
bebe stores, inc.

California

(State or Jurisdiction of
Incorporation or Organization)

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

Telephone: (415) 251-3355

www.bebe.com

investor-relations@bebe.untld.com

SIC Code: 7359

Annual Report

For the fiscal year ended July 2, 2022
(the “Reporting Period”)

The number of shares outstanding of our Common Stock, par value \$0.001 per share, is 12,874,111 and 12,874,111 as of July 2, 2022 and July 3, 2021, respectively.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and 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 ☒

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PART A – GENERAL COMPANY INFORMATION

Item 1. The exact name of the issuer and its predecessor.

Exact name of issuer: bebe stores, inc.

Predecessor entities in the past five years and the dates of name changes: N/A

Item 2. The address of the issuer's principal executive offices and address(es) of the issuer's principal place of business.

Principal Executive Offices: 552 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 3. The jurisdiction and date of the issuer's incorporation or organization.

bebe stores, inc. ("bebe") was incorporated in the state of California in June 1976.

bebe is currently active and in good standing with the State of California.

PART B – SHARE STRUCTURE

Item 4. The exact title and class of securities outstanding.

bebe has only one class of outstanding stock.

Title: Common Stock, par value \$0.001 per share

CUSIP: 075571208

OTC Trading Symbol: BEBE

In addition, no shares of preferred stock are currently outstanding.

Item 5. Par or stated value and description of the security.

Common stock-authorized 50,000,000 shares at \$0.001 par value per share.

Preferred stock-authorized 1,000,000 shares at \$0.001 par value per share.

The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the shareholders. Holders of common stock do not have cumulative voting rights. Therefore, holders of more than 50% of the shares of common stock are able to elect all of the Company's directors eligible for election in a given year. The holders of common stock are entitled to dividends if declared by the Board of Directors (the "Board"). There are no redemption or sinking fund provisions applicable to the common stock, and holders of common stock are not entitled to any preemptive rights with respect to additional issuances of common stock by the Company.

The Company's Bylaws require advance notice relating to certain shareholder business, including nominees to the Board to be considered at shareholder meetings. Under the Bylaws, shareholders are not permitted to call special meetings of shareholders unless they own a majority of the capital stock of the Company.

Item 6. The number of shares or total amount of the securities outstanding for each class of securities authorized.

Shares Issued and Outstanding

On November 10, 2020, pursuant to the Asset Purchase Agreement between Franchise Group, Inc. (“FRG”), as parent of Buddy's Newco, LLC (“Seller” or “Franchisor”) and bebe stores, inc. (“bebe,” “we,” or 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 \$5 per share or 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. B. Riley is a publicly traded company (NASDAQ: RILY) and held approximately 39% of the Company’s outstanding common stock after the issuance of the 1.5 million shares.

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	-	-	-	-

As of July 4, 2020					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float)⁽²⁾	Total Number of Beneficial Shareholders⁽⁵⁾	Total Number of Shareholders of Record
Common Stock	14,000,000	11,374,111	4,118,158	2,366	29
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 Trust Company, N.A. (“Computershare”) and combined with additional beneficial share information received by bebe.

⁽²⁾ 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.

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

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

⁽⁵⁾ Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions and as of July 3, 2020.

Item 7. The name and address of the transfer agent.

Computershare Trust Company, N.A.
8742 Lucent Boulevard, Suite 225
Highlands Ranch, CO 80129

PART C – BUSINESS INFORMATION

Item 8. The nature of the issuer’s business.

General

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. bebe stores, inc. (“bebe”) was incorporated in the state of California in June 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 2017, bebe voluntarily delisted from the NASDAQ Capital Market and listed its common stock on the OTCQB marketplace. In February 2018, bebe voluntarily deregistered its common stock with the U.S. Securities and Exchange Commission (“SEC”). By deregistering bebe’s common stock with the SEC, we are no longer required to file annual, quarterly and current reports with the SEC.

