or other articles be placed on the window sills.

15. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by any tenant, nor shall any changes be made in existing locks or the mechanisms thereof unless Landlord is first notified thereof, gives written approval, and is furnished a key therefor. Each tenant must, upon the termination of his tenancy, give to Landlord all keys and key cards of stores, offices, or toilets or toilet rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys so furnished, such tenant shall pay Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change. If more than two keys for one lock are desired, Landlord will provide them upon payment therefor by Tenant. Tenant shall not key or re-key any locks. All locks shall be keyed by Landlord's locksmith only.

16. Landlord shall have the right to prohibit any advertising by any tenant which, in Landlord's opinion, tends to impair the reputation of the Project or its desirability as an office building, and upon written notice from Landlord any tenant shall refrain from and discontinue such advertising.

17. Landlord reserves the right to control access to the Project by all persons after reasonable hours of generally recognized business days and at all hours on Sundays and legal holidays. Each tenant shall be responsible for all persons for whom it requests after hours access and shall be liable to Landlord for all acts of such persons.
Landlord shall have the right from time to time to establish reasonable rules pertaining to freight elevator usage, including the allocation and reservation of such usage for tenants' initial move-in to their premises, and final departure therefrom.

18. Any person employed by any tenant to do janitorial work shall, while in the Project and outside of the Premises, be subject to and under the control and direction of the Office of the Project or its designated representative such as security personnel (but not as an agent or servant of Landlord, and the Tenant shall be responsible for all acts of such persons).

19. All doors opening on to public corridors shall be kept closed, except when being used for ingress and egress. Tenant shall cooperate and comply with any reasonable safety or security programs, including fire drills and air raid drills, and the appointment of "fire wardens" developed by Landlord for the Project, or required by law. Before leaving the Premises unattended, Tenant shall close and securely lock all doors or other means of entry to the Premises and shut off all lights and water faucets in the Premises.

20. The requirements of tenants will be attended to only upon application to the Office of the Project.

21. Canvassing, soliciting and peddling in the Project are prohibited and each tenant shall cooperate to prevent the same.

22. All office equipment of any electrical or mechanical nature shall be placed by tenants in the Premises in settings approved by Landlord, to absorb or prevent any vibration, noise or annoyance.

23. No air-conditioning unit or other similar apparatus shall be installed or used by any tenant without the prior written consent of Landlord. Tenant shall pay the cost of all electricity used for air-conditioning in the Premises if such electrical consumption exceeds normal office requirements, regardless of whether additional apparatus is installed pursuant to the preceding sentence.

24. There shall not be used in any space, or in the public halls of the Project, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards.

25. All electrical ceiling fixtures hung in offices or spaces along the perimeter of the Project must be fluorescent and/or of a quality, type, design and bulb color approved by Landlord. Tenant shall not permit the consumption in the Premises of more than 2 1/2 watts per net usable square foot in the Premises in respect of office lighting nor shall Tenant permit the consumption in the Premises of more than 1 1/2 watts per net usable square foot of space in the Premises in respect of the power outlets therein, at any one time. In the event that such limits are exceeded, Landlord shall have the right to require Tenant to remove lighting fixtures and equipment and/or to charge Tenant for the cost of the additional electricity consumed.

26. PARKING.
(b) Automobiles must be parked entirely within the stall lines on the floor.
(c) All directional signs and arrows must be observed.
(d) The speed limit shall be 5 miles per hour.
(e) Parking is prohibited in areas not striped for parking.
(f) Parking cards or any other device or form of identification supplied by Landlord (or its operator) shall remain the property of Landlord (or its operator). Such parking identification device must be displayed as requested and may not be mutilated in any manner. The serial number of the parking identification device may not be obliterated. Devices are not transferable or assignable and any device in the possession of an unauthorized holder will be void. There will be a replacement charge to the Tenant or person designated by Tenant of $25.00 for loss of any parking card. There shall be a security deposit of $25.00 due at issuance for each card key issued to Tenant.
(g) The monthly rate for parking is payable one (1) month in advance and must be paid by the third business day of each month. Failure to do so will automatically cancel parking privileges and a charge at the prevailing daily rate will be due. No deductions or allowances from the monthly rate will be made for days parker does not use the parking facilities.
(h) Tenant may validate visitor parking by such method or methods as the Landlord may approve, at the validation rate from time to time generally applicable to visitor parking, not to exceed $20.00 per day.
(i) Landlord (and its operator) may refuse to permit any person who violates the within rules to park in the parking facilities, and any violation of the rules shall subject the automobile to removal from the parking facilities at the parker's expense. In either of said events, Landlord (or its operator) shall refund a pro rata portion of the current monthly parking rate and the sticker or any other form of identification supplied by Landlord (or its operator) will be returned to Landlord (or its operator).
(j) Parking managers or attendants are not authorized to make or allow any exceptions to these Rules and Regulations.
(k) All responsibility for any loss or damage to automobiles or any personal property therein is assumed by the parker.
(l) Loss or theft of parking identification devices from automobiles must be reported to the garage manager immediately, and a lost or stolen report must be filed by the parker at that time.
(m) The parking facilities are for the sole purpose of parking one automobile per space. Washing, waxing, cleaning or servicing of any vehicles by the parker or his agents is prohibited.
Landlord (and its operator) reserves the right to refuse the issuance of monthly stickers or other parking identification devices to any Tenant and/or its employees who refuse to comply with the above Rules and Regulations and all City, State or Federal ordinances, laws or agreements.

Tenant agrees to acquaint all employees with these Rules and Regulations.

No vehicle shall be stored in the parking facilities for a period of more than one (1) week.

The Project is a non-smoking Project. Smoking or carrying lighted cigars or cigarettes in the Premises or the Project, including the elevators in the Project, is prohibited.

EXHIBIT C
NOTICE OF LEASE TERM DATES
AND TENANT'S PROPORTIONATE SHARE

TO: __________________________
DATE: __________________________

RE: Lease dated ________________, ___, between __________________________
___________________________   (“Landlord”),   and   ____________________________
____________________________  (“Tenant”),  concerning Suite ______, located at
___________________________________________________________.

Ladies and Gentlemen:

In accordance with the Lease, Landlord wishes to advise and/or confirm the following:

1. That the Premises have been accepted herewith by the Tenant as being substantially complete in accordance with the Lease and that there is no deficiency in construction.

2. That the Tenant has taken possession of the Premises and acknowledges that under the provisions of the Lease, the Term of said Lease shall commence as of ____________ for a term of __________________ ending on ________________.

3. That in accordance with the Lease, Basic Rental commenced to accrue on __________________________.

4. If the Commencement Date of the Lease is other than the first day of the month, the first billing will contain a prorated adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in said Lease.

5. Rent is due and payable in advance on the first day of each and every month during the Term of said Lease. Your rent checks should be made payable to __________________________ at __________________________.

6. The exact number of rentable square feet within the Premises is ______ square feet.

Tenant's Proportionate Share, as adjusted based upon the exact number of rentable square feet within the Premises, is
AGREED AND ACCEPTED:

TENANT:

____________________________________, a ________________________________

By: _______________________________

_______________________________
[Printed Name and Title]

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EXHIBIT D

[INTENTIONALLY OMITTED]

D-1

EXHIBIT E

SIGNING RESOLUTION

CERTIFIED COPY OF
BOARD OF DIRECTORS RESOLUTIONS
OF

The undersigned, being the duly elected Corporate Secretary of a corporation ("Corporation"), hereby certifies that the following is a true, full and correct copy of the resolutions adopted by the Corporation by unanimous written consent in lieu of a special meeting of its Board of Directors, and that said resolutions have not been amended or revoked as of the date hereof.

RESOLVED, that the Corporation, is hereby authorized to execute, deliver and fully perform that certain document entitled Standard Office Lease ("Lease") by and between the Corporation and 1212 FLOWER REAL ESTATE, LLC, a Delaware limited liability company, for the lease of space at 1212 South Flower Street, Los Angeles 90015.

RESOLVED FURTHER, that the Corporation is hereby authorized and directed to make, execute and deliver any and all, consents, certificates, documents, instruments, amendments, confirmations, guarantees, papers or writings as may be required in connection with or in furtherance of the Lease (collectively with the Lease, the "Documents") or any transactions described therein, and to do any and all other acts necessary or desirable to effectuate the foregoing resolution.

RESOLVED FURTHER, that the following officers acting together: __________________ as ______; and __________________ as ______ are authorized to execute and deliver the Documents on behalf of the Corporation, together with any other documents and/or instruments evidencing or ancillary to the Documents, and in such forms and on such terms as such officer(s) shall approve, the execution thereof to be conclusive evidence of such approval and to execute and deliver on behalf of the Corporation all other documents necessary to effectuate said transaction in conformance with these resolutions.

Date: _____________, 200________

___________________________,
Corporate Secretary
AIR COMMERCIAL REAL ESTATE ASSOCIATION
STANDARD INDUSTRIAL/COMMERCIAL
MULTI-TENANT LEASE - GROSS

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Lease ("Lease"), dated for reference purposes only January 22, 2009, is made by and between 1212 Flower Real Estate, LLC, a Delaware limited liability company ("Lessor") and People's Liberation, Inc., a California corporation ("Lessee"), (collectively the "Parties", or individually a "Party").

1.2 (a) Premises: That certain portion of the Project (as defined below), including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 1226 S. Flower Street, located in the City of Los Angeles, County of Los Angeles, State of California, with zip code 90015, as outlined on Exhibit A attached hereto ("Premises") and generally described as (describe briefly the nature of the Premises) the ground floor of the warehouse space located at 1226 S. Flower, comprising approximately 7,500 RSF of warehouse space. In addition to Lessor's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to any utility raceways of the building containing the Premises ("Building") and to the Common Areas (as defined in Paragraph 2.7 below), but shall not have any rights to the roof, or exterior walls of the Building or to any other buildings in the Project. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Project." (See also Paragraph 2)

1.2 (b) Parking: ______________________unreserved vehicle parking spaces. (See also Paragraph 2.6)

1.3 Term: 1 years and 0.5 months ("Original Term") commencing February 15, 2009 ("Commencement Date") and ending February 28, 2010 ("Expiration Date"). (See also Paragraph 3)

1.4 Early Possession: If the Premises are available Lessee may have non-exclusive possession of the Premises commencing ______________________ ("Early Possession Date") (See also Paragraphs 3.2 and 3.3)

1.5 Base Rent: $4,500.00 per month ("Base Rent"), payable on the first (1st) day of each month commencing on March 1, 2009. (See also Paragraph 4)

1.6 Lessee's Share of Common Area Operating Expenses: One Hundred percent (100%) ("Lessee's Share").

In the event that the size of the Premises and/or the Project are modified during the term of this Lease or another tenant moves into the Building, Lessor shall recalculate Lessee's Share to reflect such modification.

1.7 Base Rent and Other Monies Paid Upon Execution:

(a) Base Rent: $6,750.00 for the period February 15, 2009 to March 31, 2009.

(b) Common Area Operating Expenses: $750.00 for the period 2/15/09 - 3/31/09.

(c) Security Deposit: $9,000.00 ("Security Deposit"). (See also Paragraph 5)

(d) _________________ fee ____________________

(e) Total Due Upon Execution of this Lease: $16,500.00

1.8 Agreed Use: Warehousing and distribution of clothing inventory and sample sewing

(See also Paragraph 6)

1.9 Insuring Party: Lessor is the "Insuring Party." (See also Paragraph 8)

1.10 Real Estate Brokers: (See also Paragraph 15)

(a) Representation: The following real estate brokers (the "Brokers") and brokerage relationships exist in this transaction (check applicable boxes):

☑ CB Richard Ellis - Nico M. Vilgiate represents Lessor exclusively ("Lessor's Broker");

;base

☑ Madison Partners - Gary Weiss represents Lessee exclusively ("Lessee's Broker"); or

☐ _________________ represents both Lessor and Lessee ("Dual Agency").

(b) Payment to Brokers: Upon execution and delivery of this Lease by both Parties, Lessor shall pay to the Brokers the brokerage fee agreed to in a separate written agreement (or if there is no such agreement, the sum of _________________ or ________________ % of the total Base Rent for the brokerage services rendered by the Brokers.

