bebe stores, inc.
Form 10-Q
May 13, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 2, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 0-24395

bebe stores, inc.
(Exact name of registrant as specified in its charter)

California	94-2450490
(State or Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

400 Valley Drive
Brisbane, California 94005
(Address of principal executive offices)
Telephone: (415) 715-3900

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined Rule12b-2 of the Exchange Act). Yes ¨ No x

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The number of shares of the registrant's common stock, par value $0.001 per share, outstanding as of May 6, 2016 was 80,033,479.

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bebe stores, inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

bebe stores, inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(unaudited)

	As of April 2, 2016	As of July 4, 2015	As of April 4, 2015
Assets:			
Current assets:			
Cash and equivalents	$25,181	$46,947	$51,865
Available for sale securities	2,689	17,880	19,681
Receivables	8,447	7,122	6,206
Inventories, net	31,673	31,317	32,589
Prepaid and other	11,194	10,774	10,849
Total current assets	79,184	114,040	121,190
Available for sale securities	—	5,241	5,343
Property and equipment, net	77,261	93,229	93,924
Other assets	3,633	3,903	4,719
Total assets	$160,078	$216,413	$225,176
Liabilities and Shareholders' Equity:			
Current liabilities:			
Accounts payable	$16,149	$12,595	$15,531
Accrued liabilities and other	21,512	28,217	28,428
Total current liabilities	37,661	40,812	43,959
Deferred rent and other lease incentives	19,096	23,952	25,071
Uncertain tax positions	84	81	80
Total liabilities	56,841	64,845	69,110
Commitments and contingencies			
Shareholders' equity:			
Preferred stock-authorized 1,000,000 shares at $0.001 par value per share; no shares issued and outstanding	—	—	—
Common stock-authorized 135,000,000 shares at $0.001 par value per share; issued and outstanding 80,032,065, 79,660,973 and 79,609,749 shares	80	80	80
Additional paid-in capital	147,278	145,499	144,759
Accumulated other comprehensive income (loss)	681	(1,776)	(1,762)
Retained earnings (accumulated deficit)	(44,802)	7,765	12,989
Total shareholders' equity	103,237	151,568	156,066
Total liabilities and shareholders' equity	$160,078	$216,413	$225,176

See accompanying notes to condensed consolidated financial statements.

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bebe stores, inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
Net sales	$79,939	$92,668	$298,669	$323,738
Cost of sales, including production and occupancy	56,968	64,481	206,155	214,873
Gross margin	22,971	28,187	92,514	108,865
Selling, general and administrative expenses	49,417	39,047	141,423	128,991
Operating loss	(26,446)	(10,860)	(48,909)	(20,126)
Interest and other income (loss), net	(3,564)	43	(3,643)	478
Loss from continuing operations, before income taxes	(30,010)	(10,817)	(52,552)	(19,648)
Income tax provision (benefit)	(42)	75	15	250
Loss from continuing operations, net of tax	(29,968)	(10,892)	(52,567)	(19,898)
Loss from discontinued operations, net of tax	—	(354)	—	(2,548)
Net loss	$(29,968)	$(11,246)	$(52,567)	$(22,446)
Basic per share amounts:				
Loss from continuing operations, net of tax	$(0.37)	$(0.14)	$(0.66)	$(0.25)
Loss from discontinued operations, net of tax	—	—	—	(0.03)
Net loss	$(0.37)	$(0.14)	$(0.66)	$(0.28)
Diluted per share amounts:				
Loss from continuing operations, net of tax	$(0.37)	$(0.14)	$(0.66)	$(0.25)
Loss from discontinued operations, net of tax	—	—	—	(0.03)
Net loss	$(0.37)	$(0.14)	$(0.66)	$(0.28)
Basic weighted average shares outstanding	80,027	79,630	79,888	79,607
Diluted weighted average shares outstanding	80,027	79,630	79,888	79,607
Dividends declared per share	$—	$0.015	$—	$0.045
Other comprehensive income (loss)				
Unrealized loss on available for sale securities	$—	$(112)	$—	$(23)
Reclassification of realized loss on available for sale securities	3,834	—	3,759	—
Foreign currency translation adjustments	424	(1,894)	(1,302)	(4,900)
Other comprehensive income (loss)	4,258	(2,006)	2,457	(4,923)
Comprehensive loss	$(25,710)	$(13,252)	$(50,110)	$(27,369)

See accompanying notes to condensed consolidated financial statements.

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bebe stores, inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended	
	April 2, 2016	April 4, 2015
Cash flows from operating activities:		
Net loss	$(52,567)	$(22,446)
Adjustments to reconcile net loss to cash used by operating activities:		
Stock compensation expense	1,770	1,846
Depreciation and amortization	15,840	12,175
Loss on sale of available for sale securities	3,624	—
Non-cash charge for asset impairment	5,477	224
Other	153	(4)
Changes in operating assets and liabilities:		
Receivables	(1,332)	(1,700)
Inventories	(380)	(895)
Prepaid expenses and other	(132)	1,445
Accounts payable	3,848	(1,718)
Deferred rent and other lease incentives	(4,781)	(775)
Accrued liabilities	(5,850)	(9,755)
Net cash used by operating activities	(34,330)	(21,603)
Cash flows from investing activities:		
Purchase of property and equipment and store construction deposits	(6,753)	(18,779)
Purchase of investment securities	(2,576)	(14,490)
Proceeds from sales of investment securities	22,031	18,373
Net cash provided (used) by investing activities	12,702	(14,896)
Cash flows from financing activities:		
Proceeds from issuance of common stock	8	16
Cash dividends paid	—	(3,582)
Net cash provided (used) by financing activities	8	(3,566)
Net decrease in cash and equivalents	(21,620)	(40,065)
Effect of exchange rate changes on cash	(146)	(2,415)
Cash and equivalents:		
Beginning of period	46,947	94,345
End of period	$25,181	$51,865

See accompanying notes to condensed consolidated financial statements.

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bebe stores, inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheets of bebe stores, inc. (the “Company”) as of April 2, 2016 and April 4, 2015, the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended April 2, 2016 and April 4, 2015 and the condensed consolidated statements of cash flows for the nine months ended April 2, 2016 and April 4, 2015 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, without audit. Accordingly, they do not include all of the information required by accounting principles generally accepted in the United States of America for annual financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended July 4, 2015.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position at the balance sheet dates and the results of operations for the periods presented have been included. The condensed consolidated balance sheet at July 4, 2015, presented herein, was derived from the audited balance sheet included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 4, 2015.

LIQUIDITY

The Company incurred net losses and used cash in operating activities in the first nine months of fiscal 2016 and in each of fiscal 2015, 2014 and 2013. Cash and equivalents and short-term available securities were $64.8 million as of July 4, 2015. During the nine months ended April 2, 2016, net loss and net cash used in operating activities were $52.6 million and $34.3 million, respectively. As a result, cash and equivalents and short-term available for sale securities were $27.9 million as of April 2, 2016. In addition, the Company's arrangements with its card processors allow them to impose a holdback the amount and duration of which is at their discretion. As of April 2, 2016, the processor had withheld $3.5 million, which is included in receivables. Furthermore, the Company's vendors may require letters of credit prior to fulfilling orders. Holdbacks and/or additional letters of credit could further reduce the Company's liquidity.

The Company used $34.3 million, $25.0 million, $30.3 million and $8.4 million net of cash in operating activities in the first nine months of fiscal 2016 and in the fiscal years 2015, 2014 and 2013, respectively. The Company's liquidity is dependent upon its ability to generate cash from operations along with usage of its existing cash and cash equivalents and short-term investments.

During the third quarter of fiscal 2016 the Company took significant steps to restructure its organization which included headcount reductions and the closure of non-productive stores. As the Company enters the fourth fiscal quarter it will continue to implement its strategy to streamline the production cycle for our product, improve the product assortment, further rationalize the store fleet and continue to reduce discretionary spending while evaluating several opportunities to monetize its assets. The Company believes that improvements to production and assortment will result in a more compelling fashion offering for our customers leading to increased comparable store sales. Furthermore, reductions in discretionary spending and rationalization of the store fleet will result in combined annual operating expense savings that are estimated to be approximately $25 million. The Company believes it will see the benefit of this in fiscal 2017. Furthermore, in the first nine months of fiscal 2016 the Company incurred $6.3 million in severance expense and $2.6 million in lease termination expense that it currently does not anticipate incurring in fiscal 2017. In addition to these expense savings the Company currently anticipates closing up to 40 stores that had a trailing 12 month loss of approximately $5.5 million. The Company believes the efforts discussed in this section will significantly reduce the amount of net cash used in operating activities in fiscal 2017.