On November 10, 2020, we completed the acquisition of 47 Buddy’s Home Furnishings stores from Franchise Group, Inc. (“FRG”). With the 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. The Company operates 60 stores in 12 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 the Company’s common stock to B. Riley Financial, Inc. (together with its affiliates, “B. Riley”) for \$5 per share or aggregate proceeds of \$7.5 million and the proceeds from the issuance of \$22.0 million aggregate principal amount of the Secured Notes. The issuance of 1.5 million shares increased the number of outstanding shares of common stock during fiscal year 2021 by approximately 13.2%. See Item 6 above for summary of securities outstanding.

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 25, 2021, bebe completed the purchase of eight additional Buddy’s Home Furnishings rent-to-own franchises from FRG. for \$5.5 million in cash. At the date of the acquisition, we acquired certain assets related to the eight 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, we assumed certain liabilities including those related to rental merchandise acquired by the stores.

On February 2, 2022, bebe completed the acquisition of two additional Buddy's Home Furnishings rent-to-own franchises from FRG for \$525 thousand in cash. We acquired certain assets related to the acquisition of the two Buddy's franchise stores 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, we assumed certain liabilities including those related to rental merchandise acquired by the stores.

We also opened 3 new Buddy's stores during fiscal year 2022.

Our fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. Fiscal years 2022 and 2021 both had 52 weeks. bebe's SIC code is 7359. bebe has never been a "shell company" as defined under the Securities Act Rule 405, as amended. bebe has never been in bankruptcy, receivership or similar proceedings. We have never been in default on any note, loan, lease or other indebtedness or financing arrangement. There was no change in control of bebe during fiscal year 2022.

Legal Proceedings

We are 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, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole. We review 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.

Strategic Partnership and Equity Investment

BB Brand Holdings, LLC

Under the partnership with our Joint Venture entered into during fiscal year 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"). Our partner in the venture, Bluestar Alliance, LLC ("Bluestar") has leveraged 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.

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 BKST and manages its day-to-day operations.

GAEBB Group B.V. – Charles Voge

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 Voge, 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 Voegel 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 Voegel 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.

Competition

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 operating results.

The retail and apparel industries are highly competitive and are characterized by low barriers to entry. We expect competition in such markets, which we are exposed to via the Joint Venture and the Company's other equity investments, to increase. The primary competitive factors in these markets include, but are not limited to: brand name recognition and appeal, sourcing, product styling, product quality, product presentation, product pricing, timeliness of product delivery, store ambiance, customer service and convenience.

Employees

As of July 2, 2022 the Company had 332 full-time employees. As of July 3, 2021 the Company had 231 full-time employees.

Available Information

In December 2017, the Company voluntarily delisted from the NASDAQ Capital Market and listed its common stock on the OTCQB marketplace. In February 2018, the Company deregistered its common stock with the U.S. Securities and Exchange Commission (the "SEC"). By deregistering the Common Stock with the SEC, the Company is no longer required to file annual, quarterly and current reports with the SEC. The Company's common stock is currently quoted on the OTCQB under the trading symbol "BEBE". As part of the OTCQB listing requirements, the Company is required to prepare and post material news, quarterly financial reports and annual audited financial reports on the OTCQB's website.

Item 9. The nature of products or services offered.

As of July 2, 2022, our primary business includes operating 60 retail rent-to-own franchise stores in 12 states in the southeastern United States. The rent-to-own Buddy's franchise stores offer furniture, appliances, and consumer electronics to consumers through rent-to-own agreements. We operate our stores in twelve states in the southeastern United States. We are subject to Buddy's franchise agreement. The agreement includes a royalty fee of 6% of gross sales 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 rental merchandise from the franchisor's list of approved suppliers, via the purchasing portal provided by the franchisor as part of the franchise agreement.

Through our Joint Venture we have developed a wholesale domestic and international lifestyle licensing business and we continue to pursue a licensing strategy designed to capitalize on the value of bebe's brand in all categories and channels on a global scale.

Item 10. The nature and extent of the issuer's facilities.

Our corporate headquarter is located in a leased office in San Francisco, California.