1.11 Guarantor: The obligations of the Lessee under this Lease are to be guaranteed by ________________________ ("Guarantor"). (See also Paragraph 37)

1.12 Attachments. Attached hereto are the following, all of which constitute a part of this Lease:

☑ an Addendum consisting of Paragraphs 50 through 54:

☑ a site plan depicting the Premises;
O a site plan depicting the Project;

O a current set of the Rules and Regulations for the Project;

O a current set of the Rules and Regulations adopted by the owners' association;
2. Premises.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this Lease. While the approximate square footage of the Premises may have been used in the marketing of the Premises for purposes of comparison, the Base Rent stated herein is NOT to be used as square footage and is not subject to adjustment should the actual size be determined to be different. NOTE: Lessee is advised to verify the actual size prior to executing this Lease.

2.2 Condition. Lessor shall deliver that portion of the Premises contained within the Building ("Unit") to Lessee broom clean and free of debris on the Commencement Date or the Early Possession Date whichever first occurs ("Start Date"). and, as long as the required service contracts described in Paragraph 7.1(b) below are obtained by Lessee and in effect, within thirty (30) days following the Start Date, warrants that the existing electrical, plumbing, fire sprinkler, lighting, heating, ventilating and air conditioning systems ("HVAC"), loading doors, sump pumps, if any, and all other such elements in the Unit, other than those constructed by Lessee, shall be in good operating condition on and date that the structural elements of the roof, bearing walls and foundation of the Unit shall be free of material defects, and that the Unit does not contain hazardous levels of any mold or fungi defined as lease under applicable state or federal law. If a non-compliance with such warranty exists as of the Start Date, or if one of such systems or elements should malfunction or fail within the applicable warranty period, Lessor shall, at Lessor's sole obligation with respect to such matter, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, malfunction or failure, rectify same at Lessor's expense. The warranty period shall be as follows: (i) 90 days as to the HVAC systems, (ii) 30 days as to the remaining systems and other elements of the Unit. If Lessor does not give Lessee the required written notice within the applicable warranty period, correction of any such non-compliance, malfunction or failure shall be the obligation of Lessee at Lessee's sole cost and expense (except for the repairs to the fire sprinkler systems, roof, foundations, and/or bearing walls – see Paragraph 7).

2.3 Compliance. Lessor warrants that to the best of its knowledge the improvements on the Premises and the Common Areas comply with the building codes that were in effect at the time that such improvement or portion thereof was constructed, and also with all applicable laws, covenants or restrictions of record, regulations, and ordinances in effect on the Start Date ("Applicable Requirements"). Said warranty does not apply to the use to which Lessee will put the Premises, modifications which may be required by the Americans with Disabilities Act or any similar laws as a result of Lessee's use (see Paragraph 2.3(h)) or to any Alterations or Utility Installations (as defined in Paragraph 7.1(a)) made or to be made by Lessee—NOTE: Lessee is responsible for determining whether or not the applicable laws, covenants or restrictions of record, regulations, and ordinances in effect as of the Commencement Date ("Applicable Requirements") and especially the zoning are appropriate for Lessee's intended use, and acknowledges that past uses of the Premises may no longer be allowed. If the Premises do not comply with said warranty, Lessor shall, except as otherwise provided, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify the same at Lessor's expense. Lessor does not give Lessee written notice of a non-compliance with this warranty, during the term of this Lease, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense. If the Applicable Requirements are hereafter changed so as to require during the term of this Lease the construction of an addition to or an alteration of the Unit, Premises and/or Building, the remediation of any Hazardous Substance, or the reinforcement or other physical modification of the Unit, Premises and/or Building ("Capital Expenditure"), Lessor and Lessee shall allocate the cost of such work as follows:

(a) Subject to Paragraph 2.3(c) below, if such Capital Expenditures are required as a result of the specific and unique use of the Premises by Lessee as compared with uses by tenants in general, Lessee shall be fully responsible for the cost thereof, provided, however, that if such Capital Expenditure is required during the last 2 years of this Lease and the cost thereof exceeds one (1) months' Base Rent, Lessor may instead terminate this Lease unless Lessor notifies Lessee, in writing, within 10 days after receipt of Lessee's termination notice that Lessor has elected to pay the difference between the actual cost thereof and the amount equal to one (1) months' Base Rent. If Lessor elects termination, Lessee shall immediately cease the use of the Premises which requires such Capital Expenditure and deliver to Lessor written notice specifying a termination date at least 30 days thereof. Such termination date shall, however, in no event be earlier than the last day that Lessee could legally utilize the Premises without commencing such Capital Expenditure.

(b) If such Capital Expenditure is not the result of the specific and unique use of the Premises by Lessee (such as, governmentally mandated seismic modifications), then Lessee shall pay for such Capital Expenditure and Lessor shall only be obligated to pay, each month during the remainder of the term of this Lease or any extension thereof, in the amount equal to 1/12th of such costs reasonably attributable to the Premises. Lessee shall pay Interest on the balance but may prepay its obligation at any time. If, however, such Capital Expenditure is required during the last 2 years of this Lease or if Lessor reasonably determines that it is not economically feasible to undertake such Capital Expenditure to pay its share thereof, Lessor shall have the option to terminate this Lease upon 45 days prior written notice to Lessee unless Lessee notifies Lessor, in writing, within 10 days after receipt of Lessor's termination notice that Lessor will pay for such Capital Expenditure. If Lessor does not elect to terminate, and fail to tender its share of any such Capital Expenditure, Lessor may advance such funds and deduct same, with Interest, from Rent until the remainder of this Lease is not sufficient to fully reimburse Lessor on an offset basis. Lessee shall have the right to terminate this Lease upon 30 days written notice to Lessor.

(c) Notwithstanding the above, the provisions concerning Capital Expenditures are intended to apply only to non-voluntary, unexpected, and new Applicable Requirements. If the Capital Expenditures are instead triggered by Lessee as a result of an actual or proposed change in use, change in intensity of use, or modification to the Premises then, and in that event, Lessee shall either: (i) immediately cease such changed use or intensity of use and/or take such other steps as may be necessary to eliminate the requirement for such Capital Expenditure, or (ii) complete such Capital Expenditure at its own expense. Lessee shall not have any right to terminate this Lease.

2.4 Acknowledgements. Lessee acknowledges that: (a) it has been given an opportunity to inspect and measure the Premises, (b) it has been advised by Lessor and/or Brokers to satisfy itself with respect to the size and condition of the Premises (including but not limited to the electrical, HVAC and fire sprinkler systems, security, environmental aspects, and compliance with Applicable Requirements and the Americans with Disabilities Act), and their suitability for Lessee's intended use, (c) Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to its occupancy of the Premises, (d) it is not relying on any representation as to the size of the Premises made by Brokers or Lessor, (e) the square footage of the Premises was not material to Lessee's decision to lease the Premises and pay the Rent stated herein, and (f) neither Lessor, Lessor's agents, nor Brokers have made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease. In addition, Lessor acknowledges that: (a) Brokers have made no representations, promises or warranty concerning Lessor's ability to honor the Lease or suitability to occupy the Premises, and (ii) it is Lessor's sole responsibility to investigate the financial capability and/or suitability of all proposed tenants.
prior to the Start Date Lessee was the owner or occupant of the Premises. In such event, Lessee shall be responsible for any necessary corrective work.

2.6 Vehicle Parking. Lessee shall not be entitled to use the number of any Parking Spaces specified in Paragraph 1.2(b) in connection with this Lease on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than and number said parking spaces shall be used for parking by Vehicles no larger than full-size passenger automobiles or pick-up trucks, herein called “Permitted Size Vehicles.” Lessor may regulate the loading and unloading of vehicles by adopting Rules and Regulations as provided in Paragraph 2.9. No Vehicles other than Permitted Size Vehicles may access the Project Common Area without the prior written permission of Lessor. In addition:

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) Lessee shall not service or store any vehicles in the Common Areas.

(c) Because there is no parking associated with this Lease, Lessee may only access the Premises from public ways. Lessee shall not be permitted access through Project parking in connection with this Lease.

(e) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.7 Common Areas - Definition. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Project and interior utility raceways and installations within the Unit that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other tenants of the Project and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, walkways, driveways and landscaped areas.

2.8 Common Areas - Lessor's Rights. Lessor grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Project. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessee's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.9 Common Areas - Rules and Regulations. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations ("Rules and Regulations") for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Project and their invitees. Lessee agrees to abide by and conform to all such Rules and Regulations, and shall use its best efforts to cause its employees, suppliers, shippers, customers, contractors and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said Rules and Regulations by other tenants of the Project.

2.10 Common Areas - Changes. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas, walkways and utility raceways;

(b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available;

(c) To designate other land outside the boundaries of the Project to be a part of the Common Areas;

(d) To add additional buildings and improvements to the Common Areas;

(e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project, or any portion thereof; and

(f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Project as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

3. Term.

3.1 Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. Any provision herein granting Lessor Early Possession of the Premises is subject to and conditioned upon the Premises being available for such possession prior to the Commencement Date. Any grant of Early Possession only conveys a non-exclusive right to occupy the Premises. If Lessor totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such Early Possession. All other terms of this Lease (including, but not limited to the obligations to pay Lessor's Share of Common Area Operating Expenses, Real Property Taxes and insurance premiums and to maintain the Premises) shall be in effect during such period. Any such Early Possession shall not affect the Expiration Date.

3.3 Delay In Possession. Lessor agrees to use its best commercially reasonable efforts to deliver possession of the Premises to Lessee by the Commencement Date. If, despite said efforts, Lessor is unable to deliver possession as agreed, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or change the Expiration Date. Lessee shall not, however, be obligated to pay Rent or perform any of its other obligations until Lessor delivers possession of the Premises and any period of rent abatement that Lessor would otherwise have enjoyed shall run from the date of the delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed, but minus any days of delay caused by the acts or omissions of Lessor. If possession is not delivered within 60 days after the Commencement Date, Lessee may, at its option, by notice in writing within 10 days after the end of such 60 day period, cancel this Lease, in which event the Parties shall be discharged from all obligations hereunder. If such written notice is not received by Lessee within said 10 day period, Lessee's right to cancel shall terminate. Except as otherwise provided, if possession is not tendered to Lessee by the Commencement Date and Lessor does not terminate this Lease, as provided in any period of rent abatement that Lessor would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to what Lessee would otherwise have enjoyed under the terms hereof, but minus any days of delay caused by the acts or omissions of Lessor. If possession of the Premises is not delivered within 4 months after the Commencement Date, this Lease shall terminate unless other agreements are reached between Lessor and Lessee, in writing.

3.4 Lessee Compliance. Lessee shall not be required to tender possession of the Premises to Lessee until Lessee complies with its obligation to provide evidence of insurance (Paragraph 8.5). Pending delivery of such evidence, Lessee shall be required to perform all of its obligations under this Lease from and after the Commencement Date, including the payment of Rent, notwithstanding Lessor's election to withhold possession pending receipt of such evidence of insurance. Further, if Lessee is required to perform any other conditions prior to or concurrent with the
4. Rent.

4.1 Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease (except for the Security Deposit) are deemed to be rent ("Rent").

4.2 Common Area Operating Expenses. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as defined in Paragraph 1.6) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) The following costs relating to the ownership and operation of the Project are defined as "Common Area Operating Expenses":

(i) Costs relating to the operation, repair and maintenance, in neat, clean, good order and condition, but not the replacement (see subparagraph (e)), of the following:

(aa) The Common Areas and Common Area improvements, including parking areas, loading and unloading areas, trash areas, roadways, parkways, walkways, driveways, landscaped areas, bumpers, irrigation systems, Common Area lighting facilities, fences and gates, elevators, roofs, and roof drainage systems.

(bb) Any Exterior signs and any tenant directories.

(cc) Any fire sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas and any utilities not separately metered.

(iii) The cost of trash disposal, pest control services, property management, security services, owner's association dues and fees, the cost to repaint the exterior of any structures and the cost of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas and Common Area equipment.

(v) Any increase above the Base Real Property Taxes (as defined in Paragraph 10).

(v) Any "Insurance Cost Increase" (as defined in Paragraph 8).

(vi) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(ix) The cost of any capital improvement to the Building or the Project not covered under the provisions of Paragraph 2.3 provided; however, that Lessor shall allocate the cost of any such capital improvement over a 12 year period and Lessee shall not be required to pay more than Lessee's Share of 1/144th of the cost of such capital improvement in any given month.

(x) The cost of any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Unit, the Building or to any other building in the Project or to the operation, repair and maintenance thereof, shall be allocated entirely to such Unit, Building, or other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Project.