The Company is also evaluating potential sources of additional liquidity, including potentially obtaining a borrowing arrangement as well as opportunities for monetizing assets such as the Company's intellectual and real property. However, the Company cannot assure that any additional liquidity will be available on favorable terms or at all.

The Company's ability to continue as a going concern is dependent on its ability to generate cash flow from operations or to obtain additional liquidity through borrowing or other arrangements and may also be impacted by the effects of holdbacks and letters of credit.

The Company believes its cash and equivalents and short-term available for sale securities, together with cash flows from operations, will be sufficient to meet its operating and capital requirements for at least the next twelve months. However, if the

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financial results anticipated as a result of the restructuring and cost-saving measures discussed previously in this section are not achieved, the Company's current cash and equivalents and short-term securities may not be sufficient to meet its operating and capital requirements for at least the next twelve months without obtaining additional sources of liquidity which may not be available on favorable terms or at all. The Company's future operating and capital requirements will depend on numerous factors, including without limitation, future results of operations, investment costs for management information systems, imposed holdbacks, the requirement to maintain letters of credit and potential investments and/or licensing arrangements. If the Company is unable to generate positive cash flow from operations or to obtain funds from additional sources, this could have a material adverse effect on its business and financial condition.

FISCAL YEAR

The Company's fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. Fiscal years 2016 and 2015 both include 52 weeks.

The three month periods ended April 2, 2016 and April 4, 2015 each include 13 weeks. The nine month periods ended April 2, 2016 and April 4, 2015 each included 39 weeks.

The Company's business is affected by the pattern of seasonality common to most retail apparel businesses. The results for the periods presented are not necessarily indicative of future financial results.

RECENT ACCOUNTING PRONOUNCEMENTS

Stock Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, "Compensation - Stock Compensation (Topic 718)", which is part of the FASB's Simplification Initiative. The updated guidance simplifies the accounting for share-based payment transactions. The amended guidance is effective for fiscal years, and interim periods within those years, beginning with fiscal 2017, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Leases

In February 2016 the FASB issued ASU 2016-02 "Leases". This standard requires lessees to put most leases on their balance sheets as a right-to-use asset and a lease liability, but to continue to recognize expenses in the statements of operations in a manner similar to current accounting. The Company will adopt this standard at the beginning of its 2020 fiscal year and is currently assessing the impact to its consolidated financial statements.

Income Taxes

In November 2015, the FASB issued ASU No. 2015-17 "Income Taxes, Balance Sheet Classification of Deferred Taxes". This standard requires the Company to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. The Company will adopt this standard beginning with its annual report for the 2016 fiscal year.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers", or ASU 2014-09, which states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this, an entity will need to: identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligation in the contract; and recognize revenue when (or as) the entity satisfies each performance obligation. ASU No. 2014-09 will be effective beginning with the Company's 2019 fiscal year. The Company is currently assessing its approach to the adoption of this standard and the impact on its results of operations and financial position.

Going Concern

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," which requires management of a company to evaluate whether there is substantial doubt about the company's ability to continue as a going concern. This ASU

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is effective for the annual reporting period ending in 2017, and for interim and annual reporting periods thereafter, with early adoption permitted. The Company will evaluate the impact of this standard at the time it becomes effective.

Inventory

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory". The new standard amends the guidelines for the measurement of inventory from lower of cost or market to the lower of cost and net realizable value (NRV). NRV is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Under existing standards, inventory is measured at lower of cost or market, which requires the consideration of replacement cost, NRV and NRV less an amount that approximates a normal profit margin. This ASU eliminates the requirement to determine and consider replacement cost or NRV less an approximately normal profit margin for inventory measurement. The new standard is effective prospectively at the beginning of the Company's 2018 fiscal year. The Company is currently evaluating the impact, if any, of adopting this new accounting guidance on its results of operations and financial position.

RESULTS OF OPERATIONS

In the third quarter of fiscal 2016, the Company closed one of its stores and recorded $2.3 million in expense in connection with terminating the lease. This amount has been included in selling, general and administrative expenses within the consolidated statements of operations.

DISCONTINUED OPERATIONS

In the fourth quarter of fiscal 2014, the Company discontinued the operations of the 2b division by closing all existing 18 2b stores including 2b.com, allowing the Company to focus its efforts on the core bebe brand's retail and outlet stores, e-commerce and international licensing business.

As of April 4, 2015, the Company had a remaining reserve of $1.7 million for future costs associated with discontinued operations. This reserve was included within the "Accrued liabilities" line in the consolidated balance sheets. A roll forward of the reserve is presented as follows:

	Lease Obligations	Other Costs	Total
		(In thousands)	
Balance as of July 5, 2014	$ 6,385	$ 1,000	$7,385
Costs incurred in fiscal 2015	1,652	896	2,548
Cash payments, markdowns or adjustments applied	(6,317)	(1,874)	(8,191)
Balance as of April 4, 2015	$ 1,720	$ 22	$1,742

For leases where a settlement was not yet reached, the obligation was adjusted to represent the Company's best estimate of the amount of settlement.

Other costs consisted primarily of a reserve for estimated losses on 2b inventory purchased pursuant to purchase orders that were open when operations were discontinued and severance.

There was no reserve as of July 4, 2015.

INVESTMENTS

The Company’s investment portfolio consists of certificates of deposit and auction rate securities. The Company held short term available for sale securities totaling $2.7 million as of April 2, 2016, that consisted entirely of certificates of deposit at cost which approximates fair value. On January 20, 2016 the board approved management to proceed with the sale of the Company's remaining two ARS seeking the most commercially reasonable terms and both securities were sold during the quarter. As a result, during the three months ended April, 2, 2016, the Company sold its remaining two interest bearing auction rate securities with a face value totaling $9 million for proceeds totaling $5.4 million and recorded a loss of $3.6 million in other income (expense), which included the reclassification of accumulated comprehensive income into the consolidated statement of operations, adjusted to reflect the final loss on the sale. As of April 2, 2016, the Company had no remaining interest bearing auction rate securities ("ARS").

The following is a summary of the Company's available for sale securities:

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	As of April 2, 2016			
	Cost	Unrealized Losses Less Than 12 Months	Unrealized Losses 12 Months or Greater	Estimated Fair Value
	(In thousands)			
Short term certificates of deposit	$2,689	$ —	$ —	$ 2,689

	As of July 4, 2015			
	Cost	Unrealized Losses Less Than 12 Months	Unrealized Losses 12 Months or Greater	Estimated Fair Value
	(In thousands)			
Short term certificates of deposit	$17,880	$ —	$ —	$ 17,880
Long term auction rate securities	$9,000	$ —	$ 3,759	$ 5,241

	As of April 4, 2015			
	Cost	Unrealized Losses Less Than 12 Months	Unrealized Losses 12 Months or Greater	Estimated Fair Value
	(In thousands)			
Short term certificates of deposit	$19,681	$ —	$ —	$ 19,681
Long term auction rate securities	$9,000	$ —	$ 3,657	$ 5,343

FAIR VALUE MEASUREMENTS

The FASB has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of April 2, 2016, the Company held financial instruments that are measured at fair value on a recurring basis. These included cash equivalents and available for sale securities. Cash equivalents consist of money market funds. Short term available for sale securities consist of certificates of deposit.

The Company determined the estimated fair value of its investment in ARS by reviewing trading activity for similar securities in secondary markets as well as by using a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for liquidity (average of LIBOR +6.09%), interest rates (weighted average of 0.2%), timing (range from 9 – 13 years), credit ratings and amount of cash flows and expected holding periods of the ARS and recent trading activity in the secondary marketplace.

