
bebe stores, inc.

California
(State or Jurisdiction of
Incorporation or Organization)

550 Wisconsin Street
San Francisco, CA 94107
(Address of principal executive offices)

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SIC Code: 7359

Quarterly Report

For the period ended December 31, 2022 (the “Reporting Period”)

The number of shares outstanding of our Common Stock is 12,874,111 as of the end of the Reporting Period.

The number of shares outstanding of our Common Stock was 12,874,111 as of the end of the previous Reporting Period.

Indicate by check mark whether the company is a shell company (as defined in Rule 12b-2 of the Exchange Act of 1934):

Yes No

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes No

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes No

Table of Contents

ITEM		PAGE
Item 1.	Exact Name of the Issuer and the Address of its Principal Executive Offices	3
Item 2.	Shares Outstanding	4
Item 3.	Condensed Consolidated Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets as of December 31, 2022 (Unaudited) and July 2, 2022	5
	Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended December 31, 2022 and January 1, 2022 (Unaudited)	6
	Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2022 (Unaudited) and January 1, 2022 (Unaudited) (as Restated)	7
	Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 4.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 5.	Legal Proceedings	39
Item 6.	Defaults upon Senior Securities	39
Item 7.	Other Information	39
Item 8.	Exhibits	40
Item 9.	Certifications	41

Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices.

Exact name of issuer:

bebe stores, inc.

Principal Executive Offices:

550 Wisconsin Street
San Francisco, CA 94107
Telephone: 415.251.3355
Website: www.bebe.com

Check box if principal executive office and principal place of business are the same address:

Item 2. Shares Outstanding.

As of December 31, 2022					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)⁽¹⁾	Total Number of Beneficial Shareholders⁽²⁾	Total Number of Shareholders of Record
Common Stock	50,000,000	12,874,111	2,702,007	2,178	27
Preferred Stock	1,000,000	-	-	-	-

As of July 2, 2022					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)⁽¹⁾	Total Number of Beneficial Shareholders⁽³⁾	Total Number of Shareholders of Record
Common Stock	50,000,000	12,874,111	2,904,119	2,254	27
Preferred Stock	1,000,000	-	-	-	-

As of July 3, 2021					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)⁽¹⁾	Total Number of Beneficial Shareholders⁽⁴⁾	Total Number of Shareholders of Record
Common Stock	14,000,000	12,874,111	2,904,119	2,228	28
Preferred Stock	1,000,000	-	-	-	-

(1) For purposes of this calculation only, shares of common stock held by (i) each of bebe's directors and officers on the given date and (ii) person(s) who bebe knows beneficially owned 5% or more of the outstanding common stock on that date have been excluded in that such persons may be deemed to be affiliates. Based on share information provided by Computershare and combined with additional beneficial share information received by bebe.

(2) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions as of January 12, 2023.

(3) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions as of July 5, 2022.

(4) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions as of July 2, 2021.

Item 3. Condensed Consolidated Financial Statements (unaudited).

bebe stores, inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	<u>As of</u> <u>December 31, 2022</u> (unaudited)	<u>As of</u> <u>July 2, 2022</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,730	\$ 7,766
Accounts receivable, net	661	410
Rental merchandise, net	22,074	17,090
Prepaid and other current assets	1,119	847
Total current assets	27,584	26,113
Equity method investments	17,430	18,837
Property and equipment, net	1,334	1,374
Intangible assets, net	4,942	5,568
Goodwill	19,136	19,033
Operating lease right-of-use assets, net	8,490	8,903
Finance lease right-of-use assets, net	1,261	899
Deferred tax asset, net	14,123	13,808
Other assets	101	526
Total assets	\$ 94,401	\$ 95,061
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	\$ 301	\$ 297
Due to franchisor, net	7,018	2,765
Deferred revenue	1,062	1,176
Note payable, net	1,250	-
Operating lease liabilities	3,046	3,019
Finance lease liabilities	267	180
Accrued liabilities	4,518	4,987
Total current liabilities	17,462	12,424
Non-current liabilities:		
Note payable, net	22,247	24,002
Operating lease liabilities	5,126	5,445
Finance lease liabilities	1,023	726
Total non-current liabilities	28,396	30,173
Total liabilities	45,858	42,597
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 50,000,000 shares at \$0.001 par value per share; issued and outstanding 12,874,111 and 12,874,111 shares, respectively	13	13
Additional paid-in capital	173,793	173,793
Accumulated other comprehensive income	618	421
Accumulated deficit	(125,881)	(121,763)
Total shareholders' equity	48,543	52,464
Total liabilities and shareholders' equity	\$ 94,401	\$ 95,061

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>December 31, 2022</u>	<u>January 1, 2022</u>	<u>December 31, 2022</u>	<u>January 1, 2022</u>
Revenues				
Rentals and fees	\$ 13,734	\$ 12,739	\$ 26,440	\$ 24,858
Merchandise sales	502	631	1,053	1,250
Total revenues	<u>14,236</u>	<u>13,370</u>	<u>27,493</u>	<u>26,108</u>
Cost of revenues				
Cost of rentals and fees	4,978	4,406	9,618	8,989
Cost of merchandise sold	412	413	840	805
Total cost of revenues	<u>5,390</u>	<u>4,819</u>	<u>10,458</u>	<u>9,794</u>
Gross profit	8,846	8,551	17,035	16,314
Store expenses				
Personnel costs	3,902	2,920	7,711	5,442
Occupancy costs	994	840	1,944	1,595
Advertising	293	247	689	415
Other store expenses	3,752	2,927	7,032	5,401
Other general and administrative expenses	1,643	1,618	3,048	3,219
Selling, general and administrative expenses	<u>10,584</u>	<u>8,552</u>	<u>20,424</u>	<u>16,072</u>
Operating (loss) income	(1,738)	(1)	(3,389)	242
Interest expense and other, net	(706)	(480)	(1,507)	(1,298)
Loss before income taxes	(2,444)	(481)	(4,896)	(1,056)
Income taxes benefit (expense)	363	(118)	334	(204)
Earnings in equity method investments	1,760	2,698	4,306	5,128
Net (loss) income	<u>\$ (321)</u>	<u>\$ 2,099</u>	<u>\$ (256)</u>	<u>\$ 3,868</u>
Earnings per share - basic and diluted	\$ (0.02)	\$ 0.16	\$ (0.02)	\$ 0.30
Basic and diluted weighted average shares outstanding	<u>12,874</u>	<u>12,874</u>	<u>12,874</u>	<u>12,874</u>
Net (loss) income	\$ (321)	\$ 2,099	\$ (256)	\$ 3,868
Foreign currency translation adjustments	(55)	(4)	197	95
Comprehensive (loss) income	<u>\$ (376)</u>	<u>\$ 2,095</u>	<u>\$ (59)</u>	<u>\$ 3,963</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended	
	December 31, 2022	January 1, 2022
	(as restated)	
Cash flows from operating activities:		
Net (loss) income	\$ (256)	\$ 3,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings in equity method investment	(4,306)	(5,128)
Cash receipt from equity method investment	5,103	5,039
Depreciation of rental merchandise	7,185	6,562
Write off of rental merchandise	1,748	1,588
Amortization of intangibles	755	715
Amortization of intangibles - leases	131	113
Amortization of financing fees	120	88
Amortization of finance lease right of use assets	120	-
Depreciation of property and equipment	273	281
Loss on sale of property and equipment	9	-
Deferred income taxes	(315)	90
Changes in operating assets and liabilities:		
Receivables	(251)	(422)
Rental merchandise	(13,645)	(9,806)
Prepaid expenses and other	(272)	141
Other assets	426	(15)
Accounts payable	4	(4)
Due to franchisor	4,248	-
Deferred revenue	(123)	(189)
Accrued liabilities	(469)	59
Net cash provided by operating activities	485	2,980
Cash flows from investing activities:		
Acquisition of franchise stores, net of cash acquired	(450)	(5,500)
Return of equity method investment	609	473
Purchase of property and equipment	(254)	(149)
Proceeds from sale of property and equipment	12	-
Purchase of intangible assets	(50)	-
Net cash used in investing activities	(133)	(5,176)
Cash flows from financing activities:		
Proceeds from note payable	-	25,000
Payments on note payable	(625)	(21,725)
Debt issuance costs	-	(1,206)
Payments on finance lease liabilities	(98)	-
Dividends paid	(3,862)	(3,862)
Net used in financing activities	(4,585)	(1,793)
Net increase (decrease) in cash and cash equivalents	(4,233)	(3,989)
Effect of exchange rate changes on cash	197	95
Cash and cash equivalents:		
Beginning of period	7,766	8,952
End of period	\$ 3,730	\$ 5,058
Supplemental information:		
Acquisition of rental merchandise with non-cash financing	\$ 7,018	\$ 2,170
Right of use assets obtained in exchange for new operating lease liabilities	\$ 1,305	\$ 1,855
Cash paid for amounts included in measurement of operating lease liabilities	\$ 1,687	\$ 1,289
Cash paid for short-term operating leases not included in operating lease liabilities	\$ 311	\$ 552
Right of use assets obtained in exchange for new finance lease liabilities	\$ 482	\$ 398
Cash paid on interest expense	\$ 1,154	\$ 1,110
Cash paid on income taxes	\$ 46	\$ 584

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Business

bebe stores inc.'s ("bebe", "we" or the "Company") primary business includes operating retail rent-to-own franchise stores. The Company's rent-to-own Buddy's franchise stores offer furniture, appliances, and consumer electronics to consumers through rent-to-own agreements. The Company operates 64 stores in 12 states in the southeastern United States.

The Company is a partner in BB Brand Holdings LLC (the "Joint Venture"). Through the Joint Venture, the Company's partner manages the day-to-day operations of a wholesale domestic and international lifestyle licensing business and continues to pursue a licensing strategy designed to capitalize on the value of bebe's historical brand of contemporary women's apparel and accessories in all categories and channels on a global scale.

Significant Accounting Policies

Basis of Presentation— The accompanying condensed consolidated balance sheets of the Company and its subsidiary, bb BHF Stores LLC ("BHF"), as of December 31, 2022 and July 2, 2022, the condensed consolidated statements of income and comprehensive income for the three and six months ended December 31, 2022 and January 1, 2022 and the condensed consolidated statement of cash flow for the six months ended December 31, 2022 and January 1, 2022 have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the OTCQB Disclosure Guidelines for Alternative Reporting, without audit. Accordingly, they do not include all of the information required by U.S. GAAP for annual financial statements. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report for the fiscal year ended July 2, 2022.

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 2, 2022, presented herein, was derived from the audited balance sheet included in the Company's Annual Report for the fiscal year ended July 2, 2022.

Consolidation— The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, bb BHF Stores LLC. All intercompany transactions and balances have been eliminated.

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. The six-month periods ended December 31, 2022 and January 1, 2022 each include 26 weeks.

Use of estimates— The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for certain items such as the income tax valuation allowance, useful lives of property and equipment, and fair value of definite-lived intangible assets and right-of-use assets acquired in the acquisition of Buddy's Home Furnishings stores. Actual results could differ from those estimates.

Cash and cash equivalents— Cash and cash equivalents represent cash and short-term, highly liquid investments with original maturities of less than three months. As of December 31, 2022 and July 2, 2022, the Company had no cash equivalents.

Investment— The Company uses the equity method to account for its investment in the Joint Venture, GAEBB Group B.V. ("GAEBB") and BKST BRAND MANAGEMENT LLC ("BKST") because it has the ability to exercise significant influence but not control. The Company's share of earnings as reported by the Joint Venture, GAEBB and BKST are recorded as earnings in equity-method investments on the consolidated statement of operations and comprehensive income.