(c) The inclusion of the improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon Lessor to either have improved facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses is payable monthly on the same day as the Base Rent is due hereunder. The amount of such payments shall be based on Lessor's estimate of the annual Common Area Operating Expenses. Within 60 days after written request (but not more than once each year) Lessor shall deliver to Lessee a reasonably detailed statement showing Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding year. If Lessee's payments during such year exceed Lessee's Share, Lessor shall credit the amount of such over-payment against Lessee's future payments. If Lessee's payments during such year were less than Lessee's Share, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

(e) Common Area Operating Expenses shall not include the cost of replacing equipment or capital components such as the roof, foundations, exterior walls or Common Area capital improvements, such as the parking lot paving, elevators, fences that have a useful life for accounting purposes of 5 years or more.

(f) Common Area Operating Expenses shall not include any expenses paid by any tenant directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or insurance proceeds.

(g) See Addendum, Section 51.

4.3 Payment. Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in this Lease), on or before the day on which it is due. All monetary amounts shall be rounded to the nearest whole dollar. In the event that any statement or invoice prepared by Lessor is inaccurate such inaccuracy shall not constitute a waiver and Lessor shall be obligated to pay the amount set forth in this Lease. Rent for any period during the term hereof which is for less than one full calendar month shall be prorated based upon the actual number of days of said month. Payment of Rent shall be made to Lessor at its address stated herein or to such other persons or place as Lessor may from time to time designate in writing. Acceptance of a payment which is less than the amount then due shall not be a waiver of Lessor's rights to the balance of such Rent, regardless of Lessor's endorsement of any check so stating. In the event that any check, draft, or other instrument of payment given by Lessee to Lessor is dishonored for any reason, Lessee agrees to pay to Lessor the sum of $25 in addition to any Late Charge and Lessor, at its option, may require all future Rent be paid by cashier's check. Payments will be applied first to accrued late charges and attorney's fees, second to accrued interest, then to Base Rent and Common Area Operating Expenses, and any remaining amount to any other outstanding charges or costs.

5. Security Deposit. Lessee shall deposit with Lessor upon execution hereof the Security Deposit as security for Lessee's faithful performance of its obligations under this Lease. If Lessee fails to pay Rent, or otherwise Defaults under this Lease, Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount already due Lessor, for Rents which will be due in the future, and/ or to reimburse or compensate Lessor for any liability, expense, loss or damage which Lessor may sustain or incur by reason thereof. If Lessor uses or applies all or any portion of the Security Deposit, Lessee shall within 10 days after written request therefor deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. If the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional monies with Lessor so that the total amount of Security Deposit shall at all times bear the same proportion to the increased Base Rent as the initial Security Deposit bore to the initial...
Base Rent. Should the Agreed Use be amended to accommodate a material change in the business of Lessee or to accommodate a sublessee or assignee, Lessor shall have the right to increase the Security Deposit to the extent necessary, in Lessor's reasonable judgment, to account for any increased wear and tear that the Premises may suffer as a result thereof. If a change in control of Lessee occurs during this Lease and following such change the financial condition of Lessee is, in Lessor's reasonable judgment, significantly reduced, Lessee shall deposit such additional monies with Lessor as shall be sufficient to cause the Security Deposit to be at a commercially reasonable level based on such change in financial condition. Lessor shall not be required to keep the Security Deposit separate from its
general accounts. Within 90 days after the expiration or termination of this Lease, Lessor shall return that portion of the Security Deposit not used or applied by Lessor. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Lessee under this Lease.

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the Agreed Use, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessor shall not use or permit the use of the Premises in a manner that is unlawful, creates damage, waste or a nuisance, or that disturbs occupants of or causes damage to neighboring premises or properties. Other than guide, signal and seeing eye dogs, Lessee shall not keep or allow in the Premises any pets, animals, birds, fish, or reptiles. Lessee shall not unreasonably withhold or delay its consent to any written request for a modification of the Agreed Use. If, on the same date, we shall not impair the structural integrity of the building or the mechanical, electrical, systems thereon and/or it is not significantly more burdensome to the Premises. If Lessor fails to withhold consent, Lessee shall within 30 days of receipt of such request give written notice of same, which notice shall include an explanation of Lessee's objections to the change in the Agreed Use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, or waste whose presence, use, manufacture, disposal, transportation, or release, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, and/or crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in or on the Premises which constitutes a Reportable Use of Hazardous Substances without the express prior written consent of Lessor and timely compliance (at Lessor's expense) with all Applicable Requirements. "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and/or (iii) the presence at the Premises of a Hazardous Substance with respect to which any Applicable Requirements requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may use any ordinary and customary materials reasonably required to be used in the normal course of the Agreed Use, ordinary office supplies (copier toner, liquid paper, glue, etc.) and common household cleaning materials, so long as such use is in compliance with all Applicable Requirements, is not a Reportable Use, and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor may condition its consent to any Reportable Use upon receiving such additional assurances as Lessor reasonably deems necessary to protect itself, the public, the Premises and/or the environment against damage, contamination, injury and/or liability, including, but not limited to, the installation (and removal on or before Lease expiration or termination) of protective modifications (such as concrete encasement(s)) and/or increasing the Security Deposit.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises, other than as previously consented to by Lessee, Lessee shall immediately give written notice of such fact to Lessor, and provide Lessor with a copy of any report, notice, claim or other documentation which it has concerning the presence of such Hazardous Substance.

(c) Lessee Remediation. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under, or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, comply with all Applicable Requirements and take all investigatory and/or remedial action reasonably recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance brought onto the Premises during the term of this Lease, by or for Lessee, or any third party.

(d) Lessee Indemnification. Lessee shall indemnify, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, claims, expenses, penalties, and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee, or any third party (provided, however, that Lessee shall have no liability under this Lease with respect to underground migration of any Hazardous Substance under the Premises from areas outside of the Project not caused or contributed to by Lessee). Lessee's obligations shall include, but shall not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

(e) Lessor Indemnification. Lessor and its successors and assigns shall indemnify, defend, reimburse and hold Lessee, its employees and lenders, harmless from and against any and all environmental damages, including the cost of remediation, which suffered as a direct result of Hazardous Substances on the Premises prior to Lessee taking possession of or which are caused by the gross negligence or willful misconduct of Lessor, its agents or employees. Lessor's obligations, as and when required by the Applicable Requirements, shall include, but not be limited to, the cost of investigation, removal, remediation, restoration and/or abatement, and shall survive the expiration or termination of this Lease.

(f) Investigations and Remediations. Lessor shall retain the responsibility and pay for any investigations or remediation measures required by governmental entities having jurisdiction with respect to the existence of Hazardous Substances on the Premises prior to Lessor taking possession, unless such remediation measure is required as a result of Lessor's use (including "Alterations", as defined in paragraph 7.3(a) below) of the Premises, in which event Lessee shall be responsible for such payment. Lessee shall cooperate fully in any such activities at the request of Lessor, including allowing Lessor and Lessor's agents to have reasonable access to the Premises at reasonable times in order to carry out Lessor's investigative and remedial responsibilities.

(g) Lessor Termination Option. If a Hazardous Substance Condition (see Paragraph 9.1(e)) occurs during the term of this Lease, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by the Applicable Requirements and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 6.2(d) and Paragraph 13), Lessor may, at Lessor's option, either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible as Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to remediate such condition exceeds $50,000 multiplied by the then monthly Base Rent or $100,000, whichever is greater, give written notice to Lessee, within 90 days following receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition, of Lessor's desire to terminate this Lease as of the date 30 days following the date of such notice. In the event Lessor elects to give a termination notice, Lessee may, within 10 days thereafter, give written notice to Lessor of Lessee's commitment to pay the amount by which the cost of the remediation of such Hazardous Substance Condition exceeds an amount equal to $50,000 multiplied by the then monthly Base Rent or $100,000, whichever is greater. Lessee shall provide Lessor with said funds or satisfactory assurance thereof within 30 days following such commitment. In such event, this Lease shall continue in full force and effect, and Lessor shall proceed to make such remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required
funds or assurance thereof within the time provided, this Lease shall terminate as of the date specified in Lessor's notice of termination.

6.3 Lessee's Compliance with Applicable Requirements. Except as otherwise provided in this Lease, Lessee shall, at Lessee's sole expense, fully, diligently and in a timely manner, materially comply with all Applicable Requirements, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants which relate in any manner to such Requirements, without regard to whether said Requirements are now in effect or become effective after the Commencement Date. Lessee shall, within 10 days after receipt of Lessor's written request, provide Lessor with copies of all permits and other documents, and other information evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving the failure of Lessor or the Premises to comply with any Applicable Requirements. Likewise, Lessee shall immediately give written notice to Lessor of: (i) any water damage to the Premises and any suspected seepage, pooling, dampness or other condition conducive to the production of mold; or (ii) any mustiness or other odors that might indicate the presence of mold in the Premises.

6.4 Inspection; Compliance. Lessor and Lessor's "Lender" (as defined in Paragraph 30) and consultants shall have the right to enter into Premises at any time, in the case of an emergency, and otherwise at reasonable times after reasonable notice, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease. The cost of any such inspections shall be paid by Lessor, unless a violation of Applicable Requirements, or a Hazardous Substance Condition (see Paragraph 9.1) is found to exist or be imminent, or the inspection is requested or ordered by a governmental authority. In such case, Lessee shall upon request reimburse Lessor for the cost such inspection, so long as such inspection is reasonably related to the violation or contamination. In addition, Lessee shall provide copies of all relevant material safety data sheets (MSDS) to Lessor within 10 days of the receipt of written request therefor.

7. Maintenance; Repairs; Utility Installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations.

(a) In General. Subject to the provisions of Paragraph 2.2 (Condition), 2.3 (Compliance), 6.3 (Lessee's Compliance with Applicable Requirements), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole expense, keep the Premises, Utility Installations (intended for Lessee's exclusive use, no matter where located), and Alterations in good order, condition and repair (whether or not the portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, but not limited to, all equipment or facilities, such as plumbing, HVAC equipment, electrical, lighting facilities, boilers, pressure vessels, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and Skylights but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices, specifically including the procurement and maintenance of the service contracts required by Paragraph 7.1(b) below. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Service Contracts. Lessee shall, at Lessee's sole expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in the maintenance of the following equipment and improvements, if any, if and when installed on the Premises: (i) HVAC equipment, (ii) boiler and pressure vessels, and (iii) clarifiers. However, Lessor reserves the right, upon notice to Lessee, to procure and maintain any or all of such service contracts, and Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) Failure to Perform. If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after 10 days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the Premises in good order, condition and repair, and Lessee shall promptly pay to Lessor a sum equal to 115% of the cost thereof.

(d) Replacement. Subject to Lessee's indemnification of Lessor as set forth in Paragraph 8.7 below, and without relieving Lessee of liability resulting from Lessee's failure to exercise and perform good maintenance practices, if an item described in Paragraph 7.1(b) cannot be repaired other than at a cost which is in excess of 50% of the cost of replacing such item, then such item shall be replaced by Lessor, and the cost thereof shall be prorated between the Parties and Lessee shall only be obligated to pay, each month during the remainder of the term of this Lease, on the date on which Base Rent is due, an amount equal to the product of multiplying the cost of such replacement by a fraction, the numerator of which is one, and the denominator of which is 144 (ie. 1/144th of the cost per month). Lessee shall pay interest on the unamortized balance but may prepay its obligation at any time.

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, and only if such systems were in existence and fully functional at the date of execution of this Lease, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler system, Common Area fire alarm and/or smoke detection systems, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing light and security services, for which Lessee actually charges a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease.

7.3 Utility Installations; Trade Fixtures; Alterations.

(a) Definitions. The term "Utility Installations" refers to all floor and window coverings, air and/or vacuum lines, power panels, electrical distribution, security and fire protection systems, communication cabling, lighting fixtures, HVAC equipment, plumbing, and fencing in or on the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements, other than Utility Installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a).