The following items are measured at fair value on a recurring basis as of April 2, 2016:

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Description	April 2, 2016	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair value measurements at reporting date (In thousands)			
Cash and cash equivalents	$ 25,380	$ 25,380	$ —	$ —
Current available for sale securities	2,689	—	2,689	—
Non-current available for sale securities	—	—	—	—
Total	$ 28,069	$ 25,380	$ 2,689	$ —

The following items are measured at fair value on a recurring basis as of July 4, 2015:

Description	July 4, 2015	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair value measurements at reporting date (In thousands)			
Cash and cash equivalents	$ 14,426	$ 14,426	$ —	$ —
Current available for sale securities	17,880	—	17,880	—
Non-current available for sale securities	5,241	—	—	5,241
Total	$ 37,547	$ 14,426	$ 17,880	$ 5,241

The following items are measured at fair value on a recurring basis as of April 4, 2015:

Description	April 4, 2015	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair value measurements at reporting date (In thousands)			
Cash and cash equivalents	$ 51,865	$ 51,865	$ —	$ —
Current available for sale securities	19,681	—	19,681	—
Non-current available for sale securities	5,343	—	—	5,343
Total	$ 76,889	$ 51,865	$ 19,681	$ 5,343

During the quarter ended April 2, 2016, there were no transfers of assets and liabilities between Level 1 (quoted prices in active markets for identical assets) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy. An impairment charge was recorded in accumulated other comprehensive income that reduced the carrying amount of the applicable non-current assets of $9.0 million to their fair value of $5.3 million as of April 4, 2015.
The following table presents the Company's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and nine months ended April 2, 2016:

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	Three Months Ended April 2, 2016	Nine Months Ended April 2, 2016
	(In thousands)	
Balance at beginning of period	$5,166	$5,241
Total gains or (losses) (realized or unrealized)		
Included in net loss	(3,623)	(3,623)
Included in accumulated other comprehensive income (1)	3,834	3,759
Settlements	(5,377)	(5,377)
Balance at end of period	$—	$—

(1) represents the reclassification of amounts out of accumulated other comprehensive income.

Non-Financial Assets:

The Company measures certain non-financial assets and liabilities, including long-lived assets, at fair value on a non-recurring basis. During the three months ended April 2, 2016 and April 4, 2015, the Company recorded impairment charges of approximately $2.0 million and $0.0 million, respectively, related to under-performing stores. During the nine months ended April 2, 2016 and April 4, 2015, the Company recorded impairment charges of approximately $5.5 million and $0.2 million, respectively, related to under-performing stores.

The following table presents the Company's considerations of at-risk assets for the three month and nine month periods ended April 2, 2016 and April 4, 2015, respectively (amounts in millions, except for store count):

	Three Months Ended		Nine Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
Number of stores identified as at risk and evaluated for impairment	7	11	26	24
Number of stores identified as at risk, but not impaired	(1)	(11)	(3)	(20)
Number of stores identified as at risk with impairment	6	—	23	4
Total carrying amount of stores identified as at risk prior to any impairment charges taken	$2.1	$2.5	$6.9	$3.9
Total carrying amount of stores identified as at risk, but not impaired	(0.1)	(2.5)	(1.4)	(3.7)
Total carrying amount of stores identified for impairment	2.0	—	5.5	0.2
Impairment charges recorded during the period	(2.0)	—	(5.5)	(0.2)
Remaining carrying amount of stores identified for impairment after impairment charges taken	$—	$—	$—	$—

The fair market value of these assets was determined using the income approach and level 3 inputs, which require management to make significant estimates about future operating plans and projected cash flows. Management estimates the amount and timing of future cash flows based on its experience and knowledge of the retail market in which each store operates. The assumptions used in preparing the discounted cash flow model and the related sensitivity analysis around the discounted cash flow model include estimates for weighted average cost of capital 11.0% and annual revenue growth rates (range from 0.0% – 5.0%). The stores not impaired had undiscounted cash flows that exceeded their net carrying amount at a weighted average of 109% and 380% for the three and nine month periods ended April 2, 2016, respectively. For the three and

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nine month periods ended April 4, 2015, the stores not impaired had undiscounted cash flows that exceeded their net carrying amount at a weighted average of 152% and 217%, respectively.

The impairment charge is included in selling, general and administrative expenses ("SG&A") in the accompanying condensed consolidated statements of operations and comprehensive loss. The Company was not required to measure any other significant non-financial assets and liabilities at fair value.

INVENTORIES

The Company's inventories consisted of:

	As of April 2, 2016	July 4, 2015	April 4, 2015
	(In thousands)		
Raw materials	$805	$548	$607
Merchandise available for sale	30,868	30,769	31,982
Inventories, net	$31,673	$31,317	$32,589

LETTERS OF CREDIT

The Company has a secured stand-by letter of credit agreement which provides for issuance of one or more stand-by and commercial letters of credit. As of April 2, 2016, the Company had $4.4 million outstanding, related to two stand-by letters of credit and $7.6 million related to ten commercial letters of credit. To date, no beneficiary has drawn upon any stand-by letters of credit.

INCOME TAXES

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expenses. The Company regularly assesses the need for a valuation allowance against its deferred tax assets. In evaluating whether it is more likely than not that some or all of the Company's deferred tax assets will not be realized, it considers all available positive and negative evidence, including recent year's operational results which is objectively verifiable evidence. As a result of its evaluation of the realizability of its deferred tax assets as of April 2, 2016, the Company continues to believe, based upon all available evidence, that it is more likely than not that the majority of its deferred tax assets will continue to not be realized. Accordingly, the majority of the tax benefit related to the current quarter losses is not recognized. The Company will continue to maintain a valuation allowance against its deferred tax assets until the Company believes it is more likely than not that these assets will be realized in the future. If sufficient positive evidence arises in the future indicating that all or a portion of the deferred tax assets meet the more likely than not standard, the valuation allowance will be reversed accordingly in the period that such determination is made.

EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur from common shares issuable through the exercise of dilutive stock options.

There is no difference between the number of shares used in the basic and diluted earnings per share computations. Excluded from the computation of the number of diluted weighted average shares outstanding were options and awards to purchase 3,034,802 and 3,466,541 shares of common stock for the three months ended April 2, 2016 and April 4, 2015, respectively, and 3,662,359 and 3,991,145, for the nine months ended April 2, 2016 and April 4, 2015, respectively, which would have been anti-dilutive.

STOCK BASED COMPENSATION

The following table summarizes the stock based compensation expense recognized under the Company's stock plan during the three and nine months ended April 2, 2016 and April 4, 2015:

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	Three Months Ended		Nine Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
	(In thousands)			
Stock options	$(1)	$138	$390	$553
Stock awards/units	350	766	1,380	1,293
Total stock based compensation expense	$349	$904	$1,770	$1,846

Unrecognized compensation cost related to nonvested stock options and nonvested stock awards/units totaled approximately $0.1 million and $0.3 million, respectively, as of April 2, 2016. This cost is expected to be recognized over a weighted average period of 1.1 years and 0.8 years, respectively. There were no stock options granted during the three and nine months ended April 2, 2016 and during the three months ended April 4, 2015. During the nine month periods ended April 2, 2016 and April 4, 2015, the weighted average fair value of stock options at their grant date was $0 and $0.84, respectively.

LEGAL MATTERS

As of the date of this filing, the Company is involved in ongoing legal proceedings as described below.

A former employee filed a complaint against the Company on July 27, 2006, in the Superior Court of California, San Mateo County (Case No. CIV 456550) alleging a failure to pay wages and to provide meal and rest periods, among other claims. The plaintiff purported to bring the action on behalf of current and former California bebe managers who are similarly situated. On or about September 2014, the parties entered a settlement agreement conditioned upon court approval and a certain class participation rate which is consistent with amounts the Company previously accrued. The Court entered final approval of the settlement. The parties are in the process of the final administration of the settlement with the class members.

A former employee filed a complaint against the Company on November 2, 2010, in the Superior Court of California, San Bernardino County (Case No. CIVRS1011823) alleging a failure to pay wages, failure to provide meal and rest periods, and other violations of the California Labor Code and Business & Professions Code §17200 et. seq. The plaintiff purported to bring the action on behalf of current and former California bebe stylists and sales associates who are similarly situated. The complaint sought damages, civil penalties, and injunctive relief among other remedies. The Company continues to defend itself against the claims. The parties are conducting discovery. There is no trial date set. The Company is unable to estimate an amount or range of any reasonably possible losses.

A customer served the Company with a complaint on January 31, 2014, in the United States District Court for the Northern District of California (Civil Action No. C14-267 DMR) alleging various violations of the Telephone Consumer Protection Act (47 U.S.C. §§227 et seq.) and violations of California's unfair competition law (California Business and Professions Code §§ 17200, et seq.) stemming from an alleged failure to obtain customer consent prior to sending text messages. The plaintiff purported to bring the action on behalf of others similarly situated. The complaint sought damages and injunctive relief among other remedies. The parties are conducting discovery. There is no trial date set. The Company continues to defend itself against the claims. The Company is unable to estimate an amount or range of any reasonably possible losses.