Concentration of credit risk— Financial instruments, which subject the Company to concentration of credit risk, consist principally of cash and cash equivalents. The Company invests its cash through financial institutions. Such investments may be in excess of FDIC insurance limits. The Company has not experienced any losses on its deposits of cash and cash equivalents for the periods presented.

Rental merchandise— Rental merchandise is carried at cost, net of accumulated depreciation. When initially purchased, merchandise is not depreciated until it is leased to its rent-to-own customers or three months have passed since the purchase date. Non-leased merchandise is depreciated on a straight-line basis over a period of 24 months. Leased merchandise is depreciated over the lease term of the rental agreement and recorded as cost of sales. Items that are returned are depreciated from the net book value on the day of the return on a straight-line for 24 months until the item is leased again or reaches a zero-dollar salvage value. Damaged or lost merchandise is written off monthly. Maintenance and repairs to leased merchandise are expensed as incurred.

Property and equipment— Property and equipment are stated at cost less accumulated depreciation. These assets are depreciated using a straight-line method over their useful lives, generally 3 to 5 years for computers, equipment, signs, furniture and fixtures from date of first service. Leasehold improvements are amortized over the lesser of the remaining lease term or their estimated useful lives. Certain vehicles under finance leases are amortized on a straight-line basis over the shorter of the expected useful life or the lease term.

Intangible assets and long-lived asset impairment— Intangible assets are amortized on a straight-line basis over their useful lives and are reviewed with long-lived assets for impairment if circumstances suggest that the carrying value of the intangible assets and long-lived assets may not be recoverable, following the guidance of Subtopic 360-10. If the review results in a change to the useful life of the asset, the remaining carrying amount of the intangible asset will be amortized prospectively over the revised useful life. There were no impairment of intangible assets and long-lived assets recorded for the three and six months ended December 31, 2022 and January 1, 2022.

Goodwill— The Company records goodwill when the consideration paid for an acquisition exceeds the fair value of the identifiable net assets acquired. Goodwill is not subject to amortization but is periodically evaluated for impairment. Impairment occurs when the carrying value of goodwill is not recoverable from future cash flows. The Company tests goodwill for impairment annually at the reporting unit level. The Company will perform a qualitative assessment of impairment. If the results of this review suggest that it is more likely than not that the fair value is less than the carrying value amount of goodwill, then the Company will perform a quantitative impairment test. There was no impairment of goodwill recorded for the three and six month periods ended December 31, 2022 and January 1, 2022.

Liquidity— As of December 31, 2022, the Company has working capital of approximately \$10.1 million. The Company has current assets of \$27.6 million and current liabilities of \$17.5 million. The Company expects operating costs to remain consistent with current levels. The Company also expect our revenues from our Buddy's stores and equity investment income to provide sufficient income to fund our anticipated operating costs. Due to our current liquidity position, the Company has concluded that cash and cash equivalents and cash flows from operating activities will be sufficient to fund operations and meet our financial obligations through the next twelve months from the issuance of these condensed consolidated financial statements.

Revenues

Rental Revenues

Merchandise, such as furniture, appliances and consumer electronics, are rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. At the end of each rental term, the customer may renew the agreement for the next rental term, by making a payment in advance. The customer can acquire ownership of the merchandise on lease by completing payment of all required rental periods.

The Company maintains ownership of the rental merchandise until all payment obligations are satisfied. The customer can terminate the lease agreement at any time during the lease term and return the leased merchandise to the store. All prior rental payments are nonrefundable.

The accounting guidelines of ASC 842 are applied to all rental transactions and are accounted for as operating leases with the Company as the lessor. Rental revenue is recognized over the rental term. Cash received prior to the beginning of the lease term is recorded as deferred revenue. Deferred revenue as of December 31, 2022 and January 1, 2022 was \$1.1 million and \$0.9 million respectively. The Company expects to recognize all of this deferred revenue as rental revenue during the fiscal year ending July 01, 2023.

Rental revenue totaled \$11.5 million and \$22.1 million during the three and six months ended December 31, 2022, respectively. Rental revenue totaled \$10.8 million and \$21.0 million during the three and six months ended January 1, 2022 respectively. Initial direct costs related to the rental agreements are expensed as incurred and are classified as operating expenses in the Company's consolidated statements of income and comprehensive income. The effects of expensing initial direct costs are not materially different from amortizing those costs over the rental term.

Revenues on Other Products and Services

The Company has elected to aggregate lease and non-lease components, such as delivery services and add-on product plans, into a single component as they usually have the same timing and transfer patterns.

Revenue related to various reinstatement or late fees are recognized when paid by the customer and revenue is recognized at a point in time. These revenues totaled \$0.5 million and \$0.9 million during the three and six months ended December 31, 2022, respectively. These revenues totaled \$0.4 million and \$0.8 million during the three and six months ended January 1, 2022, respectively.

The Company sells add-on product plans that run concurrently with the rental agreements, providing customers with liability protection against significant damage or loss of a product, as well as club membership benefits with added discounts and services. Customers renew product plans in conjunction with their rental term renewals and can cancel the plans at any time. Revenue for product plans is recognized over the term of the plan. Costs related to product plans are recognized as a cost of revenues. The accounting guidelines of ASC 842 are applied to these add-on product plans and revenue is recognized over the rental term. These revenues totaled \$1.8 million and \$3.4 million during the three and six months ended December 31, 2022, respectively. These revenues totaled \$1.6 million and \$3.0 million during the three and six months ended January 1, 2022, respectively.

Merchandise Sales Revenue

Customers may purchase merchandise upfront through a point-of-sale transaction. In addition, rental customers may exercise an early purchase option to buy the merchandise at a fixed discount to the total contractual price at any point in the lease term as established in the original rental agreement. Revenue for merchandise sales and early purchase option is recognized in accordance with ASC 606 at the point in time when payment is received and ownership of the merchandise passes to the customer. Any remaining net value of the merchandise is recorded to cost of sales at the time of the transaction. These revenues totaled \$0.5 million and \$1.1 million during the three and six months ended December 31, 2022, respectively. These revenues totaled \$0.6 million and \$1.2 million during the three and six months ended January 1, 2022, respectively.

Advertising costs— Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$0.3 million and \$0.7 million for the three and six months ended December 31, 2022, respectively. Advertising expense was \$0.2 million and \$0.4 million for the three and six months ended January 1, 2022, respectively.

Leases—The Company recognizes leases in accordance with ASC 842: *Leases*. The Company determines if an arrangement is or contains a lease at inception and reviews leases for finance or operating classification once control is obtained. Operating leases with lease terms of more than 12 months are included in operating lease right-of-use assets and operating lease liabilities on its condensed consolidated balance sheet. Finance leases are included in finance lease right-of-use assets and finance lease liabilities on its condensed consolidated balance sheet. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments over the lease term. Operating and finance lease assets and liabilities are recognized based on the present value of the remaining lease payments discounted using its incremental borrowing rate. Lease expense is recognized on a straight-line basis over the lease term.

Income taxes— The Company provides for income taxes under the asset and liability method. Deferred income tax assets and liabilities are determined based on differences between the financial statement reporting and tax bases of assets and

liabilities and are measured using the enacted tax rates and laws that will be in effect when such items are expected to reverse. Deferred income tax assets are reduced, as necessary, by a valuation allowance when management determines it is more likely than not that some or all of the tax benefits will not be realized. However, should there be a change in the Company's ability to recover its deferred tax assets, the provision for income taxes would fluctuate in the period of such change.

The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified.

In the future, the Company may release valuation allowance and recognize certain deferred federal tax assets, deferred state tax assets or deferred tax assets of other foreign subsidiaries depending on achievement of future profitability in relevant jurisdictions, or implementing tax planning strategies, that enable the Company to utilize deferred tax assets that would otherwise be unused. Any release of valuation allowance could have the effect of decreasing the income tax provision in the period the valuation allowance is released. The Company continues to monitor the likelihood that it will be able to recover our deferred tax assets, including those for which a valuation allowance is recorded. There can be no assurance that the Company will generate profits or implement tax strategies in future periods enabling the Company to fully realize our deferred tax assets. The timing of recording a valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. Adjustments could be required in the future if the Company concludes that it is more likely than not that deferred tax assets are not recoverable. A provision for a valuation allowance could have the effect of increasing the income tax provision in the period the valuation allowance is provided.

Due to the valuation allowance, the change in deferred taxes was offset by the change in valuation allowance other than deferred the tax liability recorded against the indefinite-lived intangible asset. In connection to the 2017 Tax Cuts and Jobs Act, net operating losses generated subsequent to December 31, 2017, have an indefinite carryforward period with a limitation on utilization to 80% of taxable income in any given year. Accordingly, the indefinite-lived net operating loss are available to offset the naked credit.

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.

Comprehensive income— Comprehensive income consists of net income and other comprehensive income (income, expenses, gains and losses that bypass the income statement and are reported directly as a separate component of net income). The Company's comprehensive income includes net income and foreign currency translation adjustments for the period presented. Such components of comprehensive income are shown in the consolidated statements of operations and comprehensive income.

2. RESTATEMENT OF PREVIOUSLY ISSUED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Company restated its previously issued consolidated financial statements to properly present the classification of return of equity method investments in the consolidated statement of cash flows. In accordance with ASC 230-10-45- 21D, using the cumulative earnings approach, any cumulative distributions received in excess of the investor's cumulative equity in earnings represents return of equity method investment and should be classified as cash inflows from investing activities in the consolidated statement of cash flows. The Company had previously classified all cumulative distributions received as cash inflows from operating activities in the consolidated statement of cash flows. The Company has restated its consolidated statement of cash flow for the six month period ended January 1, 2022 to present any cumulative distributions in excess of cumulative equity earnings as return of equity method investment in the investing activities section in the consolidated statement of cash flows.

The reclassification of the previously stated items will have no impact on the Company's previously reported cash position, revenues, operating expenses or financing cash flows.

The following table summarizes the effect of the restatement on each cash flow item for the six month period ended January 1, 2022.

(In thousands)	Six Months Ended January 1, 2022		
	As Previously Reported	Adjustments	As Restated
Consolidated Statement of Cash Flows			
Adjustments to reconcile net income to net cash provided by operating activities:			
Cash receipt from equity method investment	\$ 5,512	\$ (473)	\$ 5,039
Net cash provided by operating activities	\$ 3,453	\$ (473)	\$ 2,980
Cash flows from investing activities:			
Return of equity method investment	\$ -	\$ 473	\$ 473
Net cash used in investing activities	\$ (5,649)	\$ 473	\$ (5,176)

3. INVESTOR AGREEMENT AND MATERIAL MODIFICATION TO RIGHTS OF SECURITY HOLDER

On January 12, 2018, B. Riley Financial, Inc. entered into an agreement with our principal shareholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal shareholder to avoid an “ownership change” of the Company within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). This agreement was entered into in order to preserve certain net operating losses of the Company for U.S. federal income tax purposes.

Also on January 12, 2018, the board adopted a tax benefit preservation plan between the Company and Computershare Trust Company, N.A., as rights agent, in order to help preserve the value of certain deferred tax benefits, including those generated by net operating losses and certain other tax attributes. The ability to use these tax benefits would be substantially limited if the Company were to experience an “ownership change” as defined under Section 382 of the Code. The tax benefit preservation plan reduces the likelihood that such changes will occur, by acting as a deterrent to any person acquiring shares of the Company equal to or exceeding certain thresholds without the approval of the board, as it restricts the ability of an investor to acquire five percent or more of the Company’s common stock. The plan expires on January 12, 2028.

On January 8, 2019, the board approved an amendment to the NOL Plan which updates the process by which Acquiring Persons (as defined in the NOL Plan) can seek exemptions prior to the occurrence of a Trigger Event (as defined in the NOL Plan).

4. ACQUISITIONS

On February 2, 2022, the Company completed the acquisition of 2 Buddy’s Home Furnishings stores from A Team Leasing, LLC (“ATL”).