(b) Consent. Lessee shall not make any Alterations or Utility Installations to the Premises without Lessor's prior written consent. Lessor may, however, make non-structural Alterations or Utility Installations to the interior of the Premises (excluding the roof) without such consent but upon notice to Lessee, so long as they are not visible from the outside, do not involve rearranging, relocating or removing the roof or any existing Alterations, or do not involve the electrical, plumbing, HVAC, and/or life safety systems, and the cumulative cost thereof during this Lease as extended does not exceed a sum equal to $3,000. In any event, Lessor shall not make or permit any roof penetrations and/or install anything on the roof without the prior written approval of Lessor. Lessor may, as a precondition to granting such approval, require Lessee to utilize a contractor chosen and/or approved by Lessor. Any Alterations or Utility Installations that Lessor shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. Consent shall be deemed conditioned upon Lessee's: (i) acquiring all applicable governmental permits, (ii) furnishing Lessor with copies of both the permits and the plans and specifications prior to commencement of the work, and (iii) compliance with all conditions of said permits and other
Applicable Requirements in a prompt and expeditious manner. Any Alterations or Utility Installations shall be performed in a workmanlike manner with good and sufficient materials. Lessor shall promptly upon completion furnish Lessor with as-built plans and specifications. For work which costs an amount in excess of one month's Base Rent, Lessor may condition its consent upon Lessor providing a lien and completion bond in an amount equal to 150% of the estimated cost of such Alteration or Utility Installation and/or upon Lessee's posting an additional Security Deposit with Lessor.

(c) Liens; Bonds. Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessor shall give Lessor not less than 10 days notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility. If Lessee shall contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment or lien that may be rendered thereon before the enforcement thereof. If Lessor shall require, Lessee shall furnish a surety bond in an amount equal to 150% of the amount of such contested lien, claim or demand, indemnifying Lessor against liability for the same. If Lessor elects to participate in any such action, Lessee shall pay Lessor's attorneys' fees and costs.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require removal or elect ownership as hereinafter provided, all Alterations and Utility Installations made by Lessee shall be the property of Lessor, but considered a part of the Premises. Lessor may, at any time, elect in writing to be the owner of all or any specified part of the Lessor Owned Alterations and Utility Installations. Unless otherwise instructed per paragraph 7.4(b) hereof, all Lessee Owned Alterations and Utility Installations shall, at the expiration or termination of this Lease, become the property of Lessor and be surrendered by Lessee with the Premises.

(b) Removal. By delivery to Lessee of written notice from Lessor not earlier than 90 and not later than 30 days prior to the end of the term of this Lease, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or termination of this Lease. Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent.

(c) Surrender; Restoration. Lessee shall surrender the Premises by the Expiration Date or any earlier termination date, with all of the improvements, parts and surfaces thereof broom clean and free of debris, and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice. Notwithstanding the foregoing, if this Lease is for 12 months or less, then Lessee shall surrender the Premises in the same condition as delivered to Lessee on the Commencement Date with NO allowance for ordinary wear and tear. Lessor shall repair any damage occasioned by the installation, maintenance or removal of Trade Fixtures, Lessee owned Alterations and/or Utility Installations, furnishings, and equipment as well as the removal of any storage tank installed by or for Lessee. Lessee shall also completely remove from the Premises any and all Hazardous Substances which were deposited via underground migration from areas outside of the Premises even if such removal would require Lessee to perform or pay for work that exceeds statutory requirements. Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee. Any personal property of Lessee not removed on or before the Expiration Date or any earlier termination date shall be deemed to have been abandoned by Lessee and may be disposed of or retained by Lessor as Lessor may desire. The failure by Lessee to timely vacate the Premises pursuant to this Paragraph 7.4(c) without the express written consent of Lessor shall constitute a holdover under the provisions of Paragraph 26 below.

8. Insurance; Indemnity.

8.1 Payment of Premium Increases.

(a) As used herein, the term "Insurance Cost Increase" is defined as any increase in the actual cost of the insurance applicable to the Building and/or the Project and required to be carried by Lessor, pursuant to Paragraphs 8.2(b), 8.3(a) and 8.3(b), ("Required Insurance"), over and above the Base Premium, as hereinafter defined, calculated on an annual basis. Insurance Cost Increase shall include, but not be limited to, requirements of the holder of a mortgage or deed of trust covering the Premises, Building and/or Project, increased valuation of the Premises, Building and/or Project, and/or a general premium rate increase. The term Insurance Cost Increase shall not, however, include any premium increases resulting from the nature of the occupancy of any other tenant of the Building. The "Base Premium" shall be the annual premium applicable to the 12 month period immediately preceding the Commencement Date. If, however, the Project was not insured for the entirety of such 12 month period, then the Base Premium shall be the lowest annual premium reasonably obtainable for the Required Insurance as of the Commencement Date, assuming the most nominal use possible of the Building. In no event, however, shall Lessee be responsible for any portion of the premium cost attributable to liability insurance coverage in excess of $2,000,000 procured under Paragraph 8.2(b).

(b) Lessee shall pay any Insurance Cost Increase to Lessor pursuant to Paragraph 4.2. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessor and Lessee as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than $1,000,000-$2,000,000 per occurrence with an annual aggregate of not less than $3,000,000. Lessee shall add Lessor as an additional insured by means of an endorsement at least as broad as the Insurance Service Organization's "Additional Insured- Managers or Lessors of Premises" Endorsement. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance shall not, however, limit the liability of Lessor nor relieve Lessor of any obligation hereunder. Lessee shall provide an endorsement on its liability policy(ies) which provides that its insurance shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall maintain liability insurance as described in Paragraph 8.2(a), in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance - Building, Improvements and Rental Value.

(a) Building and Improvements. Lessor shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessee, and to any Lender insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full insurable replacement cost of the Premises, as the same shall exist from time to time, or the amount required by any Lender, but in no event more than the commercially reasonable and available insurance value thereof. Lessor Owned Alterations and Utility Installations, Trade Fixtures, and Lessor's personal property shall be insured by Lessor not by Lessee. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or losses to the extent required by a Lender), including coverage for debris removal and the enforcement of any Applicable Requirements requiring the upgrading, demolition, reconstruction or replacement of any portion of the Premises as the result of a covered loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage.

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amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence.

(b) Rental Value. Lessor shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Lender, insuring the loss of the full Rent for one year with an extended period of indemnity for an additional 180 days ("Rental Value insurance"). Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected Rent otherwise payable by Lessee, for the next 12 month period.

(c) Adjacent Premises. Lessee shall pay for any increase in the premiums for the property insurance of the Building and for the Common Areas or other buildings in the Project if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Lessee's Improvements. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 Lessee's Property; Business Interruption Insurance.

(a) Property Damage. Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage with a deductible of not to exceed $1,000 per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property, Trade Fixtures and Lessee Owned Alterations and Utility Installations. Lessee shall provide Lessor with written evidence that such insurance is in force.

(b) Business Interruption. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent lessees in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils.

(c) No Representation of Adequate Coverage. Lessor makes no representation that the limits or forms of coverage of insurance specified herein are adequate to cover Lessee's property, business operations or obligations under this Lease.

8.5 Insurance Policies. Insurance required herein shall be by companies duly licensed or admitted to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A+, VI, as set forth in the most current issue of "Best's Insurance Guide", or such other rating as may be required by a Lender. Lessee shall not do or permit to be done anything which invalidates the required insurance policies. Lessee shall, prior to the Commencement Date, deliver to Lessor certified copies of policies of such insurance or certificates evidencing the existence and amounts of the required insurance. No such policy shall be cancelable or subject to modification except after 30 days' prior written notice to Lessor. Lessee shall, at least 10 days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. Such policies shall be for a term of at least one year, or the length of the remaining term of this Lease, whichever is less. If either Party shall fail to procure and maintain the insurance required to be carried by it, the other Party may, but shall not be required to, procure and maintain the same.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lesee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages against the other, for loss of or damage to its property arising out of or incident to the perils required to be insured against herein. The effect of such releases and waivers is not limited by the amount of insurance carried or required, or by any deductibles applicable hereto. The Parties agree to have their respective property damage insurance carriers waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's gross negligence or willful misconduct, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders, from and against any and all claims, loss of rents and/or damages, liens, judgments, penalties, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the use and/or occupancy of the Premises by Lessee. If any action or proceeding is brought against Lessor by reason of any of the foregoing matters, Lessee shall upon notice defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessor need not have first paid any such claim in order to be defended or indemnified.

8.8 Exemption of Lessor and its Agents from Liability. Notwithstanding the exception to the extent of Lessor's gross negligence or willful misconduct, notwithstanding the negligence or breach of this Lease by Lessor or its agents, neither Lessor nor its agents shall be liable under any circumstances for: (i) injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, indoor air quality, the presence of mold or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, HVAC or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the Building, or from other sources or places, (ii) any damages arising from any act or neglect of any other tenant of Lessor or from the failure of Lessor or its agents to enforce the provisions of any other lease in the Project, or (iii) injury to Lessee's business or for any loss of income or profit therefrom. Instead, it is intended that Lessee's sole recourse in the event of such damages or injury be to file a claim on the insurance policy(ies) that Lessor is required to maintain pursuant to the provisions of paragraph 8.

8.9 Failure to Provide Insurance. Lessor acknowledges that any failure on its part to obtain or maintain the insurance required herein will expose Lessor to risks and potentially cause Lessor to incur costs not contemplated by this Lease, the extent of which will be extremely difficult to ascertain. Accordingly, for any month or portion thereof that Lessor does not maintain the required insurance and/or does not provide Lessor with the required binders or certificates evidencing the existence of the required insurance, the Base Rent shall be automatically increased, without any requirement for notice to Lessee, by an amount equal to 10% of the then existing Base Rent or $100, whichever is greater. The parties agree that such increase in Base Rent represents fair and reasonable compensation for the additional risk/costs that Lessor will incur by reason of Lessee's failure to maintain the required insurance. Such increase in Base Rent shall in no event constitute a waiver of Lessee's Default or Breach with respect to the failure to maintain such insurance, prevent the exercise of any of the other rights and remedies granted hereunder, nor relieve Lessee of its obligation to maintain the insurance specified in this Lease.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations, which can reasonably be repaired in 3 months or less from the date of the damage or destruction, and the cost thereof does not exceed a sum equal to one (1) month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total. Notwithstanding the foregoing, Premises Partial Damage shall not include damage to windows, doors, and/or other similar items which Lessee has the responsibility to repair or replace pursuant to the provisions of Paragraph 7.1.

(b) "Premises Total Destruction" shall mean damage or destruction to the improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which cannot reasonably be repaired in 3 months or less from the date of the damage or destruction and/or the cost thereof exceeds a sum equal to one (1) month's Base Rent. Lessor shall notify Lessee in writing within 30 days from the date of the damage or destruction as to whether or not the damage is Partial or Total.
(c) "Insured Loss" shall mean damage or destruction to improvements on the Premises, other than Lessee Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), irrespective of any deductible amounts or coverage limits involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of Applicable Requirements, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a Hazardous Substance, in, on, or under the Premises which requires restoration.

9.2 Partial Damage - Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect; provided, however, that Lessor shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $50,000 or equal to one month's Base Rent or less, and, in such event, Lessor shall make any applicable insurance proceeds available to Lessor on a reasonable basis for that purpose. Notwithstanding the foregoing, if the required insurance was not in force or the insurance proceeds are not sufficient to effect such repair, the Insuring Party shall promptly contribute the shortage in proceeds as and when required to complete said repairs. In the event, however, such shortage was due to the fact that, by reason of the unique nature of the improvements, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessor provides Lessee with the funds to cover same, or adequate assurance thereof, within 10 days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said 10 day period, the party responsible for making the repairs shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If such funds or assurance are not received, Lessor may nevertheless elect by written notice to Lessee within 10 days thereafter to: (i) make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect, or (ii) have this Lease terminate 30 days thereafter. Lessee shall not be entitled to reimbursement of any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessee. Lessor shall provide Lessee with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs, this Lease shall terminate 60 days following such Destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in Paragraph 8.6.

9.5 Damage Near End of Term. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate this Lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage. Notwithstanding the foregoing, if Lessor at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessor may preserve this Lease by: (a) exercising such option and (b) providing Lessee with any shortage in insurance proceeds or adequate assurance thereof needed to make the repairs. If at any time during the last 6 months of this Lease there is damage for which the cost to repair exceeds one month's Base Rent, Lessor shall, at Lessor's election and expense, repair any such damage or destruction. Premises damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may either: (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) terminate this Lease by giving written notice to Lessee within 30 days after receipt by Lessor of knowledge of the occurrence of such damage. Such termination shall be effective 60 days following the date of such notice. In the event Lessor elects to terminate this Lease, Lessee shall have the right within 10 days after receipt of the termination notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage without reimbursement from Lessee. Lessor shall provide Lessee with said funds or satisfactory assurance thereof within 30 days after making such commitment. In such event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not make the required commitment, this Lease shall terminate as of the date specified in the termination notice and Lessee's option shall be extinguished.