We lease space for all of our Buddy's franchise stores in various locations throughout the southeastern United States. The leases expire at various times through 2028.

PART D – MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11. The name of the chief executive officer, members of the board of directors, as well as control persons.

The following table sets forth certain information with respect to our executive officers and directors as of July 2, 2022:

Name	Age	Position	Business Address	Compensation	Common Shares Beneficially Owned
Manny Mashouf ⁽¹⁾	84	Chief Executive Officer, Director	552 Wisconsin Street San Francisco, CA 94107	\$ 25,000	4,201,244
Corrado Federico ^{(2)(*)}	81	Director	552 Wisconsin Street San Francisco, CA 94107	\$ 25,000	32,009
Darrin Klotz ^{(2)(*)(**)}	56	Director	552 Wisconsin Street San Francisco, CA 94107	\$ 25,000	-
Perry Mandarino	56	Director	552 Wisconsin Street San Francisco, CA 94107	\$ -	230
Nick Capuano ⁽²⁾	54	Chairman of Board	552 Wisconsin Street San Francisco, CA 94107	\$ -	-
Marc So ⁽¹⁾	54	Chief Financial Officer	552 Wisconsin Street San Francisco, CA 94107	\$ 310,000	1,925

⁽¹⁾ Executive Officer

⁽²⁾ Member, Audit Committee

^(*) Chairman of Audit Committee

^(**) Independent Director

Manny Mashouf founded bebe stores, inc. Mr. Mashouf became the Chief Executive Officer beginning February 2016. Prior to that Mr. Mashouf served as our Chief Executive Officer from 1976 to February 2004 and from January 2009 to January 2013.

Corrado Federico has served as a director of the bebe board since November 1996. From approximately 1997 through 2008, Mr. Federico served on the board of directors for Hot Topic, a retail clothing company. Mr. Federico was President of Solaris Properties until December 2008 and has served as the President of Corado, Inc., a land development firm, since 1991. From 1986 to 1991, Mr. Federico held the position of President and Chief Executive Officer of Esprit de Corp, Inc., a wholesaler and retailer of junior and children's apparel, footwear and accessories.

Nick Capuano is the Chief Investment Officer of B. Riley Principal Investments, LLC and has served as director of the bebe board since January 2018 and Chairperson of the Board since October 2018. He joined B. Riley FBR, Inc. in October 2009 to build a post-reorganization equity research practice, and in 2017 was named to his current role as Chief Investment Officer of B. Riley Principal Investments, LLC. Mr. Capuano has also served as Co-Portfolio Manager of the BRC Partners Opportunity Fund since 2015. Prior to working for B. Riley, Mr. Capuano was Head of Equity Research at Imperial Capital, a distressed-focused investment bank where he expanded the firm's research efforts, covered companies across the capital structure, and helped manage an internal hedge fund. From 1991 to 2005 Mr. Capuano worked at TCW, including eight years as an equity portfolio manager for the TCW Small Cap Growth Fund and five years as an analyst on various small and mid-cap equity strategies. Mr. Capuano holds a Bachelor of Arts in Political Science from the University of California, San Diego.

Perry Mandarino currently serves as senior managing director, co-head of investment banking and head of corporate restructuring at B. Riley FBR, Inc. He has advised more than 400 companies over the course of his career as a financial advisor and has significant experience helping retail and consumer companies navigate complex debt and equity transactions

and in developing strategic solutions in support of companies' business transformation initiatives. Mr. Mandarino has served as a director of the bebe board since April 2019.

Darrin Klotz co-founded Lido Equities Group, Inc. and has served as its President since incorporation in 1990. Mr. Klotz specializes in the acquisition, development and management of commercial investment properties. Mr. Klotz is the General and Managing partner of over 80 real estate partnerships owning over 2,000 apartment units. He is a licensed California Real Estate Broker and holds a Bachelor of Arts in Economics from the University of California, Los Angeles. Mr. Klotz has served as a director of the bebe board since September 2018.