On August 25, 2021 and November 10, 2020, the Company completed the acquisition of 8 and 47 Buddy’s Home Furnishings stores, respectively, from Franchise Group, Inc. (“FRG”), as parent of Buddy’s Newco, LLC (“Seller” or “Franchisor”).

At the date of the acquisitions, the Company acquired certain assets (“Transferred Assets”) related to the Buddy’s franchise stores. These assets included all rent-to-own agreements and customers for these stores, all rental merchandise of these stores, the property and vehicle leases for these stores, all fixed assets and tangible personal property at these stores. In addition, the Company assumed certain liabilities including those related to rental merchandise acquired by the stores.

The February 2, 2022 Acquisition

On February 2, 2022, pursuant to the Asset Purchase Agreement between ATL and the Company, the Company completed the acquisition of 2 Buddy’s Home Furnishings stores for \$525 thousand in cash (the “2-Store Buddy’s Acquisition”). The Company accounted for the acquisition as a business combination using the purchase method of accounting. The Company acquired these stores to continue to grow the store base in Tennessee.

The Company entered into a 60-day transition services agreement (“2022 Transition Services Agreement”) with ATL at the acquisition date to maintain a continuity of services for the franchises as the business is transferred to the Company. The 2022 Transition Services Agreement was completed in the month of April 2022.

The following table summarizes the fair value of assets acquired and liabilities assumed, net of fair value adjustments as of the acquisition date.

Purchase Price Allocation - 2 Store Buddy's Acquisition

(in thousands)

Assets	
Cash and cash equivalents	\$ -
Other current assets	-
Rental merchandise	242
Property and equipment	-
Goodwill	168
Operating lease right-of-use assets	224
Intangible assets	115
Total Assets	749
Liabilities	
Accrued liabilities	19
Operating lease liabilities	199
Deferred revenue	6
Total Liabilities	224
Consideration transferred	\$ 525

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed. For tax purposes, goodwill totaling \$168 thousand is capitalized and amortized over 15 years.

The Company did not incur any material acquisition-related costs. Therefore, the Company did not record any additional selling, general and administrative expenses as a result of this acquisition.

The August 25, 2021 Acquisition

On August 25, 2021 pursuant to the Asset Purchase Agreement between FRG and the Company, the Company completed the acquisition of 8 Buddy's Home Furnishings stores for \$5.5 million in cash (the "8-Store Buddy's Acquisition"). The Company accounted for the acquisition as a business combination using the purchase method of accounting. The Company acquired these stores to continue to grow the store base in Kentucky and Indiana.

The Company entered into a 60-day transition services agreement ("2021 Transition Services Agreement") with the Franchisor at the acquisition date to maintain a continuity of services for the franchises as the business is transferred to the Company. The 2021 Transition Services Agreement was completed in the month of September 2021.

The following table summarizes the fair value of assets acquired and liabilities assumed, net of fair value adjustments as of the acquisition date.

Purchase Price Allocation - 8-Store Buddy's Acquisition

(in thousands)

Assets	
Rental merchandise	\$ 2,074
Property and equipment	263
Goodwill	2,360
Operating lease right-of-use assets	1,224
Intangible assets	785
Total Assets	6,706
Liabilities	
Accrued liabilities	188
Operating lease liabilities	944
Deferred revenue	74
Total Liabilities	1,206
Consideration transferred	\$ 5,500

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed. For tax purposes, goodwill totaling \$2.4 million is capitalized and amortized over 15 years.

Certain fair value estimates were determined based on an independent valuation of the net assets acquired, including identifiable intangible assets, relating to customer contracts and relationships with a fair value of \$0.7 million and franchise rights with a fair value of \$0.1 million. Amortization expense of \$37 thousand and \$74 thousand was recognized for the three and six months ended December 31, 2022, respectively. Amortization expense of \$37 thousand and \$53 thousand was recognized for the three and six months ended January 1, 2022, respectively.

The Company did not incur any material acquisition-related costs. Therefore, the Company has not recorded any additional selling, general and administrative expenses as a result of this acquisition.

The November 10, 2020 Acquisition

On November 10, 2020 pursuant to the Asset Purchase Agreement between FRG and the Company, the Company completed the acquisition of 47 Buddy's Home Furnishings stores for \$35.0 million in cash (the "Buddy's Acquisition"). The Buddy's Acquisition was financed by a combination of cash on hand, the proceeds from the issuance of 1.5 million shares of the Company's common stock to B. Riley Financial, Inc. (together with its affiliates, "B. Riley") for aggregate proceeds of \$7.5 million and the proceeds from the issuance of \$22.0 million aggregate principal amount of secured promissory notes (the "Secured Notes") to certain investors, including \$8.0 million of such Secured Notes which were issued to B. Riley. The Secured Notes bear interest at a rate of LIBOR + 15% and matured on November 10, 2021. The Company paid the outstanding \$21.7 million Secured Notes in full with proceeds from 2026 Secured Notes on August 24, 2021. The Company accounted for the acquisition as a business combination using the purchase method of accounting. The Company acquired these 47 Buddy's Home Furnishings stores to expand the business by entering the rent-to-own space.

The Company entered into a six-month transition services agreement ("Transition Services Agreement") with the franchisor at the acquisition date to maintain a continuity of services for the franchises as the business is transferred to the Company. The 2020 Transition Services Agreement was completed in the month of May 2021.

The following table summarizes the fair value of assets acquired and liabilities assumed, net of fair value adjustments as of the acquisition date.

Purchase Price Allocation - Buddy's Acquisition

(in thousands)

Assets	
Cash and cash equivalents	\$ 11
Other current assets	43
Rental merchandise	12,440
Property and equipment	1,677
Goodwill	16,505
Operating lease right-of-use assets	7,437
Intangible assets	6,885
Total Assets:	<u>44,998</u>
Liabilities	
Accrued liabilities	2,194
Operating lease liabilities	6,956
Deferred revenue	848
Total Liabilities	<u>9,998</u>
Consideration transferred	\$ 35,000

Goodwill represents the excess of the purchase price over the fair value of net assets acquired and liabilities assumed and is deductible for tax purposes. For tax purposes, goodwill totaling \$16.5 million is capitalized and amortized over 15 years.

Certain fair value estimates were determined based on an independent valuation of the net assets acquired, including identifiable intangible assets, relating to customer contracts and relationships with a fair value of \$6.4 million and franchise rights with a fair value of \$0.5 million. Amortization expense of \$0.3 million and 0.7 million was recognized for the three and six months ended December 31, 2022, respectively. Amortization expense of \$0.3 million and \$0.7 million was recognized for the three and six months ended January 1, 2022, respectively.

5. RELATED PARTY TRANSACTIONS

As of December 31, 2022, B. Riley Financial, Inc. beneficially owned approximately 40% of the outstanding shares of the Company's common stock. B. Riley Financial, Inc. also provided accounting, information technology, back-office, management and related services to the Company. The Company incurred \$53 thousand and \$0.1 million of such expenses with B. Riley Financial Inc. during the three and six months ended December 31, 2022, respectively. The Company incurred \$0.1 million and \$0.1 million of such expenses for the three and six months ended January 1, 2022, respectively. The outstanding balances payable to B. Riley Financial, Inc. was \$34 thousand and \$33 thousand at December 31, 2022 and July 2, 2022, respectively.

6. RENTAL MERCHANDISE

The following is a summary of rental merchandise, net of accumulated depreciation as of December 31, 2022 and July 2, 2022:

Rental Merchandise (in thousands)	As of	As of
	December 31, 2022	July 2, 2022
On rent		
Cost	\$ 25,967	\$ 21,658
Less accumulated depreciation	(11,151)	(9,633)
Net book value, on rent	<u>14,816</u>	<u>12,025</u>
Held for rent		
Cost	9,567	6,892
Less accumulated depreciation	(2,309)	(1,827)
Net book value, held for rent	<u>7,258</u>	<u>5,065</u>
Total rental merchandise, net of accumulated depreciation	<u>\$ 22,074</u>	<u>\$ 17,090</u>

Damaged or lost merchandise is written off monthly. Maintenance and repairs to leased merchandise are expensed as incurred. The Company wrote off \$0.9 million and \$1.7 million of rental merchandise for the three and six months ended December 31, 2022, respectively. For the three and six months ended January 1, 2022, the Company wrote off \$0.7 million and \$1.6 million of rental merchandise, respectively.

The Company recorded \$3.7 million and \$7.2 million of depreciation expense for rental merchandise for the three and six months ended December 31, 2022, respectively. Depreciation expense for rental merchandise for the three and six months ended January 1, 2022 was \$3.5 million and \$6.6 million, respectively.

7. EQUITY METHOD INVESTMENTS

Strategic Partnership and Equity Investment

BB Brand Holdings LLC

During the fourth quarter of fiscal 2017, bebe expanded upon its strategic joint venture arrangement entered into during fiscal 2016, and closed all retail stores, sold its merchandise, inventory, furnishings, trade fixtures, equipment, improvements in real property, purchase orders related to its website and international wholesale business. Under this partnership, during fiscal 2016 bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including domain names, social media accounts and agreements with certain of its international distributors to its Joint Venture. The Company's partner in the venture, Bluestar, continues to leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for the Joint Venture and manages its day-to-day operations. The Joint Venture continues to pursue a licensing strategy designed to capitalize on the value of bebe's brand in all categories and channels on a global scale. The decision to exit its retail operations was the result of continued operating losses.

bebe's equity investment in BB Brand Holdings LLC generates the most significant amount of equity earnings and represented approximately 76% and 80% of the Company's total equity earnings for the six months ended December 31, 2022 and January 1, 2022, respectively.

The summarized financial statements for the three and six month periods ended December 31, 2022 and December 31, 2021 for the Joint Venture is as follows:

	BB Brand Holdings LLC	
	As of	As of
	December 31, 2022	June 30, 2022
	(in thousands)	(in thousands)
Total Assets	\$ 9,370	\$ 10,154
Total Liabilities	\$ 828	\$ 64

	BB Brand Holdings LLC			
	Three Months Ended		Fiscal Year Ended	
	(in thousands)		(in thousands)	
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Revenue	\$ 3,613	\$ 4,738	\$ 8,142	\$ 9,704
Net Income	\$ 2,764	\$ 4,010	\$ 6,502	\$ 8,179

Other Equity Investments

Other equity investments accounted for pursuant to the equity method of accounting include a 28.5% investment in BKST Brand Management LLC and a 50% investment in GAEBB Group B.V. On October 19, 2018, bebe partnered with Bluestar to acquire the Brookstone brand and certain related assets. On September 12, 2018, the Company and GA Retail Int'l, Inc., a California corporation, formed GAEBB Group B.V., a private company with limited liability according to the laws of the Netherlands ("GAEBB"). Both GA Retail Int'l, Inc. and the Company each have a 50% ownership interest in GAEBB.

On September 25, 2018, GAEBB agreed to purchase certain assets and shares of the Charles Vogele businesses operating in Austria, Hungary and Slovenia from parent Sempione Fashion AG for total proceeds of \$1.4 million (CHF 1,363,425). During the second quarter of calendar year 2019, GAEBB management entered into a plan to wind down the operations of Charles Vogele and close all of the retail stores since the original buyer for the operations was unable to finance the purchase of the operations. In October 2019, GAEBB completed the closure of all of their retail stores. The business activity of GAEBB currently consists of the winding up of its business activities and final liquidation of property to the Company. The carrying value in these entities was \$15.8 million as of December 31, 2022 and \$17.5 million as of January 1, 2022.