A customer served the Company with a complaint on May 20, 2014 in the United States District Court for the Northern District of California (Civil Action No. 3:14-CV-01968) alleging negligent and willful violations of the Telephone Consumer Protection Act (47 U.S.C. §§227 et seq.) stemming from an alleged failure to obtain customer consent prior to sending text messages. The plaintiff purports to bring the action also on behalf of others similarly situated. The complaint sought damages and injunctive relief other remedies. The Company continues to defend itself against the claims. There is no trial date set. This proceeding was consolidated with the action referenced above (Civil Action No. C14-267 DMR). The Company is unable to estimate an amount or range of any reasonably possible losses.

The Company is involved in additional legal proceedings arising in the normal course of business.

Regarding all matters referenced herein, the Company intends to defend itself vigorously and has accrued estimated amounts of liability where required, appropriate and determinable. Any such estimates may be revised as further information becomes available. The results of any litigation are inherently uncertain and as such the Company cannot assure that it will be able to successfully defend itself in these lawsuits nor that any amounts accrued are sufficient. The Company believes that the legal proceedings referenced herein, as well as the amounts accrued as of this filing, either individually or in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "thinks" and similar expressions are forward-looking statements. Forward-looking statements include statements about our expected results of operations, capital expenditures and store openings. Although we believe that these statements are based upon reasonable assumptions, we cannot assure you that our goals will be achieved. These forward-looking statements are made as of the date of this Form 10-Q, and we assume no obligation to update or revise them or provide reasons why actual results may differ. Factors that might cause such a difference include, but are not limited to, our ability to respond to changing fashion trends, obtain raw materials and find manufacturing facilities, attract and retain key management personnel, develop new concepts, successfully open future stores, successfully manage our online business, maintain and protect information technology, respond effectively to competitive pressures in the apparel industry and adverse economic conditions and protect our intellectual property as well as declines in comparable store sales performance, changes in the level of consumer spending or preferences in apparel and/or other factors discussed in "Risk Factors" and elsewhere in this Form 10-Q.

OVERVIEW

We design, develop and produce a distinctive line of contemporary women's apparel and accessories. We are a global fashion brand that believes feeling confident and looking great are cornerstones for today's sophisticated woman. The bebe woman is glamorous, feminine and sophisticated and takes pride in her appearance. She is powerful and ageless and wants to stand out in a crowd. Our expert designs and a personal retail experience aim to provide the bebe woman with all of her fashion needs. The bebe woman also expects value in the form of current fashion and high quality at a competitive price.

Our distinctive product offering includes a range of separates, tops, dresses, active wear and accessories to satisfy our customers every day wardrobe needs for a variety of occasions. While we maintain a range of product offerings, during the first quarter of fiscal 2016 we began to take steps to focus on more streamlined lifestyle assortments that more closely align with our customers. We design and develop the majority of our merchandise in-house, which is manufactured to our specifications. The remainder is sourced directly from third-party manufacturers.

We market our products under the bebe and BEBE SPORT brand names through our 189 retail stores, of which 151 are bebe stores, including an on-line store at www.bebe.com, and 38 are bebe outlet stores. Our 86 international licensees operated stores in 21 countries and, pursuant to our product licensing, through certain select domestic and international retailers. During the three months ended April 2, 2016, we closed 12 bebe stores and 2 outlet stores, and during the nine months ended April 2, 2016, we opened 1 bebe store and 4 outlet stores, and closed 15 bebe stores and 2 outlet stores.

bebe. We were founded by Manny Mashouf, our CEO and Chairman of the Board. We opened our first store in San Francisco, California in 1976, which was also the year we incorporated in California. As of April 2, 2016, we operated 150 bebe stores in 33 states, Puerto Rico, and Canada and on-line. www.bebe.com is our bebe on-line retail store and an extension of the bebe store experience that provides a complete assortment of bebe and BEBE SPORT merchandise and is used as a vehicle to communicate with our customers.

bebe outlet. Our bebe outlet stores are an extension of the full-price bebe store and provide everyday lifestyle offerings for our aspirational buyers. As of April 2, 2016, we operated a total of 38 bebe outlet stores.

2b bebe. In the fourth quarter of fiscal 2014, we discontinued operations of our 2b bebe division, allowing us to focus on the core bebe brand; we closed all of the 2b bebe stores by the end of fiscal 2014. We recorded the net costs associated with the disposition of these stores during fiscal 2014 as the stores closed and the related assets were disposed of or written off. Results for these stores have been classified within discontinued operations on our consolidated statements of operations and comprehensive income (loss).

CRITICAL ACCOUNTING POLICIES

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America.

The preparation of these financial statements requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will

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inevitably differ from our estimates. Such differences could be material to the financial statements. We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. Our most critical accounting policies are those related to revenue recognition, stock based compensation, inventories, marketable securities, impairment of long lived assets and income taxes. We continually evaluate these accounting policies and estimates, and we make adjustments when facts and circumstances dictate a change. Our accounting policies are described in Note 1 to the consolidated financial statements in our annual report on Form 10-K for the fiscal year ended July 4, 2015. This discussion and analysis should be read in conjunction with such discussion and with our condensed consolidated financial statements and related notes included in Part 1, Item 1 of this quarterly report.

RESULTS OF OPERATIONS

Our fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. Both fiscal 2016 and fiscal 2015 include 52 weeks. The three months ended April 2, 2016 and April 4, 2015 each include 13 weeks. The nine months ended April 2, 2016 and April 4, 2015 each include 39 weeks.

The following table sets forth certain financial data as a percentage of net sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	April 2, 2016	April 4, 2015	April 2, 2016	April 4, 2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales, including production and occupancy (1)	71.3	69.6	69.0	66.4
Gross margin	28.7	30.4	31.0	33.6
Selling, general and administrative expenses (2)	61.8	42.1	47.4	39.8
Operating income (loss)	(33.1)	(11.7)	(16.4)	(6.2)
Interest and other income, net	(4.5)	—	(1.2)	0.1
(Loss) income from continuing operations before income taxes	(37.6)	(11.7)	(17.6)	(6.1)
Income tax (benefit)/provision	(0.1)	0.2	—	0.1
Loss from continuing operations, net of tax	(37.5)	(11.8)	(17.6)	(6.1)
Loss from discontinued operations, net of tax	—	(0.4)	—	(0.7)
Net loss	(37.5)%	(12.1)%	(17.6)%	(6.9)%

(1) Cost of sales includes the cost of merchandise, occupancy costs, distribution center costs and production costs.
(2) Selling, general and administrative expenses primarily consist of non-occupancy store costs, corporate overhead and advertising costs.

Net Sales. Net sales decreased to $79.9 million during the three months ended April 2, 2016 from $92.7 million for the comparable period of the prior year, a decrease of $12.7 million, or 13.7%. The decrease in net sales was primarily due to decreased sales volumes in both our bebe and outlet businesses and a decrease in sales to our international licensees. Comparable store sales decreased 8.1% compared with a 1.2% increase in the same period in the prior year. Traffic and average unit retail declined while conversion improved. E-commerce comparable store sales increased 2.4% for the quarter. The increase in e-commerce sales was driven by higher traffic and conversion rates.

For the nine months ended April 2, 2016, net sales decreased to $298.7 million from $323.7 million for the comparable period of the prior year, a decrease of $25.1 million, or 7.7%. The decrease reflected the effects of decreased sales volumes in our bebe and outlet and international businesses.

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	Three Months Ended April 2, 2016	Three Months Ended April 4, 2015	Nine Months Ended April 2, 2016	Nine Months Ended April 4, 2015
Net sales (In thousands)	$79,939	$92,668	$298,669	$323,738
Net sales decrease percentage	(13.7)%	4.1 %	(7.7)%	0.7 %
Comparable store percentage (1)	(8.1)%	1.2 %	(4.5)%	3.7 %
Net sales per average square foot (2)	$77	$84	$284	$301
Square footage at end of period (In thousands)	742	796	742	796
Number of store locations:				
Beginning of period	203	211	201	207
New store locations	—	2	5	8
Closed store locations	14	10	17	12
Number of stores open at end of period	189	203	189	203

(1) We calculate comparable store sales by including the net sales of stores that have been open at least one year. Therefore, a store is included in the comparable store sales base beginning with its thirteenth month. Stores that have been expanded or remodeled by 15 percent or more or have been permanently relocated are excluded from the comparable store sales base. In addition, we calculate comparable store sales using a same day sales comparison. Our e-commerce store sales are also included in our comparable store sales base. For the three months ended April 2, 2016 and April 4, 2015, the inclusion of our e-commerce store sales increased the comparable store sales 2.6% and 1.6%, respectively. For the nine months ended April 2, 2016 and April 4, 2015, the inclusion of our e-commerce store sales increased the comparable store sales 3.7% and 2.5%, respectively.