9.6 Abatement of Rent; Lessee's Remedies.

(a) Abatement. In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessor is not responsible under this Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessor's use of the Premises is impaired, but not to exceed the proceeds received from the Rental Value insurance. All other obligations of Lessee hereunder shall be performed by Lessee, and Lessor shall have no liability for any such damage, destruction, remediation, repair or restoration except as provided herein.

(b) Remedies. If Lessor is obligated to repair or restore the Premises and does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessor has actual notice, of Lessee's election to terminate this Lease on a date not less than 60 days following the giving of such notice. If Lessor gives such notice and such repair or restoration is not commenced within 30 days thereafter, this Lease shall terminate as of the date specified in said notice. If the repair or restoration is commenced within such 30 days, this Lease shall continue in full force and effect. "Commence" shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.7 Termination; Advance Payments. Upon termination of this Lease pursuant to Paragraph 6.2(g) or Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessor's Security Deposit as has not been, or is not then required to be, used by Lessor.

10. Real Property Taxes.

10.1 Definitions.

(a) "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of assessment; real estate, general, special, ordinary or extraordinary, or rental levy or tax (other than inheritance, personal income or estate taxes); improvement bond; and/or license fee imposed upon or levied against any legal or equitable interest of Lessor in the Project, Lessor's right to other income therefrom, and/or Lessor's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Project address and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Project is located. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein: (i) imposed by reason of events occurring during the term of this Lease, including but not limited to, a change in the ownership of the Project, (ii) a change in the
improvements thereon, and/or (iii) levied or assessed on machinery or equipment provided by Lessor to Lessee pursuant to this Lease.

(b) "Base Real Property Taxes." As used herein, the term "Base Real Property Taxes" shall be the amount of Real Property Taxes, which are assessed against the Premises, Building, Project or Common Areas in the calendar year during which the Lease is executed. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.2 Payment of Taxes. Except as otherwise provided in Paragraph 10.3, Lessor shall pay the Real Property Taxes applicable to the Project, and said payments shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.3 Additional Improvements. Common Area Operating Expenses shall not include Real Property Taxes specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Project by other tenants or by Lessor for the exclusive enjoyment of such other Tenants. Notwithstanding Paragraph 10.2 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request or by reason of any alterations or improvements to the Premises made by Lessor subsequent to the execution of this Lease by the Parties.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building shall be an equitable proportion of the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 Personal Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee's Obligations under this Lease, including any delay in any other obligations of Lessee under this Lease, (ii) the installation of a vending machine or payphone shall not constitute a fixed and non-fixed rental adjustments adjustment, (i) the purchase price of any option to purchase the terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to said transaction or transactions constituting such reduction, whatever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any assignment) established under generally accepted accounting principles. See Addendum, Section 52.

11. Utilities and Services. Lessee shall pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. Notwithstanding the provisions of Paragraph 4.2, if at any time in Lessor's sole judgment, Lessor determines that Lessee is using a disproportionate amount of water, electricity or other commonly metered utilities, or that Lessee is generating such a large volume of trash as to require an increase in the size of trash receptacle and/or an increase in the number of times per month that it is emptied, then Lessor may decrease Lessee's Base Rent by an amount equal to such increased costs. There shall be no abatement of Rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

12. Assignment and Subletting.

12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign or assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent.

(b) Unless Lessee is a corporation and its stock is publicly traded on a national stock exchange, a change in the control of Lessee shall constitute an assignment requiring consent. The transfer, on a cumulative basis, of 25% or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, transfer, leveraged buy out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee by an amount greater than 25% of such Net Worth as it was represented at the time of the execution of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, whatever was or is greater, shall be considered an assignment of this Lease to which Lessor may withhold its consent. "Net Worth of Lessee" shall mean the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles. See Addendum, Section 52.

(d) An assignment or subletting. A Transfer without consent shall, at Lessee's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unapproved Transfer assignment or subletting as a noncurable Breach, Lessor may either: (i) terminate this Lease, or (ii) upon 30 days written notice, increase the monthly Base Rent to 110% of the Base Rent then in effect. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to 110% of the price previously in effect, and (ii) all fixed and non-fixed rental adjustments scheduled during the remainder of the Lease term shall be increased to 110% of the scheduled adjusted rents.

(e) Lessee's remedy for any breach of Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

(f) Lessor may reasonably withhold consent to a proposed Transfer assignment or subletting, in its sole and absolute discretion if Lessee is in Default at the time consent is requested.

(g) Notwithstanding the foregoing, allowing a de minimis portion of the Premises, i.e. 20 square feet or less, to be used by a third party vendor in connection with the installation of a vending machine or payphone shall not constitute a subletting.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, no assignment or subletting shall: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Rent or for the performance of any other obligations to be performed by Lessee.

(b) Lessor may accept Rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of Rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for Lessee's Default or Breach.

(c) Lessor's consent to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting.

(d) In the event of any Default or Breach by Lessee, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of Lessee's obligations under this Lease, including any assignee or sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor,
or any security held by Lessor.

(c) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor’s determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a fee of $500 as consideration for Lessor’s considering and processing said request. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested. (See also Paragraph 36).

(f) Any assignee or sublessee Transferor under this Lease shall, by reason of accepting such assignment, entering into such
sublease, or entering into possession of the Premises or any portion thereof, be deemed to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented to in writing.

(g) Lessor's consent to any assignment or subletting shall not transfer to the assignee or sublessee any Option granted to the original Lessee by this Lease unless such transfer is specifically consented to by Lessor in writing. (See Paragraph 39.2)

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein.

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all Rent payable on any sublease, and Lessor may collect such Rent and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach shall occur in the performance of Lessee's obligations, Lessee may collect said Rent. In the event that the amount collected by Lessor exceeds Lessee's then outstanding obligations any such excess shall be refunded to Lessee. Lessor shall not, by reason of the foregoing or any assignment of such sublease, nor by reason of the collection of Rent, be deemed liable to the sublessee for any failure of Lessor to perform and comply with any of Lessor's obligations to such sublessee. Lessor hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach exists in the performance of Lessor's obligations under this Lease, to pay to Lessor all Rent due and to become due under the sublease. Sublessee shall rely upon any such notice from Lessor and shall pay all Rents to Lessor without any obligation or right to inquire as to whether such Breach exists, notwithstanding any claim from Lessee to the contrary.

(b) In the event of a Breach by Lessee, Lessor may, at its option, require sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any prior Defaults or Breaches of such sublessor.

(c) Any matter requiring the consent of the sublessor under a sublease shall also require the consent of Lessor.

(d) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by the sublessee, to whom shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach. A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under this Lease. A "Breach" is defined as the occurrence of one or more of the following Defaults, and the failure of Lessee to cure such Default within any applicable grace period:

(a) The abandonment of the Premises; or the vacating of the Premises without providing a commercially reasonable level of security, or where the coverage of the property insurance described in Paragraph 8.3 is jeopardized as a result thereof, or without providing reasonable assurances to minimize potential vandalism.

(b) The failure of the Sublessee to make any payment of Rent or any Security Deposit required to be made by Lessee hereunder, whether to Lessor or to a third party, when due, to provide reasonable evidence of insurance or surety bond, or to fulfill any obligation under this Lease which endangers or threatens life or property, where such default continues for a period of 3 business days following written notice to Lessee. THE ACCEPTANCE BY LESSOR OF A PARTIAL PAYMENT OF RENT OR SECURITY DEPOSIT SHALL NOT CONSTITUTE A WAIVER OF ANY OF LESSOR'S RIGHTS, INCLUDING LESSOR'S RIGHT TO RECOVER POSSESSION OF THE PREMISES.

(c) The failure of Lessee to allow Lessor and/or its agents access to the Premises or the commission of waste, act or acts constituting public or private nuisance, and/or an illegal activity on the Premises by Lessee, where such actions continue for a period of 3 business days following written notice to Lessee.

(d) The failure by Lessor to provide (i) reasonable written evidence of compliance with Applicable Requirements, (ii) the service contracts, (iii) the rescission of an unauthorized assignment or subletting, (iv) an Estoppel Certificate or financial statements, (v) a requested subordination, (vi) evidence concerning any guaranty, (vii) any document requested under Paragraph 41, (viii) material data safety sheets (MSDS), or (ix) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of 10 days following written notice to Lessee.

(e) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 2.9 hereof, other than those described in subparagraphs 13.1(a), (b), (c) or (d), above, where such Default continues for a period of 30 days after written notice; provided, however, that if the nature of Lessee's Default is such that more than 30 days are reasonably required for its cure, then it shall not be deemed to be a Breach if Lessee commences such cure within said 30 day period and thereafter diligently prosecutes such cure to completion within 60 days.

(f) The occurrence of any of the following events: (i) the making of any general arrangement or assignment for the benefit of creditors; (ii) becoming a "debtor" as defined in 11 U.S.C. § 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in the Premises, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

(g) The discovery that any financial statement of Lessee or of any Guarantor given to Lessor was materially false.

(h) If the performance of Lessor's obligations under this Lease is guaranteed: (i) a Guarantor's becoming insolvent; (ii) a Guarantor's bankruptcy; (iii) a Guarantor's failure to perform its obligations; (iv) a Guarantor's breach of its guarantee; (v) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in the Premises, where possession is not restored to Lessee within 30 days; or (vi) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days; provided, however, in the event that any provision of this subparagraph is contrary to any applicable law, such provision shall be of no force or effect, and not affect the validity of the remaining provisions.

13.2 Remedies. If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. Lessee shall pay to Lessor an amount equal to 115% of the costs and expenses incurred by Lessor in such performance upon receipt of an invoice therefor. In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession to Lessor. In such event Lessor shall be entitled to recover from Lessee: (i) the unpaid 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 which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee'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 renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of the District within which the Premises are located at the time of award plus one percent. Efforts by Lessor to mitigate damages caused by Lessee's Breach of this Lease shall not waive Lessor's right to the foregoing amounts. Lessor shall have the right to recover in such proceeding any unpaid Rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit. If a notice and grace period required under Paragraph 13.1 was not previously given, a notice to pay rent or quit, or to perform or quit given to Lessee under the unlawful detainer statute shall constitute the notice required by Paragraph 13.1. In such case, the applicable grace period required by Paragraph 13.1 and the unlawful detainer statute shall run concurrently, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessor's right to possession.

(c) Pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Indemnification Recapture. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions", shall be deemed conditionally upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee of Rent will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by any Lender. Accordingly, if any Rent shall not be received by Lessor within 5 days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall immediately pay to Lessor a one-time late charge equal to 10% of such overdue amount or $100, whichever is greater. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of such late payment. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach, partial or complete. Late charges provided for in Paragraph 13.4, as well as any other amount, nor prevent the exercise of any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for 3 consecutive installments of Base Rent, then notwithstanding any provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Interest. Any monetary payment due Lessee hereunder, other than later charges, not received by Lessor, when due as to scheduled payments (such as Base Rent) or within 30 days following the date on which it was due for non-scheduled payment, shall bear interest from the date when due, as to scheduled payments, or the 31st day after it was due as to non-scheduled payments. The interest ("Interest") charged shall be computed at the rate of 10% per annum but shall not exceed the maximum rate allowed by law. Interest is payable in addition to the potential late charge provided for in Paragraph 13.4.

13.6 Breach by Lessor.

(a) Notice of Breach. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph, a reasonable time shall in no event be less than 30 days after receipt by Lessor, and any Lender whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are reasonably required for its performance, then Lessor shall not be in breach if performance is commenced within such 30 day period and thereafter diligently pursued to completion.

(b) Performance by Lessor on Behalf of Lessor. In the event that neither Lessor nor Lessor's agents cure and breach within 30 days after receipt of such notice, or if having commenced and cure they do not diligently pursue it to completion, then Lessee may elect to cure and breach at Lessor's expense and effect from Renter the actual and reasonable costs to perform the cure, provided however, that such costs shall not exceed an amount equal to the amount of one month's Base Rent or the Security Deposit, whichever is greater. Any agreement for free or abated rent or other charges, or for the giving or paying by Lessor of any cash or other bonus, inducement or consideration for Lessor's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions" shall be deemed conditionally upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease. Upon Breach of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this paragraph shall not be deemed a waiver by Lessor of the provisions of this paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), this Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Unit, or more than 25% of the parking spaces is taken by Condemnation, Lessee may, at Lessee's option, to be exercised in writing within 10 days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within 10 days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemning or for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures, without regard to whether or not this Lease is terminated pursuant to the provisions of this Paragraph. All Alterations and Utility Installations made to the Premises by Lessee, for purposes of Condemnation only, shall be considered the property of the Lessee and Lessee shall be entitled to any and all compensation which is payable therefor. In the event that this Lease is not terminated by reason of the Condemnation, Lessor shall repair any damage to the Premises caused by such Condemnation.