8. PROPERTY AND EQUIPMENT, NET

Property and Equipment, net (in thousands)	As of	As of
	December 31, 2022	July 2, 2022
Leasehold Improvements	\$ 1,342	\$ 1,124
Signs	420	385
Furniture and Fixtures	339	340
Vehicles	152	158
Equipment	91	92
Computers	26	21
Other	44	67
Property and Equipment, gross	2,414	2,187
Less accumulated depreciation	1,080	813
Property and Equipment, net	\$ 1,334	\$ 1,374

The Company recorded \$0.1 million and \$0.3 million of depreciation expense for property and equipment for the three and six months ended December 31, 2022, respectively. Depreciation for the three and six months ended January 1, 2022 was \$0.1 million and \$0.3 million, respectively.

9. INTANGIBLE ASSETS, NET

Amortizable intangible assets consist of the following:

(in thousands)	December 31, 2022			
	Useful life (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	5	\$ 7,209	\$ 2,940	\$ 4,269
Franchise rights	10	805	132	673
Total intangible assets		\$ 8,014	\$ 3,072	\$ 4,942

(in thousands)	July 2, 2022			
	Useful life (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	5	\$ 7,155	\$ 2,224	\$ 4,931
Franchise rights	10	730	93	637
Total intangible assets		\$ 7,885	\$ 2,317	\$ 5,568

The Company recorded \$0.4 million and \$0.8 million of amortization expense for intangible assets for the three and six months ended December 31, 2022, respectively. Amortization expense of \$0.4 million and \$0.7 million was recorded for the three and six months ended January 1, 2022.

Estimated remaining amortization expense for each fiscal year is as follows:

Fiscal Year <i>(in thousands)</i>	Estimated Remaining Amortization Expense
2023	\$ 759
2024	1,548
2025	1,517
2026	685
2027	115
2028 and after	318
Total	\$ 4,942

10. DUE TO FRANCHISOR

The Company, in the normal course of business, purchases rental merchandise from the franchisor. As of December 31, 2022 and July 2, 2022, the amount due to franchisor for purchased rental merchandise totaled \$7.0 million and \$2.8 million, respectively.

11. NOTE PAYABLE

On August 24, 2021, the Company entered into a credit agreement with SLR Credit Solutions (formerly known as Crystal Financial) (the “2026 Secured Notes”). The credit agreement provides the Company with a \$25.0 million five-year senior secured term loan with additional drawdown capacity of up to \$10.0 million. Loans under the credit facility mature on August 24, 2026. Loans under the credit facility will bear interest at the Eurodollar Rate (subject to a 1.00% floor) plus 5.50% with a reduction to 5.25% after one year to the extent the Company’s leverage ratio is at or less than 1.50:1.00. The proceeds were used to repay the Company’s outstanding \$21.7 million Secured Notes in full and to provide additional growth capital. As of December 31, 2022, the outstanding balance on the 2026 Secured Notes was \$24.4 million.

On November 10, 2020, the Company issued a \$22.0 million aggregate principal amount of secured promissory notes (the “Secured Notes”) to certain investors, including \$8.0 million of such Secured Notes which were issued to B. Riley. The Secured Notes bear interest at a rate of LIBOR + 15% and were due to mature on November 10, 2021. The Company paid the outstanding \$21.7 million Secured Notes in full with the proceeds from 2026 Secured Notes on August 24, 2021.

Debt issuance costs of \$1.2 million and \$1.0 million related to the 2026 Secured Notes and Secured Notes, respectively, are treated as a direct deduction from the face amount of the debt and amortized as interest expense over the expected term of the debt. The Company amortized \$60 thousand and \$0.1 million of debt issuance costs for the three and six months ended December 31, 2022, respectively. For the three and six months ended January 1, 2022, the Company amortized \$60 thousand and \$88 thousand of debt issuance costs, respectively.

Interest expense was \$0.7 million and \$1.5 million for the three and six months ended December 31, 2022, respectively. Interest expense was \$0.5 million and \$1.3 million for the three and six months ended January 1, 2022.

On September 30, 2022, the Company commenced quarterly principal payments of 1.25% of the debt balance as of September 30, 2022 of \$25.0 million or quarterly payment of \$0.3 million, to SLR Credit Solutions, as per the credit agreement for the 2026 Secured Notes. These quarterly principal payments will continue through the maturity date of August 24, 2026. The Company made such principal payments of \$0.3 million and \$0.6 million during the three and six months ended December 31, 2022, respectively.

Note payable, net at December 31, 2022 consisted of the following:

Note Payable <i>(in thousands)</i>	
Total note payable	\$ 24,375
Less debt issuance costs	(878)
Total note payable, net	23,497
Less current portion of note payable	(1,250)
Note payable, net - non-current	\$ 22,247

The aggregate maturity for the note payable is as follows:

Fiscal Year <i>(in thousands)</i>	Estimated Remaining Principal Payments
2023	\$ 625
2024	1,250
2025	1,250
2026	1,250
2027	20,000
Total	<u>\$ 24,375</u>

12. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of December 31, 2022 <i>(in thousands)</i>	As of July 2, 2022 <i>(in thousands)</i>
Gift certificates, gift cards and store credits	\$ 3,049	\$ 3,049
Other accrued liabilities	1,469	1,938
	<u>\$ 4,518</u>	<u>\$ 4,987</u>

13. SHAREHOLDERS' EQUITY

Common Stock

The Company's Sixth Amended and Restated Articles of Incorporation increased the number of shares of common stock the Company is authorized to issue from 14,000,000 to 50,000,000. It became effective when it was approved by the shareholders on December 8, 2021.

Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of preferred stock, par value \$0.001 per share, and to fix the rights, preferences, privileges and restrictions including voting rights, of these shares without any further vote or approval by the shareholders. No preferred stock has been issued to date.

14. DISAGGREGATED REVENUES

The following table presents disaggregated revenue for the Company's Buddy's franchise stores for the three and six months ended December 31, 2022, and January 1, 2022, respectively. The Company's brand royalty joint venture does not generate revenue and is excluded from this presentation.

	Three Months Ended		Six Months Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Revenues				
Rentals and fees	\$ 13,734	\$ 12,739	\$ 26,440	\$ 24,858
Merchandise sales	502	631	1,053	1,250
Total revenues	\$ 14,236	\$ 13,370	\$ 27,493	\$ 26,108

15. OPERATING AND FINANCE LEASES

The Company leases space for all of its Buddy's franchise stores under operating leases expiring at various times through 2028. The Company leases vehicles for all of its Buddy's franchise stores under operating and finance leases with lease terms expiring at various times through 2025. The Company's corporate headquarter is located in a leased office in San Francisco, California, with a lease term expiring in October 2024.

The Company determines if an arrangement is a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. At the lease commencement date, lease right-of-use assets and lease liabilities are recognized based on the present value of the future lease payments over the lease term. Operating and finance lease right-of-use assets and operating and finance lease liabilities are discounted using our incremental borrowing rate, since the implicit rate is not readily determinable.

As of December 31, 2022, the weighted-average remaining lease term for both store and auto operating leases are 4 years. The discount rates used by the Company for calculating its right-of-use operating leases range from approximately 6% to 13%. The discount rates used by the Company for calculating its right-of-use finance leases range from approximately 6% to 10%.

As of January 1, 2022, the weighted average remaining lease term for store and auto operating leases were 4 and 2 years, respectively. The discount rate used by the Company for calculating its right-of-use operating leases range from approximately 6% to 13%. The discount rates used by the Company for calculating its right-of-use finance leases range from approximately 6% to 7%.

Total operating lease cost by expense type:

Operating Leases

	Three Months Ended		Six Months Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Rent expense	\$ 890	\$ 759	\$ 1,742	\$ 1,457
Other expense	104	81	203	138
Total occupancy expense	994	840	1,944	1,595
Vehicle lease expense	132	172	260	315
Total operating lease expense	\$ 1,126	\$ 1,012	\$ 2,205	\$ 1,910

Finance lease right of use assets are amortized on a straight-line basis over the shorter of the expected useful life or the lease term to amortize expenses, and the carrying amount of the lease liability is adjusted to reflect interest expense.

Reconciliation of undiscounted operating lease liability to the present value operating lease liabilities at December 31, 2022:

Fiscal Year	Operating Lease Obligation <small>(in thousands)</small>
2023	\$ 1,737
2024	2,896
2025	2,089
2026	1,540
2027	1,014
Thereafter	592
Total undiscounted operating lease liabilities	9,868
Less interest	(1,696)
Total present value of operating lease liabilities	\$ 8,172

16. INCOME TAXES

For the three and six months ended December 31, 2022, the Company recorded an income tax benefit of \$363 thousand and \$334 thousand, respectively. The income tax benefit for the three and six months ended December 31, 2022 was primarily related to tax benefit from operations and net deferred tax liability for excess indefinite lived intangibles..

For the three and six months ended January 1, 2022, the Company recorded an income tax (expense) of (\$118) thousand and (\$204) thousand, respectively. The income tax provision for the three and six months ended January 1, 2022, was primarily related to a net deferred tax liability for excess indefinite lived intangibles, state income tax expense, and the continuing impact of maintaining a valuation allowance against net deferred tax assets.

17. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved and/or may become involved in lawsuits, claims and/or proceedings incident to the ordinary course of our business. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, the Company believes that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole. The Company reviews the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.

Franchise Commitments

The Company operates Buddy's franchise stores and is subject to the Buddy's franchise agreement. The franchise agreement includes a royalty fee of 6% of gross revenues and specifies products and services that the franchisee may offer to its customers, as well as approved suppliers of these products. As a franchisee, the Company purchases its rental merchandise from the franchisor's list of approved suppliers, via the purchasing portal provided by the franchisor as part of the franchise agreement.

18. SUBSEQUENT EVENTS

The Company evaluated its condensed consolidated financial statements for subsequent events through the date the consolidated financial statements were issued. Other than those discussed below, the Company is not aware of any subsequent events which would require recognition or disclosure in the condensed consolidated financial statements.

On February 2, 2023, the Company's Board of Directors authorized and declared a quarterly cash dividend of \$0.02 per share of our common stock. The dividend will be paid on March 03, 2023 to shareholders of record at the close of business on February 17, 2023.

Item 4. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis 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. 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 Quarterly Report, 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 effectively to competitive pressures in the industries in which we operation and adverse economic conditions, attract and retain key management personnel, and protect our intellectual property, changes in the level of consumer spending or preferences in the industries in which we operate, our ability, via the Joint Venture, to respond to changing fashion trends and/or other factors discussed elsewhere in this Quarterly Report, including without limitation, the factors disclosed under “Risk Factors” included in this section below.

Overview

Historically, from 1976 to 2017, we designed, developed and produced a distinctive line of contemporary women’s apparel and accessories that is unique, sophisticated and timelessly sexy. We were founded by Manny Mashouf, our Chief Executive Officer and opened our first store in San Francisco, CA in 1976. We marketed our products under the bebe and BEBE SPORT brand names through our retail stores and an online store at www.bebe.com through fiscal year 2016.

In fiscal 2016, bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including domain names, social media accounts and agreements with certain of its international distributors to its joint venture BB Brand Holdings LLC (the “Joint Venture”) to pursue a licensing strategy designed to capitalize on the value of bebe’s brand in all categories and channels on a global scale. During the fourth quarter of fiscal 2017, we expanded upon our Joint Venture and closed all of our retail stores and sold our inventory, furnishings, trade fixtures, equipment, improvements in real property and purchase orders related to our website and international wholesale. The Joint Venture continues to pursue and capitalize on bebe’s brand recognition through its licensing strategies.