(2) We calculate net sales per average square foot using net store sales less e-commerce net sales and monthly average store square footage.

Gross Margin. Gross margin decreased to $23.0 million during the three months ended April 2, 2016 from $28.2 million for the comparable period of the prior year, a decrease of $5.2 million, or 18.5%. As a percentage of net sales, gross margin decreased to 28.7% for the three months ended April 2, 2016 from 30.4% in the comparable period of the prior year. The decrease in margin primarily reflected an increase in promotional activity and decreased store leverage.

For the nine months ended April 2, 2016, gross margin decreased to $92.5 million from $108.9 million for the comparable period of the prior year, a decrease of $16.4 million, or 15.0%. As a percentage of net sales, gross margin was 31.0% for the nine months ended April 2, 2016 compared to 33.6% in the comparable period of the prior year. The decrease in margin primarily reflected increased promotional activity and decreased store leverage.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to $49.4 million during the three months ended April 2, 2016 from $39.0 million for the comparable period of the prior year, an increase of $10.4 million, or 26.6%. SG&A for the third quarter was impacted by increased compensation expense due to severance paid related to a corporate restructuring. SG&A was also impacted by costs incurred in connection with store closures including a $2.6 million lease termination fee, as well as an increase in depreciation related to planned store closures and store impairment charges on the remainder of the store fleet. As a percentage of net sales, selling, general and administrative expenses increased to 61.8% during the three months ended April 2, 2016 from 42.1% in the comparable period of the prior year.

For the nine months ended April 2, 2016, selling, general and administrative expenses increased to $141.4 million from $129.0 million for the comparable period of the prior year, an increase of $12.4 million or 9.6%. As a percentage of net sales, selling, general and administrative expenses increased to 47.4% during the nine months ended April 2, 2016 from 39.8% in the comparable period of the prior year. The increase was primarily the result of increased severance costs related to the corporate restructuring, charges related to store closures in the period, depreciation related to planned store closures during remainder of fiscal 2016 as well as store impairment charges on the remainder of the store fleet.

Provision for Income Taxes. The tax rate for the third quarter of fiscal 2016 was 0.1% compared to (0.7)% for the comparable period of the prior year. The effective tax rate in both periods primarily reflected the effects of state and foreign income taxes and the continuing impact of maintaining a valuation allowance against net deferred tax assets recorded in the third quarter of fiscal 2013.

For the nine months ended April 2, 2016, effective tax rate was 0.0% compared to (1.3)% for the comparable period of the prior year. Due to the existence of the valuation allowance, most of the tax benefit related to the current fiscal year to date losses has not been recognized. Our effective tax rate for both fiscal year 2016 and 2015 continues to approximate 0% due to the impact of the valuation allowance.

Discontinued Operations. Loss from discontinued operations was $0.0 million for the three months ended April 2, 2016 compared to $0.4 million for the three months ended April 4, 2015. The loss in the third quarter of fiscal 2015 primarily represented costs related to settling our remaining 2b lease obligations.

For the nine months ended April 2, 2016, loss from discontinued operations was $0.0 million compared to $2.5 million for the nine months ended April 4, 2015. The loss to date in fiscal 2015 primarily represented costs related to settling our remaining 2b lease obligations and severance incurred and paid in the period.

SEASONALITY OF BUSINESS AND QUARTERLY RESULTS

Our business varies with general seasonal trends that are characteristic of the retail and apparel industries. As a result, our typical store generates a higher percentage of our annual net sales and profitability in the second quarter of our fiscal year, which includes the holiday selling season, compared to the other quarters of our fiscal year. If for any reason our sales were below seasonal norms during the second quarter of our fiscal year, our annual operating results would be negatively impacted. Because of the seasonality of our business, results for any quarter are not necessarily indicative of results that may be achieved for a full fiscal year or for any other fiscal quarter.

LIQUIDITY AND CAPITAL RESOURCES

Our working capital requirements vary widely throughout the year and generally peak during the first and second fiscal quarters. As of April 2, 2016, we had approximately $27.9 million of cash and equivalents and investments on hand of which $25.2 million were cash and equivalents, approximately $2.7 million were invested in certificates of deposit.

As of April 2, 2016, we had cash and equivalents of $25.2 million held in accounts managed by third-party financial institutions consisting of invested cash and cash in our operating accounts. The invested cash is invested in interest bearing funds managed by third-party financial institutions. These funds invest in direct obligations of the government of the United States. To date, we have experienced no loss or lack of access to our invested cash or equivalents; however, we can provide no assurances that access to our invested cash and equivalents will not be impacted by adverse conditions in the financial markets.

We hold our operating and invested cash in accounts that are with third-party financial institutions. These balances exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to invested cash or cash in our operating accounts.

Net cash used by operating activities for the nine months ended April 2, 2016 was $34.3 million compared to net cash used by operating activities of $21.6 million for the nine months ended April 4, 2015. The increase of $12.7 million from the comparable period was due to increased net loss and the effects of changes in working capital. The decrease of $31.7 million in working capital from July 4, 2015 was primarily related to decreases cash and cash equivalents and available for sale securities.

Net cash provided by investing activities for the nine months ended April 2, 2016 was $12.7 million compared to $14.9 million used by investing activities for the nine months ended April 4, 2015. The $27.6 million change versus the prior year comparable period was primarily due to higher net proceeds from sale of investment securities in the current year, and decreased capital expenditures compared with the prior year. Total capital expenditures for the year are anticipated to be approximately $6 million for new stores, remodels and information technology systems net of tenant allowance.

Net cash used by financing activities was $0.0 million for the nine months ended April 2, 2016 compared to $3.6 million used by financing activities for the nine months ended April 4, 2015. The decrease of $3.6 million from the prior year comparable period was primarily due to a reduction in the amount of cash dividends paid.

In October 2015, our board of directors authorized a program to repurchase up to $5 million of our common stock. We intend, from time to time, as business conditions warrant, to purchase stock in the open market or through private transactions. Purchases may be increased, decreased or discontinued at any time without prior notice. The plan does not obligate us to repurchase any specific number of shares and may be suspended at any time at our discretion. No shares were repurchased during the nine months ended April 2, 2016 and none are currently planned.

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During the third quarter of fiscal 2016 the Company took significant steps to restructure its organization which included headcount reductions and the closure of non-productive stores. As the Company enters the fourth fiscal quarter it will continue to implement its strategy to streamline the production cycle for our product, improve the product assortment, further rationalize the store fleet and continue to reduce discretionary spending while evaluating several opportunities to monetize its assets. The Company believes that improvements to production and assortment will result in a more compelling fashion offering for our customers leading to increased comparable store sales. Furthermore, reductions in discretionary spending and rationalization of the store fleet will result in combined annual operating expense savings that are estimated to be approximately $25 million. The Company believes it will see the benefit of this in fiscal 2017. Furthermore, in the first nine months of fiscal 2016 the Company incurred $6.3 million in severance expense and $2.6 million in lease termination expense that it currently does not anticipate incurring in fiscal 2017. In addition to these expense savings the Company currently anticipates closing up to 40 stores that had a trailing 12 month loss of approximately $5.5 million. The Company believes the efforts discussed in this section will significantly reduce the amount of net cash used in operating activities in fiscal 2017.

The Company is also evaluating potential sources of additional liquidity, including potentially obtaining a borrowing arrangement as well as opportunities for monetizing assets such as the Company's intellectual and real property. However, the Company cannot assure that any additional liquidity will be available on favorable terms or at all.

The Company's ability to continue as a going concern is dependent on its ability to generate cash flow from operations or to obtain additional liquidity through borrowing or other arrangements and may also be impacted by the effects of holdbacks and letters of credit.

The Company believes its cash and equivalents and short-term available for sale securities, together with cash flows from operations, will be sufficient to meet its operating and capital requirements for at least the next twelve months. However, if the financial results anticipated as a result of the restructuring and cost-saving measures discussed previously in this section are not achieved, the Company's current cash and equivalents and short-term securities may not be sufficient to meet its operating and capital requirements for at least the next twelve months without obtaining additional sources of liquidity which may not be available on favorable terms or at all. The Company's future operating and capital requirements will depend on numerous factors, including without limitation, future results of operations, investment costs for management information systems, imposed holdbacks, the requirement to maintain letters of credit and potential investments and/or licensing arrangements. If the Company is unable to generate positive cash flow from operations or to obtain funds from additional sources, this could have a material adverse effect on its business and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include changes in U.S. interest rates and, to a lesser extent, foreign exchange rates. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk

We currently maintain a portfolio of variable interest rate investments consisting of cash equivalents and guaranteed investment certificates. According to our investment policy, we may invest in taxable and tax-exempt instruments. In addition, the policy establishes limits on credit quality, maturity, issuer and type of instrument. Marketable securities are classified as “trading” or “available for sale”. We do not use derivative financial instruments in our investment portfolio.

All highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents. Investments are considered short-term available for sale securities if the original maturity is between three months and twelve months, or long term investments if the original maturity is greater than twelve months.

The following table lists our cash, cash equivalents and investments as of April 2, 2016:

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	Fair Value (Dollars in thousands)	
Cash	$ 24,775	
Weighted average interest rate	0.06	%
Cash equivalents	$ 406	
Weighted average interest rate	0.09	%
Current available for sale securities	$ 2,689	
Weighted average interest rate	0.23	%
Total	$ 27,870	

Foreign Currency Risks

We enter into a significant amount of purchase obligations outside of the United States, substantially all of which are negotiated and settled in U.S. Dollars and, therefore, have only minimal exposure to foreign currency exchange risks. We also operate a subsidiary for which the functional currency is the Canadian Dollar. We translate assets and liabilities of Canada's operations into U.S. dollars at month-end rates, while we translate income and expenses at the weighted average exchange rates for the month. We record the related translation adjustments in accumulated other comprehensive income as a separate component of shareholders' equity. Fluctuations in exchange rates therefore impact our financial condition and results of operations, as reported in U.S. Dollars. We may from time to time hedge against foreign currency risks through the purchase of forward contracts however we believe that foreign currency exchange risk is immaterial.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report at the reasonable assurance level.

There has been no change in our internal control over financial reporting during the quarter ended April 2, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See the Legal Matters section of the Notes to the Condensed Consolidated Financial Statements for a discussion of legal proceedings.

ITEM 1A. RISK FACTORS

Our past performance may not be a reliable indicator of future performance because actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties discussed below. In addition, historical trends should not be used to anticipate results or trends in future periods. Factors that might cause our actual results to differ materially from the forward looking statements discussed elsewhere in this report, as well as affect our ability to achieve our financial and other goals, include, but are not limited to, those set forth below.

Risks Related to Our Business

1. The success of our business depends in large part on our ability to identify fashion trends as well as to react to changing customer demand in a timely manner and to generate positive cash from operations as a result.

Our future success depends, in part, upon our ability to anticipate, identify and respond effectively to changing customer demands and fashion trends in a timely manner. The specialty retail apparel business fluctuates according to changes in customer preferences directed by trends and fashions. If we miscalculate our customers' product preferences or the demand for our products, we may be faced with excess inventory. Historically, this has resulted in excess fabric for some products and markdowns and/or write-offs of raw materials as well as finished goods, which has impaired our profitability, and may do so in the future. Similarly, any failure on our part to anticipate, identify and respond effectively to changing customer demands and fashion trends will adversely affect our business. In addition, from time to time, we may pursue new concepts, and if the new concepts are not successful, our business could be harmed. Starting the first quarter of fiscal 2016, the Company has undertaken a restructuring process in the design, merchandising and production functions, which could impact to our domestic and international product assortment and selling.

We used $34.3 million, $25.0 million, $30.3 million and $8.4 million net of our cash in operating activities in the first nine months of fiscal 2016 and in the fiscal years 2015, 2014 and 2013 respectively. Our liquidity is dependent upon our ability to generate cash from operations along with usage of our existing cash and cash equivalents and short-term investments. Our strategic focus for fiscal 2016 is to continue implementing our strategy to streamline the production cycle for our product, make improvements to our product assortment, further rationalize our store fleet and continued focus on discretionary spending while continuing to evaluate several channel expansion opportunities as well as assessing our capital structure. We believe our cash and equivalents and short-term available for sale securities, together with our cash flows from operations, will be sufficient to meet our operating and capital requirements for at least the next twelve months, provided that provided that we can achieve the financial results anticipated as a result of the restructuring and cost-saving measures. Our future operating and capital requirements, however, will depend on numerous factors, including without limitation, the size and number of new and expanded stores and/or store concepts, investment costs for management information systems, potential investments and/or licensing arrangements, and future results of operations. The inability to generate positive cash flow from operations could have a material adverse effect on our business and financial conditions. In addition, if additional financing is needed, we may not be able to secure such financing on favorable terms, or at all.

2. The success of our business depends in large part on our ability to maintain our brand, image and reputation.

Our ability to maintain our brand image and reputation is integral to our business as well as the implementation of strategies to expand it. Maintaining, promoting and growing our brand will depend largely on the success of our design, merchandising and marketing efforts and our ability to provide a consistent, high-quality client experience. In addition, while our brand is mature, our success depends on our ability to retain existing customers and attract new customers to shop our brand. Our business would be adversely affected if we fail to achieve these objectives for our brand. In addition, failure to achieve consistent, positive performance or the receipt of any negative publicity could adversely impact our brand and the brand loyalty of our customers, which would adversely impact our business.

3. We face significant competition in the retail and apparel industries, which could harm our business.
The retail and apparel industries are highly competitive and are characterized by low barriers to entry. We expect competition in our markets to increase. The primary competitive factors in our markets are: brand name recognition and appeal, sourcing, product styling, quality, presentation and pricing, timeliness of product development and delivery, store ambiance,

customer service and convenience. We compete with traditional department stores, specialty store retailers, lower price point retailers, business-to-consumer websites, off-price retailers and direct marketers for, among other things, raw materials, market share, retail space, finished goods, sourcing and personnel. Because many of these competitors are larger and have substantially greater financial, distribution and marketing resources than we do or maintain comparatively lower cost of operations, we may lack the resources to effectively compete with them. If we fail to remain competitive in any way, it could harm our business, financial condition and results of operations. In addition, if we are unable to address the challenges of declining store traffic in a highly promotional, low growth environment, our business will be negatively affected.

4. Our business has recently undergone significant changes, including management, personnel and business changes. If we do not effectively and successfully adapt to these changes, it could have a material adverse effect on our business.
During our third fiscal quarter, we replaced our Chief Executive Officer and our Chief Financial Officer. In addition, we eliminated approximately 86 other positions in an effort to streamline our business and control costs. As a result, we have also made significant operational changes. These significant changes have created additional pressures on existing personnel, and we are working to adapt to operating our business in a manner that differs meaningfully from prior periods. We cannot assure that these changes will lead to the desired improvement in our business and results of operations. If we do not effectively and successfully adapt to these changes, it could have a material adverse effect on our business.

5. General economic conditions, including increases in energy and commodity prices, that are largely out of our control, may adversely affect our financial condition and results of operations.
The demand for our products is influenced by national and local economic factors that may affect consumer spending or buying habits. Factors that could adversely affect the demand for our products include recessionary economic cycles, higher
Interest rates, higher fuel and other energy costs, inflation, deflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws. A decline in economic conditions could also result in reduced traffic in our stores or limitations on the prices we can charge for our products, either of which could adversely affect our business. We can provide no assurance that demand for our products will not be adversely affected by national or local economic conditions, thereby harming our business. In addition, economic factors such as those listed above and increased transportation costs, inflation, higher costs of labor, insurance and healthcare, and changes in other laws and regulations may increase our cost of sales and our operating, selling, general and administrative expenses. Any such increase would also negatively impact our business, including our financial results.

6. We cannot assure you that future store openings will be successful and new store openings may impact existing stores.
We cannot provide assurance that the stores we opened in fiscal 2016, or any other stores that we might open in the future, will be successful or that our overall results will improve as a result of opening these stores. In addition, new store openings have the potential to cannibalize the net sales and profitability of other existing stores, and can take time to achieve positive financial results.

The success of a future store depends on our ability to effectively obtain real estate that meets our criteria, including traffic, square footage, co-tenancies, average sales per square foot, lease economics, demographics and other factors. In addition, continued consolidation in the commercial retail real estate market could affect our ability to successfully negotiate favorable rental terms for our stores in the future. Should significant consolidation continue, a large proportion of our store base could be concentrated with one or a few landlords that would then be in a position to dictate unfavorable terms to us due to their significant negotiating leverage. For example we have approximately 30 stores with lease renewals in fiscal 2016, which are currently being negotiated. If we are unable to negotiate favorable lease terms with these entities, this could affect our ability to profitably operate our stores, which would adversely impact our business.