Marc So joined bebe in 2006 as Director of FP&A. From 2006 to present, Mr. So has continuously held various positions with the Company including Acting CFO, Principal Financial Officer, and Senior Director FP&A. Mr. So is a graduate of DePaul University.

As of July 2, 2022 and July 3, 2021, B. Riley Financial, Inc. beneficially owned approximately 40.0% and 38.5% of the outstanding shares of the Company's common stock respectively. B. Riley Financial, Inc. also provided accounting and back-office services to the Company. The Company incurred \$216 thousand and \$203 thousand of such expenses with B. Riley Financial Inc. during the fiscal years ended July 2, 2022 and July 3, 2021, respectively. Additionally, during the fiscal year ended July 3, 2021, the Company incurred \$102 thousand of consulting services with B. Riley Financial Inc. for valuation and due diligence work related to the Buddy's Acquisition respectively. The outstanding balances payable to B. Riley Financial Inc. was \$33 thousand and \$33 thousand at July 2, 2022 and July 3, 2021, respectively.

Item 12. Financial information for the issuer's most recent fiscal period.

The following documents are filed as part of this Annual Report:

1. Consolidated Financial Statements – The consolidated financial statements listed on the “Index to Consolidated Financial Statements” set forth on page F-1
2. Exhibits – Certain of the exhibits to this Annual Report are hereby incorporated by reference, as summarized in Part F of this Annual Report.

Item 13. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

bebe's fiscal year 2021 and fiscal year 2020 Annual Reports are incorporated herein by reference and can be found on the OTC Markets' website under bebe's disclosure section (<https://www.otcmarkets.com/stock/BEBE/disclosure>).

Item 14. The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure.

Securities Counsel:	Latham & Watkins LLP 140 Scott Drive Menlo Park, CA 94025 Telephone: 650-463-3060 www.lw.com
Auditor:	Marcum LLP 6002 Rogerdale Road, Suite 300 Houston, TX 77072 Telephone: 281-223-5500 www.marcumllp.com
Tax Accountant:	True Partners Consulting LLC 2055 Gateway Place Suite 140 San Jose, CA 95110 Telephone: 312-235-3300 www.tpctax.com
Accounting Services:	Richardson & Company, P.C. 165 Village Street Medway, MA 02053 www.richardsoncpa.com

Item 15. Management’s Discussion and Analysis or Plan of Operation.

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 Annual 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, via the Joint Venture, to respond to changing fashion trends and respond effectively to competitive pressures in the apparel industry 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 apparel and/or other factors discussed elsewhere in this Annual 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. 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 bore interest at a rate of LIBOR + 15% and mature on November 10, 2021. The Company paid the outstanding Secured Notes in full on August 24, 2021.

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 July 2, 2022, the outstanding balance on the 2026 Secured Notes was \$25 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 also 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 the month of September 2021.

On February 2, 2022 pursuant to the Asset Purchase Agreement between FRG 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.

In addition, the Company opened 3 new stores in fiscal year 2022. We operate 60 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 sales 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 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 BKST and manages its day-to-day operations.

GAEBB Group B.V. – Charles Vogele

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).

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. Fiscal years 2022 and 2021 both had 52 weeks.

Revenue and cost of revenues

For the fiscal year ended July 2, 2022, we recorded revenues of \$54.1 million and cost of revenues of \$19.7 million yielding a gross profit of \$34.4 million, or 63.7%. For the fiscal year ended July 3, 2021, we recorded revenues of \$30.9 million and cost of revenues of \$9.9 million yielding a gross profit of \$21.0 million, or 67.9%.

We derive our revenues from the operations of our Buddy's franchise stores. We entered the business by our acquisition of 47 Buddy's franchise stores on November 10, 2020. In fiscal year 2022, we had a full year of Buddy's operations compared to only seven and a half months of operations in fiscal year 2021. The additional four and a half months of Buddy's operations in fiscal year 2022 created additional revenue of \$16.8 million in fiscal year 2022. We also acquired an additional 8 Buddy's franchise stores on August 25, 2021, acquired an additional 2 Buddy's franchise stores on February 2, 2022 and opened 3 new Buddy's stores during fiscal year 2022, which created additional revenues of \$6.2 million for the year ended July 2, 2022.