In November 10, 2020, we completed the acquisition of 47 Buddy’s Home Furnishings stores from Franchise Group, Inc. (“FRG”) for \$35.0 million in cash (the “Buddy’s Acquisition”). With the Buddy’s Acquisition, our primary business is as a retail rent-to-own franchisee. Our rent-to-own Buddy’s franchises offers furniture, appliances, electronics and accessories to consumers through rent-to-own agreements. We operated 47 stores in ten states in the southeastern United States. The Buddy’s Acquisition was financed by a combination of cash on hand, the proceeds from the issuance of 1.5 million shares of our common stock to B. Riley Financial, Inc. (together with its affiliates, “B. Riley”) for aggregate proceeds of \$7.5 million and the proceeds from the issuance of \$22.0 million aggregate principal amount of secured promissory notes (the “Secured Notes”) to certain investors, including \$8.0 million of such Secured Notes which were issued to B. Riley. The Secured Notes bear interest at a rate of LIBOR + 15% and mature on November 10, 2021. On August 24, 2021, the Company entered into a credit agreement (the “2026 Secured Notes”) with SLR Credit Solutions (formerly known as Crystal Financial). The credit agreement provides the Company with a \$25.0 million five-year senior secured term loan with additional drawdown capacity of up to \$10.0 million. The interest on the \$25.0 million senior secured term loan bears interest at a base rate per annum equal to the Eurodollar Rate plus the Applicable Rate. The Eurodollar Rate is equal to the three-month LIBOR as published in the Wall Street Journal. The Applicable Rate will be 5.25% if the leverage ratio (as defined in the loan agreement) is less than or equal to 1.5 to 1.0 or 5.50% if greater than 1.5 to 1.0. The proceeds were used to repay the Company’s outstanding \$21.7 million Secured Notes. As of December 31, 2022, the outstanding balance on the 2026 Secured Notes was \$24.4 million.

At the date of the Buddy’s Acquisition, we purchased certain assets (“Transferred Assets”) related to 47 Buddy’s franchise stores. These assets included all rent-to-own agreements and customers for these stores, all merchandise inventory of these stores, the property and vehicle leases for these stores, all fixed assets and tangible personal property at these stores, and the assembled workforce of these stores. In addition, we assumed certain liabilities including payables related to merchandise inventory acquired by the stores.

On August 24, 2021, the Company entered into a credit agreement (the “2026 Secured Notes”) with SLR Credit Solutions (formerly known as Crystal Financial). The credit agreement provides the Company with a \$25.0 million five-year

senior secured term loan with additional drawdown capacity of up to \$10.0 million. The interest on the \$25.0 million senior secured term loan shall bear interest at a base rate per annum equal to the Eurodollar Rate plus the Applicable Rate. The Eurodollar Rate is equal to the three-month LIBOR as published in the Wall Street Journal. The Applicable Rate will be 5.25% if the leverage ratio (as defined in the loan agreement) is less than or equal to 1.5 to 1.0 or 5.50% if greater than 1.5 to 1.0. The proceeds were used to repay the Company's outstanding \$21.7 million Secured Notes and to provide additional growth capital. As of December 31, 2022, the outstanding balance on the 2026 Secured Notes was \$24.4 million.

On August 25, 2021, pursuant to the Asset Purchase Agreement between Franchise Group, Inc. ("FRG"), as parent of Buddy's Newco, LLC ("Seller" or "Franchisor"), and the Company, the Company completed the acquisition of 8 Buddy's Home Furnishings stores for \$5.5 million in cash (the "8-Store Buddy's Acquisition"). The Company accounted for the acquisition as a business combination using the purchase method of accounting.

At the date of the 8-Store Buddy's Acquisition, the Company acquired certain assets ("Transferred Assets") related to 8 Buddy's franchise stores. These assets included all rent-to-own agreements and customers for these stores, all rental merchandise of these stores, the property and vehicle leases for these stores, all fixed assets and tangible personal property at these stores. In addition, the Company assumed certain liabilities including those related to rental merchandise acquired by the stores. The Company entered into a 60-day transition services agreement ("2021 Transition Services Agreement") with the franchisor at the acquisition date to maintain a continuity of services for the franchises as the business is transferred to the Company. The 2021 Transition Services Agreement was completed in September 2021.

On February 2, 2022 pursuant to the Asset Purchase Agreement between ATL and the Company, the Company completed the acquisition of 2 Buddy's Home Furnishings stores for \$525 thousand in cash (the "2-Store Buddy's Acquisition"). The Company accounted for the acquisition as a business combination using the purchase method of accounting.

Since the acquisition on February 2, 2022, the Company opened 5 new stores and acquired 2 stores.

We currently operate 64 stores in 12 states in the southeastern United States.

We operate Buddy's franchise stores and are subject to the Buddy's franchise agreement. The franchise agreement includes a royalty fee of 6% of gross revenues and specifies products and services that the franchisee may offer to its customers, as well as approved suppliers of these products. As a franchisee, we purchase our rental merchandise from the franchisor's list of approved suppliers, via the purchasing portal provided by the franchisor as part of the franchise agreement.

Strategic Partnership and Equity Investments

BB Brand Holdings, LLC

During fiscal 2016, we entered into a strategic joint venture arrangement with Bluestar. Under this partnership, bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including certain domain names, to the Joint Venture and received 50% ownership interest in the joint venture. Bluestar contributed \$35.0 million to the Joint Venture that was then paid to bebe and received 50% ownership interest in the joint venture. Bluestar leverages its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for the joint venture and manages its day-to-day operations. The Joint Venture continues to pursue a licensing strategy designed to capitalize on the value of our brand in all categories and channels on a global scale. We expect the Joint Venture to continue to generate long-term, committed royalties from prospective licensees of the bebe brand name.

BKST BRAND MANAGEMENT LLC

On October 19, 2018, bebe partnered with Bluestar to acquire the Brookstone brand and certain related assets. bebe invested \$20.6 million for a 28.5% interest in BKST BRAND MANAGEMENT LLC ("BKST"), which beneficially owns such assets. Bluestar leverages its existing brand management organization and infrastructure to develop a wholesale domestic and international licensing business for the BKST and manages its day-to-day operations.

GAEBB Group B.V. – Charles Voegelé

On September 12, 2018, the Company and GA Retail Int'l, Inc., a California corporation, formed GAEBB Group

B.V., a private company with limited liability according to the laws of the Netherlands (“GAEBB”) for the purpose of buying Charles Vogele, a retailer with operations in Austria, Hungary and Slovenia. The original business plan was to restructure the operations by closing under-performing stores and market the business to a buyer. Both GA Retail Int’l, Inc. and the Company each have a 50% ownership interest in GAEBB. On September 25, 2018, GAEBB agreed to purchase certain assets and shares of the Charles Vogele from parent Sempione Fashion AG for total proceeds of \$1.4 million (CHF 1,363,425). During the second quarter of calendar year 2019, GAEBB management entered into a plan to wind down the operations of Charles Vogele and close all of the retail stores since the original buyer for the operations was unable to finance the purchase of the operations. In October 2019, GAEBB completed the closure of all of their retail stores. The business activity of GAEBB currently consists of the winding down of its business activities and final liquidation of property to the Company.

Investor Agreement and Material Modification to Rights of Security Holders

On January 12, 2018, B. Riley Financial, Inc. entered into an agreement with our principal shareholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal shareholder to avoid an “ownership change” of bebe within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). This agreement was entered into in order to preserve certain of our net operating losses for U.S. federal income tax purposes.

Also, on January 12, 2018, the board adopted a tax benefit preservation plan between us and Computershare Trust Company, N.A., as rights agent, in order to help preserve the value of certain deferred tax benefits, including those generated by net operating losses and certain other tax attributes. The ability to use these tax benefits would be substantially limited if we were to experience an “ownership change” as defined under Section 382 of the Code. The tax benefit preservation plan reduces the likelihood that such changes will occur, by acting as a deterrent to any person acquiring our shares equal to or exceeding certain thresholds without the approval of our board.

On January 8, 2019, the board approved an amendment to the NOL Plan which updates the process by which Acquiring Persons (as defined in the NOL Plan) can seek exemptions prior to the occurrence of a Trigger Event (as defined in the NOL Plan).

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 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 investment, revenue recognition, fair value of definite-lived intangible assets and right-of-use assets acquired in acquisition and income taxes which are described below. We continually evaluate these accounting policies and estimates, and we make adjustments when facts and circumstances dictate a change. Our significant accounting policies are described in Note 1 to the consolidated financial statements in this quarterly report.

Investment. We use the equity method to account for our investments in the BB Brand Holdings LLC, GAEBB and BKST. With regards to these investments in BB Brand Holdings LLC, GAEBB and BKST, the equity method was used because bebe has the ability to exercise significant influence but not control. Our share of earnings as reported by the equity investments are recorded as earnings in equity method investments on the consolidated statement of income and comprehensive income.

Revenue recognition. We recognize rental revenues over the rental term. We record any cash received prior to the lease term as deferred revenue. We recognize revenue related to reinstatement or late fees at the point in time when the customer pays. We recognize add-on product plans purchased by customers, such as liability protection or club membership benefits, as revenue over the rental term. We recognize merchandise sales revenue and early purchase options exercised by rental customers at the point in time when payment is received and ownership of the merchandise passes to the customer.

Purchase accounting. We are required to estimate the fair value of the assets acquired and liabilities assumed in business combinations as of the acquisition date, including identified intangible assets. The amount of purchase price paid in excess of the net assets acquired is recorded as goodwill. We estimate the fair values in accordance with accounting standards which define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. We determine the fair values of the net assets acquired primarily using Level 3 inputs (inputs that are unobservable to the marketplace participant). The most significant fair value estimates include intangible assets (customer contracts/relationships and franchise rights) subject to amortization. We recorded \$6.9 million of acquired intangible assets in connection with the Buddy's Acquisition. We determined these amounts of intangible assets based on an independent valuation.

Income taxes. We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. We are subject to periodic audits by the Internal Revenue Service and other foreign, state and local taxing authorities. These audits may challenge certain of our tax positions such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. We evaluate our tax positions and establish liabilities in accordance with applicable accounting guidance on uncertainty in income taxes. In estimating future tax consequences, we consider all expected future events known to management other than pending changes in the tax law or rates. The need for a valuation allowance requires an assessment of both positive and negative evidence on a jurisdiction-by-jurisdiction basis when determining whether it is more-likely-than-not that deferred tax assets are recoverable. In making such assessment, we give significant weight to evidence that can be objectively verified. In the future, new facts and circumstances and new guidance related to the Tax Act may require us to re-evaluate our valuation allowance positions which could potentially affect our effective tax rate. As a result of its evaluation of the realizability of its deferred tax assets, we have concluded, based upon all available evidence, that it is more likely than not its deferred tax assets will not be realized.

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. The three and six month periods ended December 31, 2022 and January 1, 2022 each include 26 weeks.

Revenues and cost of revenues

For the three months ended December 31, 2022, we recorded revenues of \$14.2 million and cost of revenues of \$5.4 million, yielding a gross profit of \$8.8 million or 62.1%.

For the six months ended December 31, 2022, we recorded revenues of \$27.5 million and cost of revenues of \$10.5 million, yielding a gross profit of \$17.0 million or 62.0%.

For the three months ended January 1, 2022, we recorded revenues of \$13.4 million and cost of revenues of \$4.8 million, yielding a gross profit of \$8.5 million or 64.0%.

For the six months ended January 1, 2022, we recorded revenues of \$26.1 million and cost of revenues of \$9.8 million, yielding a gross profit of \$16.3 million or 62.5%.

	Three Months Ended		Six Months Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
Revenues				
Rentals and fees	\$ 13,734	\$ 12,739	\$ 26,440	\$ 24,858
Merchandise sales	502	631	1,053	1,250
Total revenues	14,236	13,370	27,493	26,108
Cost of revenues				
Cost of rentals and fees	4,978	4,406	9,618	8,989
Cost of merchandise sold	412	413	840	805
Total cost of revenues	5,390	4,819	10,458	9,794
Gross profit	\$ 8,846	\$ 8,551	\$ 17,035	\$ 16,314
Gross profit %	62.1%	64.0%	62.0%	62.5%

Selling, General and Administrative Expenses

For the three months ended December 31, 2022, selling, general and administrative expenses increased to \$10.6 million from \$8.6 million for the comparable period of the prior year. The increase was primarily driven by the increase in store count to 64 from the prior year store count of 56 and by the increase in average headcount per store as vacant positions during the Covid pandemic have been filled.