15. Brokerage Fees
otherwise agree in writing, Lessor agrees that: (a) if Lessee exercises any Option, (b) if Lessee or anyone affiliated with Lessee acquires from Lessor any rights to the Premises or other premises owned by Lessor and treated within the Project, (c) if Lessee remains in possession of the Premises, with the consent of Lessor, after the expiration of this Lease, or (d) if Base Rent is increased, whether by agreement or operation of an escalation clause hereinto, then, Lessee shall pay Brokers a fee in accordance with the schedule of the Brokers in effect at the time of the execution of this Lease.

15.2 Assumption of Obligations. Any buyer or transferee of Lessor's interest in this Lease shall be deemed to have assumed Lessor's obligation hereunder. Brokers shall be third party beneficiaries of the provisions of Paragraphs 10, 15, 22 and 31. If Lessor fails to pay to Brokers any amounts due to and for brokerage fees pertaining to this Lease when due, then such amounts shall accrue Interest. In addition, if Lessor fails to pay any amounts to Lessee's Broker when due, Lessee's Broker may and shall send notice to Lessor and Lessee of such failure and if Lessor fails to pay such amounts within 10 days after said notice, Lessor shall pay and indemnify to Broker and offset such amounts against Rent. In addition, Lessee's Broker shall be deemed to be a third party beneficiary of any contract or agreement entered into by and/or between Lessor and Lessee's Broker for the limited purpose of collecting any brokerage fee owed.

15.3 Representations and Indemnities of Broker Relationships. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder (other than the Brokers, if any) in connection with this Lease, and that no one other than said named Brokers is entitled to any commission or finder's fee in connection herewith. Lessor and Lessee do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

16. Estoppel Certificates.

(a) Each Party (as "Responding Party") shall within 10 days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form similar to the then most current "Estoppel Certificate" form published by the AIR Commercial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

(b) The lease is in full force and effect without modification except as may be represented by the Requesting Party, (ii) there are no uncured defaults in the Requesting Party's performance, and (iii) if Lessor is the Requesting Party, and if not more than one month's rent has been paid in advance. Prospective purchasers and encumbrancers may rely upon the Requesting Party's Estoppel Certificate, and the Responding Party shall be estopped from denying the truth of the facts contained in said Certificate.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee and all Guarantors shall within 10 days after written notice from Lessor deliver to any potential lender or purchaser designated by Lessor such financial statements as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past 3 years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Definition of Lessor. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease, of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor. Upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinafore defined.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Days. Unless otherwise specifically indicated to the contrary, the word "days" as used in this Lease shall mean and refer to calendar days.

20. Limitation on Liability. The obligations of Lessor under this Lease shall not constitute personal obligations of Lessor, or its partners, members, directors, officers or shareholders, and Lessee shall look to the Premises, and to no other assets of Lessor, for the satisfaction of any liability of Lessor with respect to this Lease, and shall not seek recourse against Lessor's partners, members, directors, officers or shareholders, or any of their personal assets for such satisfaction.

21. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the use, nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.


23.1 Notice Requirements. All notices required or permitted by this Lease or applicable law shall be in writing and may be delivered in person (by hand or by courier) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notices. Either Party may, by written notice to the other, specify a different address for notice, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice. A copy of all notices to Lessee shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate in writing.

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given 72 hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given 24 hours after delivery of the same to the Postal Service or courier. Notices transmitted by facsimile transmission or similar means shall be deemed delivered upon telephone confirmation of receipt (confirmation report from fax machine is sufficient), provided a copy is also delivered via delivery or mail. If notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers.

(a) No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent.

(b) The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be
accepted by Lessor on account of monies or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

(c) THE PARTIES AGREE THAT THE TERMS OF THIS LEASE SHALL GOVERN WITH REGARD TO ALL MATTERS RELATED THERETO AND HEREBY WAIVE THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE TO THE EXTENT THAT SUCH STATUTE IS INCONSISTENT WITH THIS LEASE.

25. Disclosures Regarding The Nature of a Real Estate Agency Relationship

(a) When entering into a discussion with a real estate agent regarding a real estate transaction, a Lessor or Lessee should understand that type of agency relationship, or representation it has with the agent or agents in the transaction. Lessor and Lessee acknowledge being advised by the Brokers in this transaction, as follows:

(i) Lessor's Agent. A Lessor's agent under a listing agreement with the Lessor acts as the agent for the Lessee only. A Lessor's agent or subagent has the following affirmative obligations to the Lessor: A fiduciary duty of utmost care, integrity, honesty and loyalty in dealings with the Lessor. To the Lessor and the Lessee: a. Diligent exercise of reasonable skill and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Parties. An agent is not obligated to reveal to either Party any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(ii) Lessee's Agent. An agent can agree to act as agent for the Lessee only. In these situations, the agent is not the Lessor's agent. If by agreement the agent may receive compensation for services rendered, either in full or in part from the Lessor. An agent acting only for a Lessee has the following affirmative obligations: To the Lessee: A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with the Lessee. To the Lessee and the Lessor: a. Diligent exercise of reasonable skill and care in performance of the agent's duties. b. A duty of honest and fair dealing and good faith. c. A duty to disclose all facts known to the agent materially affecting the value or desirability of the property that are not known to, or within the diligent attention and observation of, the Lessee. An agent is not obligated to reveal to either Party, any confidential information obtained from the other Party which does not involve the affirmative duties set forth above.

(b) Agent Representing Both Lessor and Lessee. A real estate agent, either acting directly or through one or more associate licenses, can legally be the agent of both the Lessor and the Lessee in a transaction, but only with the knowledge and consent of both the Lessor and the Lessee. In a dual agency situation, the agent has the following affirmative obligations to both the Lessor and the Lessee: a. A fiduciary duty of utmost care, integrity, honesty, and loyalty in dealings with either Lessor or the Lessee. b. Other duties of the Lessor and the Lessee as stated above in subparagraphs (i) or (ii). In representing both Lessor and Lessee, the agent may not without the express permission of the respective Party disclose to the other Party that the Lessor will accept rent in an amount less than that indicated in the listing or that the Lessor is willing to pay a higher rent than that offered. The above duties of the agent in a real estate transaction do not relieve a Lessor or Lessee from the responsibility to protect their own interests. Lessor and Lessee should carefully read all agreements to assure that they adequately express their affirmative obligations to both the Lessor and the Lessee in a transaction, but only with the permission of the other Party.

(c) Brokers have no responsibility with respect to any default or breach hereof by either Party. The Parties agree that no lawsuit or other legal proceeding involving any breach of duty, error or omission relating to this Lease may be brought against Broker more than one year after the Start Date and that the liability (including court costs and attorney's fees), of any Broker with respect to such lawsuit or legal proceeding shall not exceed the fee payable to such Broker pursuant to this Lease, provided, however, that the foregoing limitation on each Broker's liability shall not be applicable to any gross negligence or willful misconduct of such Broker.

(e) Lessor and Lessee agree to identify to Brokers as "Confidential" any communication or information given Brokers that is considered by such Party to be confidential.

26. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or termination of this Lease. In the event that Lessee holds over, then the Base Rent shall be increased to 150% of the Base Rent applicable immediately preceding the expiration or termination. Nothing contained herein shall be construed as consent by Lessor to any holding over by Lessee.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions; Construction of Agreement. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions. In construing this Lease, all headings and titles are for the convenience of the Parties only and shall not be considered a part of this Lease. Whenever required by the context, the singular shall include the plural and vice versa. This Lease shall not be construed as if prepared by one of the Parties, but rather according to its fair meaning as a whole, as if both Parties had prepared it.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed upon the Premises, to any and all advances made on the security thereof, and to all renewals, modifications, and extensions thereof. Lessor agrees that the holders of any such Security Devices (in this Lease together referred to as "Lender") shall have no liability or obligation to perform any of the obligations of Lessor under this Lease. Any Lender may elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device by giving written notice thereof to Lessee, whereupon this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. In the event that Lessor transfers title to the Premises, or the Premises are acquired by another upon the foreclosure or termination of a Security Device (or any Option granted hereby) to which this Lease is subordinate (i) Lessee shall, subject to the non-disturbance provisions of Paragraph 30.3, attorn to such new owner, and upon request, enter into a new lease, containing all of the terms and provisions of this Lease, with such new owner for the remainder of the term hereof, or, at the election of the new owner, this Lease will automatically become a new lease between Lessee and such new owner, and (ii) Lessor shall be relieved of any further obligations hereunder and such new owner shall assume all of Lessor's obligations, except that such new owner shall not: (a) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership; (b) be subject to any offsets or defenses which Lessee might have against any prior lessor, (c) be bound by prepayment of more than one month's rent, or (d) be liable for the return of any security deposit paid to any prior lessor which was not paid or credited to such new owner.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessor's subordination of this Lease shall be subject to receiving a commercially reasonable non-disturbance agreement ("Non-Disturbance Agreement") from the Lender which Non-Disturbance Agreement provides that Lessee's possession of the Premises, and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessor is not in Breach hereof and attorns to the record owner of the Premises. Further, within 60 days after the execution of this Lease, Lessor shall, if requested by Lessee, use its commercially reasonable efforts to obtain a Non-Disturbance Agreement from the holder of any pre-existing Security Device which is secured by the Premises. In the event that Lessor is unable to provide the
30. Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessor and Lessor shall execute such further writings as may be reasonably required to separately document any subordination, assignment and/or Non-Disturbance Agreement provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding involving the Premises whether founded in tort, contract or equity, or to declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. In addition, Lessor shall be entitled to attorneys' fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach ($200 is a reasonable minimum per occurrence for such services and consultation).

32. Lessor's Access; Showing Premises; Repairs. Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times after prior notice for the purpose of showing the same to prospective purchasers, lenders, or tenants, and making such alterations, repairs, improvements or additions to the Premises as Lessor may deem necessary or desirable and the erecting, using and maintaining of utilities, services, pipes and conduits through the Premises and/or other premises as long as there is no material adverse effect on Lessor's use of the Premises. All such activities shall be without abatement of rent or liability to Lessee. Notwithstanding anything to the contrary contained herein, Lessor and any future tenant of the Building shall have access to the Premises at any time in order to access the second floor of the Building through the Premises.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, any auction upon the Premises without Lessor's prior written consent. Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to permit an auction.

34. Signs. Lessor may place on the Premises ordinary "For Sale" signs at any time and ordinary "For Lease" signs during the last 6 months of the term hereof. Except for ordinary "For Sale" signs which may be placed only on the Premises, Lessor shall not place any sign upon the Project without Lessor's prior written consent. All signs must comply with all Applicable Requirements.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, that Lessor may elect to continue any one or all existing subtenancies. Lessor's failure within 10 days following any such event to elect to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents. Except as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's reasonable actual costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee upon receipt of an estimate and supporting documentation. Lessor's consent to any act, assignment or subletting shall not constitute an acknowledgment that no Default or Breach by Lessor of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given. In the event that either Party disagrees with any determination made by the other hereunder and reasonably requests the reasons for such determination, the determining party shall furnish its reasons in writing and in reasonable detail within 10 business days following such request.

37. Guarantor.

27.1 Execution. The Guarantor, if any, shall each execute a guaranty in form most recently published by the AIR Commercial Real Estate Association.

27.2 Default. It shall constitute a Default of the Lessee if any Guarantor fails or refuses, upon request to provide: (a) evidence of the execution of the guaranty, including the authority of the party signing on Guarantor's behalf to obligate Guarantor, and in the case of a corporate Guarantor, a certified copy of a resolution of its board of directors authorizing the making of such guaranty, (b) current financial statements, (c) an Estoppel Certificate, or (d) written confirmation that the guaranty is still in effect.

28. Quiet Possession. Subject to payment by Lessee of the Rent and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession and quiet enjoyment of the Premises during the term hereof.

39. Options. If Lessee is granted an option, as defined below, then the following provisions shall apply:

19.1 Definition. "Option" shall mean: (a) the right to extend or reduce the term of or renew this Lease or to extend or reduce the term of or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal or first offer to lease either the Premises or other property of Lessor; (c) the right to purchase, the right of first offer to purchase or the right of first refusal to purchase the Premises or other property of Lessor.