7. We are dependent on the success of shopping malls in which our stores are located.
Many of our stores are located in shopping malls and other retail centers that benefit from the ability of "anchor" retail tenants, generally large department stores, and other attractions, to generate sufficient levels of consumer traffic in the vicinity of our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of the economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores, consumer preferences to shop on the internet or at large warehouse stores or otherwise, could result in reduced sales at our stores and excess inventory. We may have to respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which could have a material adverse effect on our financial results or business.

8. We may be forced to close stores or write down store assets that are not able to achieve planned financial performance, which may force us to record losses in future quarters.
The results achieved by our stores may not be indicative of long-term performance or the potential performance of stores in other locations. The failure of stores to achieve acceptable results could result in additional store asset impairment charges, which could adversely affect our business. In the past, we have had to close stores as a result of poor performance. For

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example, in fiscal year 2015, we closed 15 stores. Additionally, a number of stores are not performing to our expected levels, and we may choose to close these stores in the future. If we choose to close these stores, but cannot negotiate favorable terms with the landlords of these stores regarding the remaining lease obligations, our financial results could be adversely affected. Closing stores because of poor performance could have a material adverse effect on our business, and the resulting impairment and other charges would have an adverse impact on our financial results.

9. Our sales, margins and operating results are subject to seasonal and quarterly fluctuations.
Our business varies with general seasonal trends that are characteristic of the retail and apparel industries, such as the timing of seasonal wholesale shipments and other events affecting retail sales. As a result, our stores typically generate a higher percentage of our annual net sales and profitability in our second fiscal quarter, which includes the holiday selling season, compared to other quarters.
In addition, our quarterly comparable store sales have fluctuated significantly in the past, and we expect that they will continue to fluctuate in the future. A variety of factors affect comparable store sales, including fashion trends, competition, current economic conditions, the timing of release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs and weather conditions. Our ability to deliver strong comparable store sales results and margins depends in large part on accurately forecasting demand and fashion trends, selecting effective marketing techniques, providing an appropriate mix of merchandise for our customer base, managing inventory effectively and optimizing store performance by closing under-performing stores. Such fluctuations may adversely affect the market price of our common stock.

10. Our success depends on our ability to attract and retain key employees in order to support our existing businesses and future expansion.
From time to time we actively recruit qualified candidates to fill key executive positions within our Company. There is substantial competition for experienced personnel, which we expect will continue. We compete for experienced personnel with companies who may have greater financial resources than we do. During fiscal 2014, 2015 and 2016, we experienced significant turnover of our executive management team as part of several restructurings. In light of these changes in people and processes, we might continue to experience turnover. We are also exposed to employment litigation due to our large number of employees and high turnover of our sales associates. If we fail to attract, motivate and retain qualified personnel, it could harm our business and limit our ability to expand.

11. Our business could be adversely impacted by unfavorable international political conditions.
Our sales and operating results are, and will continue to be, affected by international social, political, legal and economic conditions. In particular, our business could be adversely impacted by instability or changes resulting in the disruption of trade with the countries in which our contractors, suppliers, licensees or customers are located, significant fluctuations in the value of the dollar against foreign currencies or restrictions on the transfer of funds, or additional trade restrictions imposed by the United States and other foreign governments. We can provide no assurance that our business will not be adversely affected by such international events.

In addition, trade restrictions, including increased tariffs or quotas, embargoes and customs restrictions could increase the cost or reduce the supply of merchandise available to us and adversely affect our business. We also purchase a substantial amount of our raw materials from China, and our business and operating results may be affected by changes in the political, social or economic environment in China.

12. Our ability to conduct business could be negatively impacted by the effects of natural disasters, war, terrorism, public health concerns or other catastrophes.
We operate a corporate office in Brisbane, California, a distribution facility in Benicia, California, a design studio in Los Angeles, California. Any serious disruption at these facilities whether due to construction, relocation, fire, flood, earthquake, terrorist acts or otherwise could harm our business. Natural disasters, extreme weather and public health concerns, including severe infectious diseases, could impact our ability to open and run our corporate offices,

distribution center, stores and other operations in affected areas and/or negatively impact our foreign sourcing offices and the operations of our vendors. In addition, our ability to continue to operate our business without significant interruption in the event of a disaster or other disruption depends, in part, on the ability of our information systems to operate in accordance with our disaster recovery and business continuity plans. Lower client traffic due to the effect of natural disasters or extreme weather, security concerns, war or the threat of war and public health concerns could result in decreased sales that could have a material adverse effect on our business. In addition, threat of terrorist attacks or actual terrorist events in the United States and world-wide could cause damage or disruption to international commerce and the global economy, disrupt the production, shipment or receipt of our merchandise or lead to lower client traffic. Our ability to mitigate the adverse impact of these events depends, in part, upon the effectiveness of our disaster preparedness and response planning as well as business continuity planning. However, we cannot be certain that our plans will be adequate or implemented properly in the event of an actual disaster or other catastrophic

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situation. In addition, although we maintain business interruption and property insurance, we cannot assure you that our insurance coverage will be sufficient or that insurance proceeds will be timely paid to us.

13. If we are not able to protect our intellectual property our business may be harmed.
Although we take actions to protect our trademarks and other proprietary rights, we cannot assure you that we will be successful or that others will not imitate our products or infringe upon our intellectual property rights. In addition, we cannot assure that others will not resist or seek to block the sale of our products as infringements of their trademark and proprietary rights.
We seek to register our trademarks domestically and internationally. Obstacles may exist that may prevent us from obtaining a trademark for the bebe and BEBE SPORT brand names or related names. We may not be able to register certain trademarks, purchase the right or obtain a license to use these names or related names on commercially reasonable terms. If we fail to obtain trademarks of, or ownership or license of the requisite rights, it would limit our ability to expand our business under the bebe brand.
In some jurisdictions, despite successful registration of our trademarks, third parties may allege infringement and bring actions against us. In addition, if our licensees fail to use our intellectual property correctly, the reputation and value associated with our trademarks may be diluted. Furthermore, if we do not demonstrate use of our trademarks, our trademark rights may lapse over time.

In addition, we face the potential of receiving claims that the technology we use or license infringes on another’s proprietary rights. In certain circumstances, we may be subject to having to defend ourselves from such claims and/or be subject to unanticipated license fees or the necessity to transition away from technology we are using or abandon such use altogether.

14. Our business may be negatively impacted by any failure to comply with regulatory requirements.
As a public company, we are subject to numerous regulatory requirements, including those imposed by the Sarbanes-Oxley Act of 2002, the SEC and The NASDAQ Global Market. In addition, we are subject to numerous domestic and foreign laws and regulations affecting our business, including those related to labor, employment, worker health and safety, competition, privacy, consumer protection, credit cards, import/export and anti-corruption, including the Foreign Corrupt Practices Act and the Telephone Consumer Protection Act. Our employees, subcontractors, vendors and suppliers could take actions that violate these requirements and/or our compliance policies and procedures, which could have a material adverse effect on our reputation, financial condition and on the market price of our common stock. Regulatory developments regarding the use of “conflict minerals,” certain minerals originating from the Democratic Republic of Congo and adjoining countries, could affect the sourcing and availability of raw materials used by suppliers and subject us to costs associated with the relevant regulations, including for diligence pertaining to the presence of any conflict minerals used in our products, possible changes to products, processes or sources of our inputs and reporting requirements.

15. There are litigation and other claims against us from time to time, which could distract management from our business activities and could lead to adverse consequences to our business and financial condition.
We are involved from time to time with litigation and other claims against us. Often these cases can raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant management time. Although we do not currently believe that the outcome of any current litigation or claim against us will have a material adverse effect on our overall financial condition, we have, in the past, incurred unexpected expense in connection with litigation matters. In the future, adverse settlements, judgments or resolutions may negatively impact our business. Injunctions against us could have an adverse effect on our business by requiring us to do, or prohibiting us from engaging in, certain activities. We may in the future be the target of material litigation, which could result in substantial costs and divert our management’s attention and resources.

16. We rely on third-party manufacturers to manufacture all of our products.

Our future success depends, in part, on our ability to find manufacturing facilities that perform acceptably. We do not own any manufacturing facilities and therefore depend on third parties to manufacture our products. In addition, we place all of our orders for production by purchase order and do not have long-term contracts with any manufacturers. If we fail to maintain favorable relationships with our manufacturers, our business could be materially and adversely affected. We cannot assure you that third-party manufacturers (1) will not supply similar products to our competitors, (2) will not stop supplying products to us completely or (3) will supply products in a timely manner. Untimely receipt of products may result in lower than anticipated sales and markdowns which would have a negative impact on our business. Furthermore, we have received in the past, and may receive in the future, shipments of products from manufacturers that fail to conform to our quality control standards. In such event, unless we are able to obtain replacement products in a timely manner, we may lose sales.