For the six months ended December 31, 2022, selling, general and administrative expenses increased to \$20.4 million from \$16.1 million for the comparable period of the prior year. The increase was primarily driven by the increase in store count to 64 from the prior year store count of 56 and by the increase in average headcount per store as vacant positions during the Covid pandemic have been filled.

	Three Months Ended		Six Months Ended	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
Store expenses				
Personnel costs	\$ 3,902	\$ 2,920	\$ 7,711	\$ 5,442
Occupancy costs	994	840	1,944	1,595
Advertising	293	247	689	415
Other store expenses	3,752	2,927	7,032	5,401
Other general and administrative expenses	1,643	1,618	3,048	3,219
Selling, general and administrative expenses	\$ 10,584	\$ 8,552	\$ 20,424	\$ 16,072

Interest (Expense) and Other, net

Interest (expense) and other, net was \$(0.7) million and \$(0.5) million for the three months ended December 31, 2022 and January 1, 2022, respectively.

Interest (expense) and other, net was \$(1.5) million and \$(1.3) million for the six months ended December 31, 2022 and January 1, 2022, respectively.

Income Taxes

For the three and six months ended December 31, 2022, the Company recorded an income tax benefit of \$363 thousand and \$334 thousand, respectively. The income tax benefit for the three and six months ended December 31, 2022 was primarily related to tax benefit from operations and net deferred tax liability for excess indefinite lived intangibles.

For the three and six months ended January 1, 2022, the Company recorded an income tax (expense) of (\$118) thousand and (\$204) thousand, respectively. The income tax provision for the three and six months ended January 1, 2022, was primarily related to a net deferred tax liability for excess indefinite lived intangibles, state income tax expense, and the continuing impact of maintaining a valuation allowance against net deferred tax assets.

Earnings in Equity Method Investment

Earnings in our equity method investments was \$1.8 million for the three months ended December 31, 2022 and \$2.7 million in the comparable prior year quarter.

Earnings in our equity method investments was \$4.3 million for the six months ended December 31, 2022 and \$5.1 million in the comparable prior year quarter.

Distributions received from our investments for the three and six months ended December 31, 2022 and January 1, 2022 are as follows:

Investment Distributions Received

	Three Months Ended		Six Months Ended	
	(in thousands)		(in thousands)	
	December 31, 2022	January 1, 2022	December 31, 2022	January 1, 2022
BB Brand Holdings LLC	\$ 2,150	\$ 2,000	\$ 4,000	\$ 4,000
BKST Brand Management LLC	1,084	942	1,711	1,512
Total	\$ 3,234	\$ 2,942	\$ 5,711	\$ 5,512

Liquidity and Capital Resources

As of December 31, 2022, we had working capital of approximately \$10.1 million. We had current assets of \$27.6 million and current liabilities of \$17.5 million. We expect operating costs to remain relatively consistent with current levels. We also expect our revenues from our Buddy's stores and equity investment income to provide sufficient income to fund our anticipated operating costs. Due to our current liquidity position, we have concluded that cash and cash equivalents and cash flows from operating activities, will be sufficient to fund operations and meet our financial obligations through the next twelve months from the issuance of these condensed consolidated financial statements.

As of December 31, 2022 and July 2, 2022, we had \$3.7 million and \$7.8 million, respectively, in cash and cash equivalents, which were 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. 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 provided by operating activities for the six months ended December 31, 2022 and January 1, 2022 was \$0.5 million and \$3.0 million, respectively. The decrease in net cash provided by operating activities primarily was a result from a decrease in net income of \$4.1 million and decrease in deferred income taxes of \$0.4 million, offset by a reduced earnings in equity method investment resulting in an increase of \$0.8 million in cash provided, increase in depreciation/amortization of \$1.0 million, and a net cash increase in changes in operating assets and liabilities of \$0.2 million.

Net cash used in investing activities for the six months ended December 31, 2022 and January 1, 2022 was \$0.1 million and \$5.2 million, respectively.

Net cash used by financing activities for the six months ended December 31, 2022 was \$4.6 million, which represented primarily the dividends paid of \$3.9 million and the payments on note payable 2026 Secured Notes of \$0.6 million.

Net cash used in financing activities for the six months ended January 1, 2022 was \$1.8 million, which represented net proceeds of \$2.1 million from the 2026 Secured Notes, net of issuance costs, payment of the Secured Notes and dividends paid of \$3.9 million.

On February 2, 2023, the Company's Board of Directors authorized and declared a quarterly cash dividend of \$0.02 per share of our common stock. The dividend will be paid on March 03, 2023 to shareholders of record at the close of business on February 17, 2023.

Off-Balance Sheet Arrangements

None

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, the following:

Risks Related to Our Business:

Risks Related to our Joint Venture:

The success of our brand royalty business depends in large part on the ability of the Joint Venture's licensees to identify fashion trends as well as to react to changing customer demand in a timely manner and to generate positive cash flow from its operations as a result.

Our future success depends, in part, upon the ability of the Joint Venture's licensees 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 they miscalculate customers' product preferences or the demand for their products, they may be faced with excess inventory, which historically has resulted in markdowns and/or write-offs of raw materials as well as finished goods, which could impair their profitability, and may do so in the future. Similarly, any failure on their part to anticipate, identify and respond effectively to changing customer demands and fashion trends will adversely affect our business. The inability to generate positive cash flow from such operations could have a material adverse effect on our business and financial conditions.

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 retail business and our brand royalty business through written agreements with the Joint Venture and the Company's other equity investments as well as the implementation of strategies to expand such efforts. For example, maintaining, promoting and growing the bebe brand will depend largely on the success of the Joint Venture's marketing efforts and the licensee's ability to provide a consistent, high-quality client experience. In addition, while our brand is mature, the 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 via the Joint Venture.

We face significant competition in the retail and apparel industries, which could harm our business.

The retail industry is highly competitive, with low barriers to entry. We expect competition in these markets to increase. The primary competitive factors in our markets include, but are not limited to: brand name recognition and appeal, sourcing, product selection, quality, presentation and pricing, timeliness of product development and delivery, store ambiance, customer service and convenience. Additionally, the licensees in our brand royalty business 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 the licensees or maintain comparatively lower cost of operations, the licensees may lack the resources to effectively compete with them. If the licensees fail to remain competitive in any way, it could harm our business, financial condition and results of operations.

If we, through our interest in the Joint Venture, are not able to protect our intellectual property our business may be harmed.

Although we and the Joint Venture take actions to protect our trademarks and other proprietary rights, we cannot assure 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.

Historically, we have sought to register our trademarks domestically and internationally and the Joint Venture will continue to do so in the future. Obstacles may exist that may prevent the Joint Venture from obtaining a trademark for the bebe and BEBE SPORT brand names or related names. The Joint Venture 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 the Joint Venture fails to obtain trademarks of, or ownership or license of the requisite rights, it would limit the ability to expand the business under the bebe brand.

In some jurisdictions, despite successful registration of bebe's trademarks, third parties may allege infringement and bring actions against us and or the Joint Venture. In addition, if our licensees fail to use the bebe intellectual property correctly, the reputation and value associated with the trademarks may be diluted. Furthermore, if we or the Joint Venture 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.

Risks Related to our Buddy's Business

We must successfully manage our inventory to reflect customer demand and anticipate changing consumer preferences and leasing trends or our revenue and profitability will be materially and adversely affected.

The success of our Buddy's business depends upon our ability to successfully manage our inventory and to anticipate and respond to merchandise trends and customer demands in a timely manner. We cannot always accurately predict consumer preferences and they may change over time. We must order certain types of merchandise well in advance of seasonal increases in customer demand for those products. The extended lead times for many of our purchases may make it difficult for us to respond rapidly to new or changing consumer trends and price shifting, and to maintain an optimal selection of merchandise available for lease at all times. If we misjudge either the market for our merchandise, our customers' product preferences or our customers' leasing habits, our revenue may decline significantly and we may not have sufficient quantities of merchandise to satisfy customer demand or we may be required to mark down excess inventory, either of which would result in lower profit margins. In addition, our level of profitability and success in our Buddy's business depends on our ability to successfully re-lease our inventory of merchandise that are returned by customers.

Allegations of or actual product safety and quality control issues, including product recalls, could harm our reputation, divert resources, reduce sales and increase costs.

The products we sell and lease in our Buddy's business are subject to regulation by the U.S. Consumer Product Safety Commission and similar state regulatory authorities and expose us to potential product liability claims, recalls or other regulatory or enforcement actions initiated by regulatory authorities or through private causes of action. Such claims, recalls or actions could be based on allegations that, among other things, the products sold by us contain contaminants or impermissible materials, provide inadequate instructions regarding their use or misuse or include inadequate warnings, such as those concerning the materials or their flammability. We do not control the production process of the products we sell and lease, and may be unable to identify a defect or deficiency in a product purchased from a manufacturer before offering it for sale or lease to our customers. Product safety or quality concerns may require us to voluntarily remove selected products from our physical locations or from our customers' homes or cease offering those products online. Such recalls and voluntary removal of products can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs, which could have a material adverse effect on our financial condition. In addition, in the event of such a product quality or safety issue, our customers who have leased the defective merchandise from us could terminate their lease agreements for that merchandise and/or not renew those lease arrangements, which could have a material adverse effect on our financial condition if we are unable to recover those losses from the vendor who supplied us with the relevant merchandise.

If we are unable to successfully appeal to and engage with our target consumers, our business and financial performance may be materially and adversely affected.

We operate our Buddy’s business in the consumer retail industry through brick and mortar stores. As such, our success depends, among other things, on our ability to identify and successfully market products and services through various channels that appeal to our current and future target customer segments, to align our offerings with consumer preferences and to maintain favorable perceptions of our brands by our target consumers. If we are unable to successfully appeal to and engage with our target consumers, our business, results of operations and financial condition may be materially and adversely affected.

If we are unable to compete effectively with the growing e-commerce sector, our business and results of operations may be materially and adversely affected.

Competition from the e-commerce sector continues to grow and has been accelerated by trends that developed as a result of social restrictions implemented due to COVID-19. Certain of our competitors, and a number of e-commerce retailers, have established e-commerce operations against which we compete for customers. It is possible that the increasing competition from the e-commerce sector may reduce or prevent us from growing our market share, gross and operating margins, and may materially and adversely affect our business, results of operations and financial condition.

We face significant competition in the rent-to-own industry, which could harm our business.

Certain categories of products sold and leased in our Buddy’s business are the subject of intense competition from a number of types of competitors, including national, regional and local operators of lease-to-own stores, virtual lease-to-own companies, traditional and online providers of used goods and merchandise, traditional, “big-box” and e-commerce retailers. These competitors may offer a larger selection of products at more competitive prices than our Buddy’s business. Our competitors may employ aggressive marketing strategies involving frequent sales and discounts, including the use of certain products as “loss leaders” to increase customer traffic. Engaging in these pricing strategies could cause a material reduction in sales revenue and gross margins. Alternatively, we may be unable to or elect not to engage in these pricing strategies, which could decrease our sales volumes. The expansion of digital retail has increased the number and variety of retailers with which we compete, and certain online retailers may have greater brand recognition, social media following and engagement and sophisticated websites than does our Buddy’s business. The increasing competition from all of these sources may also reduce the market share held by our Buddy’s business. The industries in which we operate are highly competitive, which could impede our ability to maintain sales volumes and pricing and which in turn could have a material adverse effect on our business, operating results and financial condition.

If we are unable to attract, train and retain managerial personnel and hourly associates in our stores, our reputation, sales and operating results may be materially and adversely affected.