19.2 Options Personal To Original Lessee. Any Option granted to Lessee in this Lease is personal to the original Lessee, and cannot be assigned or exercised by anyone other than original Lessee and only while the original Lessee is in full possession of the Premises and, if requested by Lessor, with Lessee certifying that Lessee has no intention of thereafter assigning or subletting.

19.3 Multiple Options. In the event that Lessee has any multiple Options to extend or renew this Lease, a later Option cannot be exercised unless the prior Options have been validly exercised.

20.4 Effect of Default on Options.

(a) Lessee shall have no right to exercise an Option (i) during the period commencing with the giving of any notice of Default and continuing until said Default is cured, (ii) during the period of time any Rent is unpaid (without regard to whether notice thereof is given Lessee), (iii) during the time Lessor is in Breach of this Lease, or (iv) in the event that Lessor has been given 3 or more notices of separate Default, whether or not the Default are cured, during the 12 month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessor's inability to exercise an Option because of the provisions of Paragraph 20.4(a).

(c) An Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option if, after such exercise and prior to the commencement of the extended term or completion of the purchase, (i) Lessee fails to pay Rent for a period of 30 days after such Rent becomes due (without any necessity of Lessor to give notice thereof), or (ii) if Lessee commits a Breach of this Lease.

40. Security Measures. Lessee hereby acknowledges that the Rent payable to Lessor hereunder does not include the cost of guard service or

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other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

41. Reservations. Lessor reserves the right: (i) to grant, without the consent or joinder of Lessee, such easements, rights and dedications that Lessor deems necessary, (ii) to cause the recordation of parcel maps and restrictions, and (iii) to create and/or install new utility raceways, so long as such easements, rights, dedications, maps, restrictions, and utility raceways do not unreasonably interfere with the use of the Premises by Lessee. Lessor agrees to sign any documents reasonably requested by Lessor to effectuate such rights.

42. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay. A Party who does not initiate suit for the recovery of sums paid "under protest" within 6 months shall be deemed to have waived its right to protest such payment.

43. Authority; Multiple Parties; Execution.

(a) If either Party hereto is a corporation, trust, limited liability company, partnership, or similar entity, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. Each Party shall, within 30 days after request, deliver to the other Party satisfactory evidence of such authority.

(b) If this Lease is executed by more than one person or entity as "Lessees", each such person or entity shall be jointly and severally liable hereunder. It is agreed that any one of the named Lessees shall be empowered to execute any amendment to this Lease, or other document ancillary thereto and bind all of the named Lessees, and Lessor may rely on the same as if all of the named Lessees had executed such document.

(c) This Lease may be executed by the Parties in counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

44. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

45. Offer. Preparation of this Lease by either party or their agent and submission of same to the other Party shall not be deemed an offer to lease to the other Party. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

46. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. As long as they do not materially change Lessee's obligations hereunder, Lessor agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by a Lender in connection with the obtaining of normal financing or refinancing of the Premises.

47. Waiver of Jury Trial. THE PARTIES HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING INVOLVING THE PROPERTY OR ARISING OUT OF THIS AGREEMENT.

48. Arbitration of Disputes. An Addendum requiring the Arbitration of all disputes between the Parties and/or Brokers arising out of this Lease ☐ is ☑ not attached to this Lease.

49. Americans with Disabilities Act. Since compliance with the Americans with Disabilities Act (ADA) is dependent upon Lessee's specific use of the Premises, Lessor makes no warranty or representation as to whether or not the Premises comply with ADA or any similar legislation. In the event that Lessee's use of the Premises requires modifications or additions to the Premises in order to be in ADA compliance, Lessee agrees to make any such necessary modifications and/or additions at Lessee's expense.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIAL AND LAWS TO EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

ATTENTION: NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AIR COMMERCIAL REAL ESTATE ASSOCIATION OR BY ANY BROKER AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES. THE PARTIES ARE URGED TO:

1. SEEK ADVICE OF COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.


WARNING: IF THE PREMISES ARE LOCATED IN A STATE OTHER THAN CALIFORNIA, CERTAIN PROVISIONS OF THE LEASE MAY NEED TO BE REVISED TO COMPLY WITH THE LAWS OF THE STATE IN WHICH THE PREMISES ARE LOCATED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Los Angeles, California
On: January 22, 2009

By LESSEOR:
1212 Flower Real Estate, LLC,
A Delaware limited liability company

By: Petit Real Estate Limited Partnership
Name Printed: its sole member
Title: Kor Trio, LLC, its general partner

Executed: Los Angeles, California
On: Partner

By LESSEE:
People's Liberation, Inc.,
A California corporation

By: Name Printed:
Title: 
Address: c/o Kor Realty Group, LLC
1212 S. Flower St., Suite 400
Los Angeles, CA 90015
Attention: Frank Iaffaldano

[Note that prior to March 1, 2009, Lessor shall be located in Suite 500]

Telephone: (213) 745-2123
Facsimile: (213) 745-2032
Federal ID No.

BROKER:
CB Richard Ellis

Att: Nico M. Vilgiate
Title: Senior Vice President
Address: 355 S. Grand Avenue, 27th Floor
Los Angeles, CA 90071
Telephone: (213) 613-3331
Facsimile: (213) 613-3068
Federal ID No.

BROKER:
Madison Partners

Att: Gary Weiss
Title: Partner
Address:
Telephone: (
Facsimile: (
Federal ID No.

NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: AIR Commercial Real Estate Association, 800 W 6th Street, Suite 800, Los Angeles, CA 90017. Telephone No. (213) 687-8777. Fax No.: (213) 687-8616.

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FORM MTG-8-08/08E
ADDENDUM TO
AIR COMMERCIAL REAL ESTATE ASSOCIATION STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - GROSS

This Addendum ("Addendum") is hereby made part of the AIR COMMERCIAL REAL ESTATE ASSOCIATION STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE - GROSS dated January 22, 2009 (the "Form Lease") between 1212 FLOWER REAL ESTATE, LLC, a California limited liability company ("Lessor") and PEOPLE'S LIBERATION, INC., a California corporation ("Lessee") for the Premises located in the Project commonly known as 1226 South Flower Street, Los Angeles, California. If any inconsistency exists between the Form Lease and this Addendum, the terms of this Addendum shall control. Defined terms in the Form Lease shall have the same meaning when used herein. The Form Lease and this Addendum shall be referred to collectively as the "Lease". The parties further agree as follow:

50 PREMISES AS-IS. Notwithstanding anything to the contrary contained in the Form Lease, Lessee hereby agrees that the Premises shall be taken "as is," "with all faults," "without any representations or warranties," and Lessee hereby agrees and warrants that it has investigated and inspected the condition of the Premises and the suitability of same for Lessee's purposes, and Lessee does hereby waive and disclaim any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Premises or the Project or the suitability of same for Lessee's purposes. Lessee acknowledges that neither Lessor nor any agent nor any employee of Lessor has made any representation or warranty with respect to the Premises or the Project or with respect to the suitability of either for the conduct of Lessee's business, and Lessee expressly warrants and represents that Lessee has relied solely on its own investigation and inspection of the Premises and the Project in its decision to enter into this Lease and let the Premises in an "As Is" condition. The taking of possession of the Premises by Lessee shall conclusively establish that the Premises and the Project were at such time in satisfactory condition. Lessee hereby waives Sections 1941 and 1942 of the Civil Code of California or any successor provision of law.

51 COMMON AREA OPERATING EXPENSE EXCLUSIONS. Notwithstanding anything to the contrary set forth in the Form Lease, when calculating Common Area Operating Expenses, Lessor shall exclude: (a) costs incurred by Lessor for the repairs of a capital nature to the Project (as determined in accordance with generally accepting accounting principles) required as a result of a casualty event; (b) costs of capital improvements and equipment including, without limitation, alterations which are considered capital improvements and replacements under generally accepted accounting principles consistently applied ("Capital Items") except for (i) the annual amortization (amortized over the useful life) of costs, including financing costs, if any incurred by Lessor after the Commencement Date for any capital improvements installed or paid for by Lessor and required by any new (or change in) laws, rules or regulations of any governmental or quasi-governmental authority which are enacted after the Commencement Date; (ii) the cost of Capital Items acquired to reduce the Common Area Operating Expenses or as a labor-saving measure or to affect other economics in the operation or maintenance of the Property (amortized at an annual rate reasonably calculated, including interest of the actual interest rate incurred by Lessor) to equal the amount of the Common Area Operating Expenses to be saved in each calendar year throughout the term (as determined at the time Lessor elects to proceed with a capital improvement or the capital equipment to reduce the operating expenses); (iii) minor capital improvements, tools or expenditures; or (iv) capital improvements which reduce expenses which would otherwise be included in Common Area Operating Expenses; (c) rentals for personal property (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased, rather than rented, would constitute a capital improvement (including, without limitation, air conditioning systems and elevators); (d) depreciation, amortization and interest payments on
Capital Items, except on materials, tools, supplies and vendor-type equipment purchased by Lessor to enable Lessor to supply services Lessor might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, not to exceed in the aggregate the amount charged by such third party, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life; (e) marketing costs, including leasing commissions and attorneys' fees incurred in connection with the development or leasing of the Project, including without limitation, expenses incurred in relation to the bankruptcy of any tenant, subtenant or assignee; and, costs, including permit, license and inspection costs, incurred with respect to the installation of tenant or other occupant improvements made for Lessee or other occupants in the Project or incurred in renovating or otherwise improving, developing or redeveloping vacant space for tenants or other occupants of the Project; (f) expenses in connection with services or other benefits which are not provided to Lessee or for which Lessee is charged directly but which are not provided to another tenant or occupant of the Project; (g) premiums for earthquake insurance unless such premiums are included in the Base Year calculation of Common Area Operating Expenses; (h) ground lease rentals, interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Project; (i) Lessor's general corporate overhead and general and administrative expenses and accountant's fees (as distinguished from the costs of operating the Project) except as it specifically relates to the Project; (j) any compensation paid to clerks, attendants, or other persons in commercial concessions (e.g., retail or restaurant operations) operated by Lessor, except in the parking garage; (k) legal fees and related legal costs (including in connection therewith all attorneys' fees and costs of settlement, judgments and damages awarded against Lessor and payments in lieu thereof) together with any damages awarded against Lessor arising from late payments made by Lessor or violations of law; (l) amounts charged to Lessee or any other tenant in the Project with respect to all items and services for which Lessee or any other tenant in the Project reimburses Lessor or is obligated to reimburse Lessor (other than through the Lessee's proportionate share of Common Area Operating Expenses) or which Lessor provides selectively to one or more tenants without reimbursement without benefit to Lessee; (m) advertising and promotional expenditures, and costs of signs in or on the Project; (n) services provided, taxes attributable to, and cost incurred in connection with

the operation of any retail and restaurant operations in the Project, if any, except to the extent the square footage of such operations are included in the rentable square footage of the Project and do not exceed the services, utility and tax costs which would have been incurred had the retail and/or restaurant space been used for general office purposes; (o) costs incurred as a result of the failure by the original owner of the Project to comply with laws enacted on or before the date the temporary certificate of occupancy (or similar permit) for the shell and core of the Project was validly issued; (p) costs of complying with laws, codes, regulations or ordinances relating to Hazardous Substances in building materials or otherwise in the Project, or Hazardous Substances in the soil or groundwater under the Project, which exist in violation of applicable Applicable Requirements on the Commencement Date; (q) costs incurred with upgrading the Project to comply with the current interpretation of disability, life, fire and safety codes, ordinances, statutes, or other laws in effect prior to the Commencement Date; or (r) costs arising from Lessor's charitable or political contributions.