The gross profit margins for the years ended July 2, 2022 and July 3, 2021 were 63.7% and 67.9%, respectively. The decrease was primarily due to the fact that the additional 8 Buddy's franchise stores had lower margins and the 47 Buddy's franchise stores seeing a decrease in relative revenues dollars due to less stimulus money received by customers and general economic changes for the year ended July 2, 2022.

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021
Revenues		
Rentals and fees	\$ 51,057	\$ 28,640
Merchandise sales	3,010	2,255
Total revenues	54,067	30,895
Cost of revenues		
Cost of rentals and fees	17,646	8,465
Cost of merchandise sold	2,005	1,448
Total cost of revenues	19,651	9,913
Gross profit	\$ 34,416	\$ 20,982
Gross profit %	63.7%	67.9%

Financial results from our Buddy's Acquisitions have met our expectations for the fiscal years ended July 2, 2022 and July 3, 2021.

Selling, General and Administrative Expenses

Selling, general and administrative expenses during the fiscal years ended July 2, 2022 and July 3, 2021 were \$34.3 million and \$18.7 million, respectively. The increase in selling, general and administrative expenses of \$15.6 million was primarily due to the full year of selling, general and administrative expenses related to the Buddy's Home Furnishings stores for the fiscal year ended July 2, 2022, compared to a partial year of selling, general and administrative expenses related to the Buddy's Home Furnishings stores for the fiscal year ended July 3, 2021.

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021
Store expenses		
Personnel costs	\$ 12,445	\$ 6,493
Occupancy costs	3,416	1,791
Advertising	989	375
Other store expenses	11,980	5,960
Other general and administrative expenses	5,466	4,101
Selling, general and administrative expenses	\$ 34,296	\$ 18,720

Interest Expense and Other, net

Interest expense and other, net was (\$2.4) million and \$(2.9) million for the fiscal years ended July 2, 2022 and July 3, 2021, respectively. The decrease in interest expense was driven by the lower interest rate on the 2026 Secured Notes compared to the higher interest rate on the Secured Notes.

Provision for Income Taxes

For the year ended July 2, 2022, the Company recorded an income tax provision (benefit) of (\$13.6 million). The income tax provision (benefit) for the year ended July 2, 2022, was primarily related to release of valuation allowance, net deferred tax liability for excess indefinite lived intangibles, state income tax expense, and the continuing impact of maintaining a valuation allowance against certain deferred tax assets.

For the year ended July 3, 2021, the Company recorded an income tax provision (benefit) of \$336 thousand. The income tax provision (benefit) for the year ended July 3, 2021, was primarily related to 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 were \$10.1 million and \$7.9 million for the fiscal years ended July 2, 2022 and July 3, 2021, respectively. The increase of \$2.2 million was due to the improvement of licensees' businesses versus the prior year, as the national and global economy recovered from the effects of the pandemic on the prior year's economy.

Distributions received from our investments for the twelve-month periods ended July 2, 2022 and July 3, 2021 are as follows:

Investment Distributions Received

	Fiscal Year Ended	
	(in thousands)	
	July 2, 2022	July 3, 2021
BB Brand Holdings LLC	\$ 8,250	\$ 6,760
BKST Brand Management LLC	3,167	3,146
Total	\$ 11,417	\$ 9,906

Liquidity and Capital Resources

As of July 2, 2022, the Company has working capital of approximately \$13.7 million. The Company has current assets of \$26.1 million and current liabilities of \$12.4 million. We expect operating costs to remain 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. As a result of 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 consolidated financial statements.

As of July 2, 2022 and July 3, 2021, we had \$7.8 million and \$9.0 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.

During the year ended July 2, 2022, the Company paid dividends of \$7.7 million. During the year ended July 3, 2021, the Company paid dividends of \$3.0 million.