Our Buddy’s workforce consists primarily of employees who work on an hourly basis. We rely on our sales associates in our store locations to provide customers with an enjoyable and informative shopping experience and to help ensure the efficient processing and delivery of products. To grow our operations and meet the needs and expectations of our customers, we must attract, train, and retain a large number of hourly associates, while at the same time controlling labor costs. We compete with other retail businesses as well as restaurants for many candidates for employment at our store locations. These positions have historically had high turnover rates, which can lead to increased training, retention and other costs. Our ability to control labor costs is also subject to numerous external factors and compliance with regulatory structures, including competition for and availability of qualified personnel in a given market, unemployment levels within those markets, governmental regulatory bodies such as the Equal Employment Opportunity Commission and the National Labor Relations Board, prevailing wage rates and wage and hour laws, minimum wage laws, the impact of legislation governing labor and employee relations or benefits, such as the Affordable Care Act, health insurance costs and our ability to maintain good relations with our employees. If we are unable to attract and retain quality employees at reasonable cost, or fail to comply with the regulations and laws impacting personnel, it could have a material adverse effect on our business, results of operations and financial condition.

Our transactions are regulated by and subject to the requirements of various federal and state laws and regulations, which may require significant compliance costs and expose us to litigation. Any negative change in these laws or regulations or the passage of unfavorable new laws or regulations or the manner in which any of these are enforced could require us to alter our business practices in a manner that may be materially adverse to us.

Certain states have passed laws that regulate rental purchase transactions as separate and distinct from credit sales. One state has a retail installment sales statute that excludes leases, including lease-to-own transactions, from its coverage if the lease provides for more than a nominal purchase price at the end of the rental period. The specific rental purchase laws

generally require certain contractual and advertising disclosures. They also provide varying levels of substantive consumer protection, such as requiring a grace period for late fees and contract reinstatement rights in the event the rental purchase agreement is terminated. The rental purchase laws of certain states limit the total amount that may be charged over the life of a rental purchase agreement and the laws of other certain states limit the cash prices for which we may offer merchandise.

Similar to other consumer transactions, our rental purchase transaction is also governed by various federal and state consumer protection statutes. These consumer protection statutes, as well as the rental purchase statutes under which we operate, provide various consumer remedies, including monetary penalties, for violations. Although there is currently no comprehensive federal legislation regulating rental purchase transactions, adverse federal legislation may be enacted in the future. From time to time, both favorable and adverse legislation seeking to regulate our business has been introduced in Congress. In addition, various legislatures in the states where we currently do business may adopt new legislation or amend existing legislation that could require us to alter our business practices in a manner that could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance as to whether changes in the enforcement of existing laws or regulations or the enactment of new laws or regulations that may unfavorably impact the lease-to-own industry would have a material and adverse effect on us.

Federal and state regulatory authorities are increasingly focused on the lease-to-own industry and any negative change in these laws or regulations or the passage of unfavorable new laws or regulations or the manner in which any of these are enforced or interpreted could require us to alter our business practices in a manner that may be materially adverse to us.

Although there is currently no comprehensive federal legislation regulating rental purchase transactions, federal regulatory authorities such as the United States Federal Trade Commission and the Consumer Financial Protection Bureau (the “CFPB”) are increasingly focused on the subprime financial marketplace in which the lease-to-own industry operates and adverse federal legislation may be enacted in the future. Any federal agency, or any state regulatory authority, may propose and adopt new regulations or interpret existing regulations in a manner that could materially increase both our costs of complying with laws and the risk that we could be sued or be subject to government sanctions if we are not in compliance or to alter our business practices in a manner that reduces the economic potential of our operations. Any such new laws, regulations or interpretations could include, by way of example only, those that seek to re-characterize store-based or virtual lease-to-own transactions as credit sales and to apply consumer credit laws and regulations to our business. In addition, federal and state regulators are increasingly holding businesses operating in the lease-to-own industry to higher standards of monitoring, disclosure and reporting, notwithstanding the adoption of any new laws or regulations applicable to our industry. Furthermore, regulators and courts may apply laws or regulations to our businesses in incorrect, inconsistent or unpredictable ways that may make our compliance more difficult, expensive and uncertain. This increased attention at the federal and state levels, as well as the potential for scrutiny by certain municipal governments, could increase our compliance costs significantly and materially and adversely affect the manner in which we operate. In addition, legislative or regulatory proposals regarding our industry, or interpretations of them, may subject our Buddy’s business to “headline risks” whereby media attention to these matters could negatively impact our business in a particular region or in general or investor sentiment and may materially and adversely affect our share price. Moreover, an adverse outcome from a lawsuit, even one against one of our competitors, could result in changes in the way we and others in the industry do business, possibly leading to significant costs or decreased revenues or profitability.

Our products and services may be negatively characterized by consumer advocacy groups, the media and certain Federal, state and local government officials, and if those negative characterizations become increasingly accepted by consumers and/or our retail partners, demand for our goods and the transactions we offer could decrease and our business could be materially and adversely affected.

Certain consumer advocacy groups, media reports and federal and state regulators and legislators have asserted that laws and regulations regarding lease-to-own transactions should be broader and more restrictive. The consumer advocacy groups and media reports generally focus on the total cost to a consumer to acquire an item, which is often alleged to be higher than the interest typically charged by banks or similar lending institutions to consumers with better credit histories seeking to borrow money to finance purchases. This “cost-of-rental” amount, which is generally defined as total lease fees paid in excess of the “retail” price of the goods, is from time to time characterized by consumer advocacy groups and media reports as predatory or abusive without discussing the fundamental difference between a credit transaction and a lease transaction, the fact that consumers can return their leased merchandise at any time without penalty or further payment obligations or the numerous other benefits to consumers of lease-to-own programs, or the lack of viable alternatives available to many of these consumers to obtain critical household items. If the negative characterization of lease-to-own transactions becomes

increasingly accepted by consumers or our retail and merchant partners, demand for our products and services could significantly decrease, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, if the negative characterization of lease-to-own transactions is accepted by regulators and legislators, our business may become subject to more restrictive laws and regulations and more stringent enforcement of existing laws and regulations, any of which could have a material adverse effect on our business, results of operations and financial condition. The vast expansion and reach of technology, including social media platforms, has increased the risk that our reputation could be significantly impacted by these negative characterizations in a relatively short amount of time. If we are unable to respond to such characterizations quickly and effectively, we may experience declines in customer loyalty and traffic and our relationships with our retail partners may suffer, which could have a material adverse effect on our business, results of operations and financial condition. Additionally, any failure by our competitors, including smaller, regional competitors, to comply with the laws and regulations applicable to the traditional and/or virtual lease-to-own models, or any actions by our competitors that are challenged by consumers, advocacy groups, the media or governmental agencies or entities as being abusive or predatory, could result in Buddy's being perceived as engaging in similar unlawful or inappropriate activities or business practices, merely because we operate in the same general industries as such competitors.

We rely on the receipt of information from third party data vendors, and inaccuracies in or delay in receiving such information, or the termination of our relationships with such vendors, could have a material adverse effect on our business, operating results and financial condition.

We are heavily dependent on data provided by third-party providers including whether or not an application for a lease submitted by a customer will be approved. We depend extensively upon continued access to and timely receipt of reliable data from external sources, such as third-party data vendors. Our data providers could stop providing data, provide untimely, incorrect or incomplete data, or increase the costs for their data for a variety of reasons, including a perception that our systems are insecure as a result of a data security breach, regulatory concerns or for competitive reasons. We could also become subject to increased legislative, regulatory or judicial restrictions or mandates on the collection, disclosure or use of such data, in particular if such data is not collected by our providers in a way that allows us to legally use the data. If we were to lose access to this external data or if our access or use were restricted or were to become less economical or desirable, our business would be negatively impacted, which would materially and adversely affect our operating results and financial condition. We cannot provide assurance that we will be successful in maintaining our relationships with these external data source providers or that we will be able to continue to obtain data from them on acceptable terms or at all. Furthermore, we cannot provide assurance that we will be able to obtain data from alternative sources if our current sources become unavailable.

We have significant lease obligations, which may require us to continue paying rent for store locations that we no longer operate.

We have Company-owned Buddy's operations which are operated in leased store locations. We are subject to risks associated with our current and future real estate leases. Our costs could increase because of changes in the real estate markets and supply or demand for real estate sites. We generally cannot cancel our leases, so if we decide to close or relocate a location, we may nonetheless be committed to perform our obligations under the applicable lease including paying the base rent for the remaining lease term. As each lease expires, we may fail to negotiate renewals, either on commercially acceptable terms or any terms at all and may not be able to find replacement locations that will provide for the same success as current store locations.

The success of our Buddy's' business is highly dependent upon the continuous the support, ability and success of the Franchisor, over which we have limited control.

Our franchisor is an independent third-party business. The continuous support by our franchisor is critical for the success of our Buddy's franchise business and through our franchise agreement requires franchisor to provide certain services including marketing, technology support, inventory management, the licensing of the Buddy's trademarks, our rights to establish and operate our Buddy's business, among other provisions. While we can mandate the provision of certain services and rights through enforcement of our franchise agreement, we need the active and continuous support of our franchisor if the implementation of our programs and strategic initiatives is to be successful. Although certain services are required of our franchisor under the franchise agreement and related agreements, there can be no assurance that our franchisor will continue to provide those services or that the services provided will be successful or at acceptable levels. The failure of our franchisor to provide those services would adversely affect our ability to implement our business strategy or impair operations and could have a material adverse effect on our business, financial condition, and results of operations. Our financial success also depends on how effectively we operate our franchises locations and how our franchisors operate, style and develop their

business.

There can be no assurance that the training programs and quality control procedures established will be effective in enabling us to run profitable businesses or that we will be able to identify problems or take corrective action quickly enough. In addition, failure by our franchisor to provide service at acceptable levels may result in adverse publicity that can materially adversely affect our reputation and ability to compete in the market in which the franchise store is located. Although we evaluate the franchisor before entering into a franchisor-franchisee relationship, we cannot be certain that franchisor management will continue to have the business acumen, or financial resources and business know how necessary to support its franchisees successfully and continuously. Because our franchisor is an independent business with no common employees, we are not able to control them and the significant factor of success and quality of a franchise rests with the franchisor. Our franchisor may fail in key areas, or experience significant business or financial difficulties, which could slow our growth, reduce revenues, damage our reputation, expose us to regulatory enforcement actions or private litigation and/or cause us to incur additional costs and expenses. If we fail to adequately mitigate any such future losses, our business and financial condition could be materially and adversely affected.

Risks Related to All of Our Businesses

Risk Related to Coronavirus

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States and the world. The Company is monitoring the outbreak of COVID-19, its variants, and their impact on the Company's operations, financial position, cash flows, staff and joint venture partners. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Company's future operations and liquidity is uncertain as of the date of this report, although we do expect that consumer spending on retail purchases will continue to be adversely impacted by COVID-19. While the pandemic could ultimately lead to a material adverse impact on the business, results of operations and financial condition of the Company, at the time of issuance, the extent of the impact is uncertain. There are no assurances that we, or our licensees will be able to keep our, or their, stores open as governmental responses to the pandemic progress. As a result, we are unable to accurately predict the impact that COVID-19 will have on our operations going forward, due to the uncertain duration of the pandemic, future governmental restrictions that might be imposed in response to the pandemic, and related uncertainties dictated by the length of time that these business disruptions continue. In addition, we expect to be impacted by the deterioration in worldwide economic conditions, which could have a sustained impact on discretionary consumer spending. While the rapid development and fluidity of this situation precludes any prediction as to the full impact of COVID-19, our business, financial results and condition have been and may in the future be materially and adversely affected by the various effects caused by this pandemic.