ASSIGNMENT AND SUBLETTING. Lessee shall have no power to, either voluntarily, involuntarily, by operation of law or otherwise, sell, assign, transfer or hypothecate this Lease, or sublet the Premises or any part thereof, or permit the Premises or any part thereof to be used or occupied by anyone other than Lessee or Lessee's employees without the prior written consent of Lessor which shall not be unreasonably
delayed, conditioned or withheld. If Lessee is a corporation, unincorporated association, partnership or limited liability company, the sale, assignment, transfer or hypothecation of any class of stock or other ownership interest in such corporation, association, partnership or limited liability company in excess of forty-nine percent (49%) in the aggregate shall be deemed an assignment within the meaning and provisions of this Lease. Lessee may transfer its interest pursuant to this Lease only upon the following express conditions, which conditions are agreed by Lessor and Lessee to be reasonable:

(a) That the proposed transferee shall be subject to the prior written consent of Lessor, which consent will not be unreasonably delayed, conditioned or withheld but, without limiting the generality of the foregoing, it shall be reasonable for Lessor to deny such consent if:

(i) The use to be made of the Premises by the proposed transferee is (a) not generally consistent with the character and nature of all other tenancies in the Project, or (b) a use which conflicts with any so-called "exclusive" then in favor of, or for any use which is the same as that stated in any percentage rent lease to, another tenant of the Project or any other buildings which are in the same complex as the Project, or (c) a use which would be prohibited by any other portion of this Lease (including, but not limited to, any Rules and Regulations then in effect);

(ii) The financial responsibility of the proposed transferee relative to Lessee is not reasonably satisfactory to Lessor or in any event not at least equal to those which were possessed by Lessee as of the date of execution of this Lease;

(iii) The proposed transferee is either a governmental agency or instrumentality thereof; or

(iv) Either the proposed transferee or any person or entity which directly or indirectly controls, is controlled by or is under common control with the proposed transferee (A) occupies space in the Project at the time of the request for consent, or (B) is negotiating with Lessor or has negotiated with Lessor during the six (6) month period immediately preceding the date of the proposed transfer, to lease space in the Project.

(b) Whether or not Lessor consents to any such transfer, Lessee shall pay to Lessor Lessor's then standard processing fee and reasonable attorneys' fees incurred in connection with the proposed transfer in an amount not to exceed the aggregate sum of $2,500.00;

(c) That the proposed transferee shall execute an agreement pursuant to which it shall agree to perform faithfully and be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease applicable to that portion of the Premises so transferred; and

(d) That an executed duplicate original of said assignment and assumption agreement or other transfer on a form reasonably approved by Lessor, shall be delivered to Lessor within five (5) days after the execution thereof, and that such transfer shall not be binding upon Lessor until the delivery thereof to Lessor and the execution and delivery of Lessor's consent thereto. It shall be a condition to Lessor's consent to any subleasing, assignment or other transfer of part or all of Lessee's interest in the Premises (hereinafter referred to as a "Transfer") that (i) upon Lessor's consent to any Transfer, Lessee shall pay and continue to pay fifty percent (50%) of
any "Transfer Premium" (defined below), received by Lessee from the transferee; (ii) any sublessee of part or all of Lessee's interest in the Premises shall agree that in the event Lessor gives such sublessee notice that Lessee is in default under this Lease, such sublessee shall thereafter make all sublease or other payments directly to Lessor, which will be received by Lessor without any liability whether to honor the sublease or otherwise (except to credit such payments against Lessee's obligations under this Lease), and any sublessee shall agree to attorn to Lessor or its successors and assigns at their request should this Lease be terminated for any reason, except that in no event shall Lessor or its successors or assigns be obligated to accept such attornment; (iii) any such Transfer and consent shall be effected on forms supplied by Lessor and/or its legal counsel; (iv) Lessor may require that Lessee not then be in default hereunder in any respect; and (v) Lessee or the proposed subtenant or assignee (collectively, "Transferee") shall agree to pay Lessor, upon demand, as additional rent, a sum equal to the additional costs, if any, incurred by Lessor for maintenance and repair as a result of any change in the nature of occupancy caused by such subletting or assignment. "Transfer Premium" shall mean all rent, additional rent or other consideration payable by a Transferee in connection with a Transfer in excess of the Rent payable by Lessee under this Lease during the term of the Transfer and if such Transfer is less than all of the Premises, the Transfer Premium shall be calculated on a rentable square foot basis. "Transfer Premium" shall also include, but not be limited to, key money, bonus money or other cash consideration paid by a transferee to Lessee in connection with such Transfer, and any payment in excess of fair market value for services rendered by Lessee, to the Transferee and any payment in excess of fair market value for assets, fixtures, inventory, equipment, or furniture transferred by Lessee to the Transferee in connection with such Transfer. Any sale assignment, hypothecation, transfer or subletting of this Lease which is not in compliance with the provisions of this Section 52 shall be void and shall, at the option of Lessor, terminate this Lease. In no event shall the consent by Lessor to an assignment or subletting be construed as relieving Lessee, any assignee, or sublessee from obtaining the express written consent of Lessor to any further assignment or subletting, or as releasing Lessee from any liability or obligation hereunder whether or not then accrued and Lessee shall continue to be fully liable therefor. No collection or acceptance of rent by Lessor from any person other than Lessee shall be deemed a waiver of any provision of this Section 52 or the acceptance of any assignee or subtenant hereunder, or a release of Lessee (or of any successor of Lessee or any subtenant). Notwithstanding anything to the contrary in this Lease, if Lessee or any proposed Transferee claims that Lessor has unreasonably withheld or delayed its consent under this Article 52 or otherwise has breached or acted unreasonably under this Section 52, their sole remedies shall be a declaratory judgment and an injunction for the relief sought without any monetary damages, and Lessee hereby waives all other remedies, including, without limitation, any right at law or equity to terminate this Lease, on its own behalf and, to the extent permitted under all applicable laws, on behalf of the proposed Transferee. Notwithstanding anything to the contrary contained in this Section 52, Lessor agrees that it shall grant its approval of a Transfer by Lessee resulting from a stock offering to Justin Timberlake or an affiliate, so long as Lessee reasonably demonstrates to Lessor that: (x) the financial condition of the proposed transferee relative to Lessee is at least equal to the financial condition of Lessee as of the date of execution of this Lease; and (y) Lessee retains control of the entity comprising "Lessee".
CROSS DEFAULT. Lessor and Lessee acknowledge and agree that the concurrent delivery by Lessee to Lessor of a fully-executed Standard Office Lease for the lease of premises at 1212 South Flower Street by Lessee (the "Concurrent Agreement") is a material consideration for Lessor's execution of this Lease and that Lessor would not execute and deliver this Lease but for such Concurrent Agreement. Accordingly, concurrently with the execution and delivery of this Lease by Lessee, Lessee shall deliver to Lessor the duly executed Concurrent Agreement. If Lessee fails to deliver to Lessor the executed Concurrent Agreement, concurrently with the delivery of this Lease, Lessor may terminate this Lease by written notice to Lessee given at any time thereafter. In such event, this Lease shall terminate upon Lessee's receipt of Lessor's notice, Lessee shall bear both parties' expenses and fees incurred in the negotiations and preparation of this Lease and the Concurrent Agreement and in complying herewith through the date of termination (including, without limitation, Lessor's legal fees) and Lessor shall have no further obligation to Lessee or any related party under this Lease or under the Concurrent Agreement. Any breach or default of Lessee, as tenant, under the Concurrent Agreement shall be deemed a default of Lessee under this Lease and any breach or default of Lessee under this Lease shall be deemed a default of Lessee, as tenant, under the Concurrent Agreement.

OPTION TO EXTEND.

(a) If, at the end of the Term of this Lease, (A) Lessee is not in default of any of the terms, conditions or covenants of this Lease, beyond any applicable delivered notice and subsequent cure period, and (B) Lessee has not assigned or sublet the Premises in violation of Section 52, then Lessee shall have the option to extend the Lease Term for one (1) additional period totaling two (2) years and one (1) month, expiring on March 31, 2012 (hereinafter referred to as the "Option Period") upon the same terms and conditions contained in this Lease with the following exceptions:

(i) The Base Rent for the Option Period shall be as set forth in Section 54(c), below;

(ii) There shall be no further extensions of the Lease Term following the expiration of the Option Period unless granted by Lessor in writing, in Lessor's sole discretion; and

(iii) Lessee will not be granted any rental concessions, rental abatement or finish-out allowances during any Option Period.

(b) If Lessee desires to exercise its option to extend the Lease Term (subject to Lessee's compliance with the standards set forth herein), Lessee will notify Lessor in writing of Lessee's intention to do so no later than nine (9) months and no more than twelve (12) months prior to the expiration date of the then current Lease Term. After proper and timely exercise of the extension option by Lessee, all references in this Lease to "Lease Term" or "Term" shall be considered to mean the Lease Term as extended, and all references in this Lease to the Expiration Date or to the end of the Lease Term shall be considered to mean the termination or end of the Option Period.

(c) The Base Rent for the Option Period shall be as follows:

<table>
<thead>
<tr>
<th>LEASE PERIOD</th>
<th>MONTHLY BASE RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>3/1/2010 - 2/28/2011</td>
<td>$5,400.00</td>
</tr>
<tr>
<td>3/1/2011 - 3/31/2012</td>
<td>$5,760.00</td>
</tr>
</tbody>
</table>
Lessee's exercise of the option to extend shall, if Lessor so elects in its absolute discretion, be ineffective in the event that a Default by Lessee remains uncured at the time of exercise or at the commencement of the Option Period. Lessee's option to extend the Term described in this Section 54 is personal to Lessee and may not be exercised by or on behalf of any assignee or subtenant.

LESSOR'S TERMINATION RIGHT. In the event that Lessee has properly and timely exercised its option to extend the Term as described in this Section 54, Lessor shall at any time during the Option Period have the right to terminate the Lease if Lessor has received governmental approvals for the redevelopment of the Project. Such termination shall be effective sixty (60) days after Lessor has delivered written notice of its election to terminate to Lessee, and so long as Lessee is not in default under this Lease, Basic Rental for the final thirty (30) days of the reduced Term shall be abated.

LESSOR:

1212 FLOWER REAL ESTATE, LLC,
a Delaware limited liability company

By: Petit Real Estate Limited Partnership,
a Delaware limited partnership,
its sole member

By: Kor Trio, LLC,
a Delaware limited liability
company, its general partner

By: __________________________
[Printed Name and Title]

LESSEE:

PEOPLE'S LIBERATION, INC.,
a California corporation

By: __________________________
[Printed Name and Title]

By: __________________________
[Printed Name and Title]
SUBSIDIARIES OF PEOPLE'S LIBERATION, INC.

People's Liberation, Inc. has two wholly owned subsidiaries: Versatile Entertainment, Inc., a California corporation, and Bella Rose, LLC, a California limited liability company.

Bella Rose, LLC owns a 50% membership interest in each of William Rast Sourcing, LLC, a California limited liability company, William Rast Licensing, LLC, a California limited liability company, and J. Lindeberg USA, LLC, a California limited liability company. Bella Rose, LLC has operational control of each of William Rast Sourcing, LLC, William Rast Licensing, LLC, and J. Lindeberg USA, LLC as discussed elsewhere in this current report on Form 10-K.
EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders:
People's Liberation, Inc. and Subsidiaries

We consent to the incorporation by reference and inclusion in the Registration Statements on Form S-8 (SEC File Nos. 333-152961 and 333-134672) of People's Liberation, Inc. of our report dated March 27, 2009, relating to the consolidated financial statements of People's Liberation, Inc. and subsidiaries, which report appears in this Annual Report on Form 10-K of People's Liberation, Inc. for the year ended December 31, 2008.

/s/ Crowe Horwath LLP
Sherman Oaks, California
March 27, 2009
To the Board of Directors and Stockholders:
People's Liberation, Inc. and Subsidiaries

We consent to the incorporation by reference and inclusion in the Registration Statements (SEC File Nos. 333-152961 and 333-134672) on Form S-8 of People's Liberation, Inc. of our report dated March 20, 2008, relating to the consolidated financial statements for the year ended December 31, 2007, which report appears in the December 31, 2008 Annual Report on Form 10-K of People's Liberation, Inc.

/s/ GROBSTEIN, HORWATH & COMPANY LLP
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Sherman Oaks, California
March 27, 2009
Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Colin Dyne, certify that:

1. I have reviewed this annual report on Form 10-K of People's Liberation, Inc.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) 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 function):
   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 small business issuer's internal control over financial reporting.

Date: March 31, 2009

/S/ COLIN DYNE
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Colin Dyne
Chief Executive Officer
Certification of CFO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Darryn Barber, certify that:

I have reviewed this annual report on Form 10-K of People's Liberation, Inc.;

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

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

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

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

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

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

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

5. The registrant's other certifying officer(s) 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 function):

   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: March 31, 2009

/S/ DARRYN BARBER

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Darryn Barber
Chief Financial Officer and President
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K for the Year Ended December 31, 2008 (the "Report") by People's Liberation, Inc. ("Registrant"), each of the undersigned hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: March 31, 2009

/S/ COLIN DYNE

Colin Dyne
Chief Executive Officer

Date: March 31, 2009

/S/ DARRYN BARBER

Darryn Barber
Chief Financial Officer and President

A signed original of this written statement required by Section 906 has been provided to Peoples Liberation, Inc. and will be retained by Peoples Liberation, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.