Net cash provided by operating activities for the fiscal years ended July 2, 2022 and July 3, 2021 was \$9.3 million and \$8.5 million, respectively. During the fiscal year ended July 2, 2022, cash provided by operating activities included net income of \$21.5 million adjusted for noncash items charges and other items of \$4.9 million and changes in operating assets and liabilities of (\$17.2) million. During the fiscal year ended July 3, 2021, cash provided by operating activities included net income of \$6.9 million adjusted for noncash items charges of \$10.0 million and changes in operating assets and liabilities of (\$8.4) million.

Net cash used by investing activities for the fiscal year ended July 2, 2022 was \$4.9 million, which was primarily driven by the Company's acquisition of 8 Buddy's franchise stores, netted against returns of equity investments. Net cash used by investing activities for the fiscal year ended July 3, 2021 was \$32.7 million, which was primarily driven by the Company's acquisition of 47 Buddy's franchise stores, netted against returns of equity investments.

Net cash (used in) provided by financing activities for the fiscal years ended July 2, 2022 and July 3, 2021 was (\$5.7) million and \$25.3 million, respectively. Net cash used in financing activities for the fiscal year ended July 2, 2022 represented dividends paid of \$7.7 million, net of net proceeds of \$2.0 million, resulting from the issuance of \$25.0 million of the 2026 Secured Notes and the repayment of the \$23.0 million of Secured Notes. Net cash provided by financing activities for fiscal year ended July 3, 2021 represented proceeds of \$7.5 million from the issuance of common stock, proceeds of \$20.8 million from debt, net of issuance costs and dividends paid of \$3.0 million.

On September 19, 2022, the Company's Board of Directors authorized and declared a quarterly cash dividend of \$0.15 per share of our common stock. The dividend will be paid on October 18, 2022 to shareholders of record at the close of business on October 4, 2022.

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.

The success of our business is dependent on factors affecting consumer spending that are not under our control.

Consumer spending is affected by general economic conditions and other factors including levels of employment, disposable consumer income, prevailing interest rates, seasonality consumer debt and availability of credit, costs of fuel, inflation, recession and fears of recession, war and fears of war, pandemics, inclement weather, tariff policies, tax rates and rate increases, timing of receipt of tax refunds, consumer confidence in future economic conditions and political conditions and consumer perceptions of personal well-being and security. Unfavorable changes in factors affecting discretionary spending could reduce demand for our products and services resulting in lower revenue and negatively impacting the business and its financial results.

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 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 July 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. 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. 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 12 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. ("B. Riley") beneficially own a majority of the outstanding shares, other shareholders have limited ability to influence corporate matters.

As of July 2, 2022, Manny Mashouf, our CEO, and B. Riley Financial, Inc. beneficially owned approximately 33% and 39%, 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 July 2, 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 two B. Riley employees serve respectively as our COO and Controller as independent contractors, 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.

PART E – ISSUANCE HISTORY

Item 16. List of securities offerings and shares issued for services in the past two fiscal years.

Person/ Class	Number of Common Shares Issued	Per Share Price	Trading Status	Legend Yes/No
B. Riley Financial, Inc.	1,500,000	\$ 5.00	Restricted	Yes

On November 10, 2020, the Company issued 1.5 million shares of common stock to B. Riley Financial, Inc. for \$5 per share or aggregate proceeds of \$7.5 million.

PART F – EXHIBITS

Item 17. Material Contracts.

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 Annual 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 18. Articles of Incorporation and Bylaws.

The Company's Amended and Restated Articles of Incorporation of Registrant and Amended and Restated Bylaws of Registrant were filed as Exhibit 3.1(h) and Exhibit 3.2(f), respectively, to bebe's Form 10-K for the fiscal year ended July 1, 2017 filed with the SEC on October 2, 2017 and are incorporated herein by reference. We amended and restated the articles of incorporation in the Sixth Amended & Restated Articles of Incorporation as of January 11, 2022.