We may pursue acquisitions, investments, joint ventures and dispositions, which could adversely affect our results of operations.

Our growth strategy includes the acquisition of, and investment in, businesses that offer complementary products, services and technologies, augment our market coverage, or enhance our capabilities. We may also enter into strategic alliances or joint ventures to achieve these goals. We may not be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, or to consummate any such transactions. In addition, our original estimates and assumptions used in assessing any transaction that we make may be inaccurate and we may not realize the expected financial or strategic benefits of any such transaction.

Any acquisitions we may undertake involve risks and uncertainties, such as unexpected delays, challenges and related expenses, and diversion of management's attention. If we fail to complete an acquisition, our share price could fall to the extent the price reflects an assumption that such acquisition will be completed, and we may have incurred significant unrecoverable costs. Further, the failure to consummate an acquisition may result in negative publicity and adversely impact our relationships with third parties. We may become subject to legal proceedings relating to the acquisition and the integration of acquired businesses may not be successful. The integration of an acquired business involves significant challenges, including, among others: minimizing the disruption of our business, diversion of management's attention from daily operations and integrating the personnel of acquired businesses; incurring significant restructuring charges and amortization expense, assuming liabilities and ongoing lawsuits, potential impairment of acquired goodwill and other intangible assets, and increasing our expenses and working capital requirements; and implementing our management information systems, operating systems and internal controls over the acquired operations. These difficulties may be complicated by factors such as the size of the business or entity acquired, geographic distances and cultural differences, lack of experience operating in the geographic

markets or industry sectors of the acquired business, the potential loss of key employees, vendors and other business partners of the businesses we acquire, the potential for deficiencies in internal controls at the acquired or combined business, performance problems with the acquired business' technology, exposure to unanticipated liabilities of the acquired business, insufficient revenue to offset increased expenses associated with the acquisition, adverse tax consequences and our potential inability to achieve the growth prospects or synergies expected from any such acquisition.

Failure to manage and successfully integrate the acquisitions we make, or to improve margins of the acquired businesses and products, could materially harm our business, operating results and margins.

Any future acquisitions we make may require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially negatively affect our credit ratings, and in the case of an equity or equity-linked financing, would be dilutive to our existing shareholders. Any downgrades in our credit ratings could adversely affect our ability to borrow by resulting in more restrictive borrowing terms or increased borrowing costs. As a result, we may be unable to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability of acquired businesses or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations. For example, in November 2020, we acquired our Buddy's business. If we do not successfully integrate that business or if it otherwise does not perform to our expectations, it could have a material adverse effect on our business, financial condition and results of operations.

From time to time, we may also seek to divest or wind down portions of our business that are not strategically important, both acquired or otherwise, or we may exit minority investments, each of which could materially affect our cash flows and results of operations. Any future dispositions we may make could involve risks and uncertainties, including our ability to sell such businesses on terms acceptable to us, or at all. In addition, any such dispositions could result in disruption to other parts of our business, potential loss of customers, exposure to unanticipated liabilities or result in ongoing obligations and liabilities to us following any such dispositions.

Failure to achieve and maintain effective internal controls could have a material adverse effect on our business.

The Company has certain material weaknesses in its internal control over financial reporting as of April 2, 2022. Effective internal controls are necessary for us to provide reliable financial reports. If we cannot provide reliable financial reports, our brand and operating results could be harmed. Additionally, as a public company, we are required to document and test our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 so that our management can certify, on an annual basis, that our internal control over financial reporting is effective. We are also required to, among other things, establish and periodically evaluate procedures with respect to our disclosure controls and procedures. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. While we continue to evaluate and improve our internal controls, we cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our ability to raise capital, and may also expose us to potential claims and losses. Additionally, any such failure could subject us to increased regulatory scrutiny, which could also have a material adverse effect on our business and our stock price.

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 bebe products, Buddy's products and other equity investment 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 limitations on the prices the Buddy's stores, the Joint Venture's and other equity investment's licensees can charge for 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.

Disruptions in our supply chain and other factors affecting the distribution of our merchandise could adversely impact our business.

Any disruption in our supply chain could result in our inability to meet our customers' expectations, higher costs, an inability to stock our stores, or longer lead time associated with distributing merchandise. Any such disruption within our supply chain network could also result in decreased net sales, increased costs and reduced profits.

Our business could be adversely impacted by unfavorable international political conditions.

Our 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 and adversely affect our retail business and our licensees' businesses. Our businesses also purchase a substantial amount of our raw materials and inventory from China, and our business and operating results may be affected by changes in the political, social or economic environment in China.

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 San Francisco, California and Buddy's franchise stores in twelve states in the southeast region of the United States. Any serious disruption at the corporate office or at our stores whether due to construction, relocation, fire, flood, earthquake, terrorist acts, natural disasters, pandemics 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 office or our stores. 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 situation. We cannot guarantee that the amount of any hurricane, windstorm, earthquake, flood, business interruption or other casualty insurance we may maintain from time to time would cover any or all damages caused by any such event.

Failure to effectively manage our costs could have a material adverse effect on our profitability.

Certain elements of our cost structure are largely fixed in nature. Consumer spending remains uncertain, which makes it more challenging for us to maintain or increase our operating income in the retail rent-to-own business segment. The competitive environment in our industry and increasing price transparency means that the focus on achieving efficient operations is greater than ever. As a result, we must continuously focus on managing our cost structure. Failure to manage our overall cost of operations, labor and benefit rates, marketing expenses, operating leases, charge-offs due to customer stolen merchandise, other store expenses or indirect spending could materially adversely affect our profitability.

Our business may be negatively impacted by any failure to comply with regulatory requirements.

As a public company who owns and operates franchises, we are subject to numerous regulatory requirements. 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, contractors, 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 the Joint Venture 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.

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.

Our operations are dependent on effective information management systems. Failure of these systems could negatively impact our business, financial condition and results of operations.

We utilize integrated information management systems. The efficient operation of our business is dependent on these systems to effectively manage our financial and operational data. The failure of our information management systems to perform as designed due to bugs, crashes, internet failures and outages, operator error, or catastrophic events, and any associated loss of data or interruption of such information management systems for a significant period of time could disrupt our business. If the information management systems sustain repeated failures, we may not be able to manage our store operations, which could have a material adverse effect on our business, financial condition and results of operations.

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.

If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we or the Joint Venture 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 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 or the Joint Venture’s ability to protect their personal information, which could cause them to stop shopping for our brands. The loss of confidence from a significant data security breach involving our employees could also hurt our reputation and adversely affect our business and financial results.

We are responsible for maintaining the privacy of personally identifiable information of our customers.

Through our sales transactions and customer programs and other methods, we obtained 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. 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

Our concentrated stock ownership reduces the ability of other shareholders to influence corporate matters.

Because Manny Mashouf and B. Riley Financial, Inc. beneficially own a majority of the outstanding shares, other shareholders have limited ability to influence corporate matters.

As of December 31, 2022, Manny Mashouf, our CEO, and B. Riley Financial, Inc. beneficially owned approximately 33% and 40%, respectively, of the outstanding shares of our common stock. As a result, if they act together, they have 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. 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, they could also sell their shares at any time in open market transactions that comply with applicable restrictions on such shares, registered offerings or otherwise and such a sale could negatively impact our share price.

Certain stockholders and management have a substantial ownership stake, and their interests could conflict with the interests of our other stockholders.

As of December 31, 2022, B. Riley Financial, Inc. (“B. Riley”) currently own shares of our common stock representing approximately 40% of the Company’s outstanding common stock. As a result of substantial ownership of our stock, and B. Riley’s participation on the Board with two board members, and a B. Riley employee serves as our Controller as an independent contractor, B. Riley currently has the ability to influence certain actions for day to day operations or those requiring stockholder approval, including increasing or decreasing the authorized share capital, the election of directors, declaration of dividends, the appointment of management, investments, business opportunities, and other policy decisions. The interests of B. Riley may be different from the interests of our other stockholders. While any future transaction with B. Riley or other significant stockholders could benefit us, the interests of the B. Riley could at times conflict with the interests of other stockholders. Conflicts of interest may also arise between us and B. Riley or their affiliates, which may result in the conclusion of transactions on terms not determined by market forces. Any such conflicts of interest could adversely affect our business, financial condition and results of operations, and the trading price of our common stock. Moreover, the concentration of ownership may delay, deter or prevent acts that would be favored by other stockholders or deprive our stockholders of an opportunity to receive a premium for their shares of our common stock as part of a sale of us. Similarly, this concentration of stock ownership may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning equity in a company with concentrated ownership.

Our stock price could fluctuate substantially for reasons outside of our control.

Our common stock is quoted on the OTC, 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 furniture, 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.

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.

Although we may desire to continue to pay dividends in the future, our financial condition, debt covenants, or California law may prohibit us from doing so.

The payment of dividends will be at the discretion of our Board of Directors and will depend, among other things, on our earnings, capital requirements, and financial condition. Our ability to pay dividends will also be subject to compliance with financial covenants that are contained in our credit facility and may be restricted by any future indebtedness that we incur or issuances of preferred stock. In addition, applicable law requires our Board of Directors to determine that we have adequate surplus prior to the declaration of dividends. Although we expect to pay a quarterly cash dividend to holders of our common stock, we have no obligation to do so, and our dividend policy may change at any time without notice to our stockholders. We cannot provide an assurance that we will continue to pay dividends at any specific level or at all.

Item 5. Legal Proceedings

The Company is involved and/or may become involved in lawsuits, claims and/or proceedings incident to the ordinary course of our business. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, the Company believes that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole. The Company reviews the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.

Item 6. Default upon Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

The following is a list of all contracts which the Company is a party to, and which currently can reasonably be regarded as material to a security holder of the Company as of the date of this Quarterly Report:

- 3.1 Certificate of Determination of Series A Junior Participating Preferred Stock of bebe stores, inc., submitted for filing with the Secretary of State of the State of California on January 12, 2018, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.
- 4.1 Termination Agreement, dated as of January 12, 2018, among bebe stores, inc., bebe management, inc., bebe stores (Canada), inc., bebe studio, inc., bebe studio realty, LLC, GACP Finance Co., LLC and B. Riley Financial, Inc., incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.
- 10.1 Debt Conversion, Purchase and Sale Agreement, dated as of January 12, 2018, among bebe stores, inc., B. Riley Financial, Inc. and The Manny Mashouf Living Trust, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.
- 10.2 Investor Agreement, dated as of January 12, 2018, among bebe stores, inc. and the investors listed on Schedule A thereto, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.
- 10.4 Tax Benefit Preservation Plan, dated as of January 12, 2018, by and between bebe stores, inc. and Computershare Trust Company, N.A., incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.
- 10.5 Amendment No. 1 to Tax Benefit Preservation Plan, dated as of January 8, 2019, by and between bebe stores, inc. and Computershare Trust Company, N.A.
- 10.6 Asset Purchase Agreement, dated November 10, 2020, by and among Franchise Group, Inc., Buddy's Newco, LLC, the Company, and the Company Stores LLC.
- 10.7 Form of Note, dated November 10, 2020
- 10.8 Subscription Agreement, dated November 10, 2020, by and between the Company and B. Riley Financial, Inc.
- 10.9 Credit Agreement, dated August 24, 2021, by and between the Company and Crystal Financial LLC D/B/A SLR Credit Solutions.
- 11.1 Sixth Amended & Restated Articles of Incorporation as of January 11, 2022

Item 9. Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Manny Mashouf, certify that:

1. I have reviewed this quarterly disclosure statement of bebe stores, inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the consolidated financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: February 9, 2023

BY: /s/ Manny Mashouf
Manny Mashouf
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Marc So, certify that:

1. I have reviewed this quarterly disclosure statement of bebe stores, inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the consolidated financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: February 9, 2023

BY: /s/ Marc So
Marc So
Chief Financial Officer