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17. We face fluctuating and generally increasing product costs from our manufacturing partners, which could result in margin erosion.

Fluctuations in the cost, availability and quality of the fabrics or other raw materials used to manufacture our merchandise could have a material adverse effect on our cost of goods, or our ability to meet customer demand. The prices for such fabrics depend largely on the market prices for the raw materials used to produce them, as well as the cost of compliance with sourcing laws. The price of such raw materials has been increasing and the price and availability of such raw materials may fluctuate significantly, depending on many factors, including crop yields and weather patterns. Such factors may be exacerbated by legislation and regulations associated with global climate change. Additionally, clothing manufacturers in China, where a significant percentage of our apparel products are manufactured, are experiencing increased costs due to labor shortages and the fluctuation of the Chinese Yuan in relation to the U.S. dollar, and these increased costs are often passed on to us. We are also susceptible to fluctuations in the cost of transportation. We may not be able to pass all or a portion of higher raw materials prices or labor or transportation costs on to our customers, which could adversely affect our business.

18. If we are unable to obtain raw materials for our products, our business could be materially adversely affected.

We place all of our orders for raw materials by purchase order and do not have any long-term contracts with any supplier. If we fail to maintain favorable relationships with our suppliers or are unable to obtain sufficient quantities of quality raw materials on commercially reasonable terms, it could harm our business. Finally, certain of our third-party manufacturers store our raw materials. In the event our inventory was damaged or destroyed and we were unable to obtain replacement raw materials, our earnings and our business could be materially and adversely impacted.

19. If we are unable to receive product or if our receipt of product is delayed due to unforeseen events, such as port closures, we may not be able to stock our stores, or may have to take unexpected markdowns to clear product that missed their seasonal window.

We time receipt of our products such that they are in our stores at the appropriate time to meet desired in-stock levels and the appropriate season. If we are unable to receive product due port closures, for example, we may not have sufficient stock at our stores which could impact store traffic and sales. Or if such delays cause us to receive product after the season is over, we may have to take significant unforeseen markdowns.

20. If an independent manufacturer violates labor or other laws, or is accused of violating any such laws, or if their labor practices diverge from those generally accepted as ethical, it could harm our business and brand image.

Our success depends, in part, on our ability to find and contract with independent manufacturers which conduct their businesses using ethical or legal labor practices. While we maintain a policy to monitor the operations of our independent manufacturers by having an independent firm inspect these manufacturing sites, and our manufacturers are contractually required to comply with such labor practices, we cannot assure the compliance of these manufacturers. In addition, we cannot control the public’s perceptions of such manufacturers or their practices, even if they are compliant with law but are viewed in a negative light by the public. Because manufacturers act in their own interests, they may act in a manner that results in negative public perceptions of us. Moreover, in certain circumstances, we may be subject to liability or negative publicity that could adversely affect our brand and our business as a result of actions taken by these manufacturers.

21. We are subject to cyber-security risks and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents.

Our business involves the storage and transmission of customers’ personal information, consumer preferences and credit card information. We also use mobile devices, social networking and other on-line activities to connect with our customers. If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to government enforcement actions and private litigation, and our business could be adversely affected. For example, in November 2014, we detected suspicious activity on computers that operate the payment processing system for our stores, which appeared to be limited to data from payment cards swiped in the United States and its territories between November 8, 2014 and November 26, 2014. The data may have included cardholder name, account number, expiration date and verification codes, although we have no indication of fraudulent charges to date. We cannot assure you that we will not suffer future breaches of the portion of our network that handles payment card data, with further payment card and client information being stolen. These sorts of breaches might cause our customers to lose confidence in our ability to protect their personal information, which could cause them to discontinue usage of our club bebe loyalty program, or stop shopping with us altogether. The loss of confidence from a significant data security breach involving our employees could also hurt our reputation, cause employee recruiting and retention challenges, increase our labor costs and adversely affect our business and financial results.

22. We rely on information technology to help manage our operations and our e-commerce store, the disruption of which could adversely impact our business.

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We rely on various information systems to help manage our operations and regularly assess the cost-benefit analysis associated with making additional investments to upgrade, enhance or replace such systems. If at any time we experience any disruptions affecting our information systems we could experience a material adverse impact on our business.

In addition, we operate an e-commerce store at www.bebe.com to sell our merchandise. Our on-line operations are subject to numerous risks, including unanticipated operating problems, reliance on third-party computer software providers and system failures. If at any time we experience any disruptions affecting our e-commerce store, we could experience a material adverse impact on our business. Our e-commerce operations also involve other risks that could have an adverse impact on our results of operations, including diversion of sales from our other stores, rapid technological change, liability for on-line content, credit card fraud and loss of sensitive data. We cannot assure you that our e-commerce store will continue to achieve sales growth or that it will not experience a decline in sales.

23. We are responsible for maintaining the privacy of personally identifiable information of our customers.
Through our sale transactions, loyalty programs and other methods, we obtain personally identifiable information about our customers which is subject to federal, state and international privacy laws. These laws are constantly changing. If we fail to comply with these laws, we may be subject to fines, penalties or other adverse actions. We are highly dependent on the use of credit cards to complete sale transactions in our stores and through our websites, and if we fail to comply with Payment Card Industry Data Security Standards, we may become subject to limitations on our ability to accept credit cards. Moreover, third parties may seek to access this information through improper means such as computer hacking, malware and viruses. Any incidents involving unauthorized access or improper use of our customers' personally identifiable information could damage our reputation and brand and result in legal or regulatory action against us.

Risks Related to Our Common Stock

1. Because Manny Mashouf beneficially owns a substantial portion of the outstanding shares, other shareholders have limited ability to influence corporate matters.
As of July 4, 2015, Manny Mashouf, our CEO and Chairman of the Board, beneficially owned approximately 59% of the outstanding shares of our common stock. As a result, he has the ability to control our management and affairs and substantially all matters submitted to our shareholders for approval, including the election and removal of directors and approval of any significant transaction. He also has the ability to control our management and business affairs. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control, impeding a merger, consolidation, takeover or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, and could limit the price that certain investors might be willing to pay for shares of common stock, even if such a transaction would benefit other shareholders. In addition, he could also sell his shares at any time, in open market transactions, registered offerings or otherwise and such a sale could negatively impact our share price.

2. Our stock price could fluctuate substantially for reasons outside of our control.
Our common stock is quoted on The NASDAQ Global Market, which has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect our stock price without regard to our financial performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and comparable sales; announcements by other apparel, accessory, music and gift item retailers; the trading volume of our stock; changes in estimates of our performance by securities analysts; litigation; overall economic and political conditions, including the global economic downturn; the condition of the financial markets, including the credit crisis; and other events or factors outside of our control could cause our stock price to fluctuate substantially.

3. Our failure to meet the continued listing requirements of The NASDAQ Global Market could result in a delisting of our common stock.

If we fail to satisfy the continued listing requirements of The NASDAQ Global Market, such as the corporate governance requirements or the minimum closing bid price requirement, NASDAQ may take steps to de-list our common stock. Such a delisting would likely have a negative effect on the price of our common stock and would impair your ability to sell or purchase our common stock when you wish to do so. In the event of a delisting, we would expect to seek to take actions to restore our compliance with NASDAQ's listing requirements, but we can provide no assurance that any such action taken by us would allow our common stock to become listed again, stabilize the market price or improve the liquidity of our common stock, prevent our common stock from dropping below the NASDAQ minimum bid price requirement or prevent future non-compliance with NASDAQ's listing requirements.

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4. If we sell shares of our common stock in the future, shareholders may experience immediate dilution and, as a result, our stock price may decline.

We may from time to time issue additional shares of common stock at a discount from the current trading price of our common stock. As a result, our shareholders would experience immediate dilution. In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt securities, preferred stock or common stock. If we issue common stock or securities convertible into common stock, our common shareholders would experience additional dilution and, as a result, our stock price may decline.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

(a) Exhibits. The following is a list of exhibits filed as part of this Report on Form 10-Q.

Exhibit	Description
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated May 12, 2016

bebe stores, inc.

/s/ Walter Parks
Walter Parks, President, Chief Operating Officer, Interim Chief Financial Officer

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