Item 19. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

There were no purchases of equity securities by the Company or Affiliated Purchasers as defined in Item 19 of the OTC Disclosure Guidelines during fiscal years 2022 and 2021.

Item 20. Issuer's Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Manny Mashouf, certify that:

1. I have reviewed this annual 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 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 period presented in this disclosure statement.

Date: September 22, 2022

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Marc So, certify that:

1. I have reviewed this annual 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 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 period presented in this disclosure statement.

Date: September 22, 2022

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

bebe stores, inc.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements are filed as part of this report:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
bebe stores, inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of bebe stores, inc. (the “Company”) as of July 2, 2022 and July 3, 2021, the related consolidated statements of income and comprehensive income, shareholders’ equity and cash flows for each of the fifty-two week periods ended July 2, 2022, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 2, 2022 and July 3, 2021, and the results of its operations and its cash flows for each of the fifty-two week period ended July 2, 2022, in conformity with accounting principles generally accepted in the United States of America.

Restatement

As discussed in Note 2 to the financial statements, the July 3, 2021 consolidated statement of cash flows has been restated to correct a classification error between operating and investing activities.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging,

subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Assessment of the recoverability of deferred tax assets associated with net operating losses

Description of the Matter

As discussed in note 16 to the financial statements, as of July 2, 2022, the Company had net deferred tax assets of approximately \$80.1 million, net of a valuation allowance of approximately \$66.3 million. The gross deferred tax assets are reduced by a valuation allowance if, based upon the weight of all available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. For the fifty-two week period ended July 2, 2022, the Company released approximately \$13.9 million of valuation allowance against certain deferred tax assets.

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. Auditing management's analysis of the assessment of realizing its deferred tax assets was complex and highly judgmental because the assessment process involves significant judgment and identified as a critical audit matter. A high degree of auditor judgment and an increased extent of effort was required when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to valuation allowance including the need to involve our income tax specialists.

How the Critical Audit Matter Was Addressed in the Audit

Working with our income tax specialists, our audit procedures to determine if it is more likely than not that deferred tax assets will be realized included the following, among others:

- We obtained an understanding and tested the calculation and valuation of deferred income tax assets, including the Company's consideration of positive and negative evidence.
- We evaluated the reasonableness of management's estimates of future taxable income by considering the weight applied to significant negative evidence and positive evidence that is objectively verifiable.
- We evaluated the Company's more likely than not conclusion with regard to deferred tax assets that are considered realizable and recomputed the valuation allowance for those that were not considered realizable.
- We evaluated management's disclosure of the valuation allowance in its Annual Report.

/s/ Marcum LLP

We have served as the Company's auditor since 2018.

Marcum LLP
Houston, Texas
September 22, 2022

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

	As of July 2, 2022	As of July 3, 2021
Assets:		
Current assets:		
Cash and cash equivalents	\$ 7,766	\$ 8,952
Accounts receivable, net	410	-
Rental merchandise, net	17,090	14,162
Prepaid and other current assets	847	756
Total current assets	26,113	23,870
Equity method investments	18,837	20,105
Property and equipment, net	1,374	1,403
Intangible assets, net	5,568	6,030
Goodwill	19,033	16,505
Operating lease right-of-use assets, net	8,903	6,230
Finance lease right-of-use assets, net	899	-
Deferred tax asset, net	13,808	-
Other assets	526	566
Total assets	\$ 95,061	\$ 74,709
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	\$ 297	\$ 172
Due to franchisor, net	2,765	2,478
Deferred revenue	1,176	1,064
Operating lease liabilities	3,019	1,957
Finance lease liabilities	180	-
Accrued liabilities	4,987	4,914
Total current liabilities	12,424	10,585
Non-current liabilities:		
Note payable, net	24,002	21,725
Operating lease liabilities	5,445	3,895
Finance lease liabilities	726	-
Deferred tax liabilities, net	-	17
Total non-current liabilities	30,173	25,637
Total liabilities	42,597	36,222
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	421	266
Accumulated deficit	(121,763)	(135,585)
Total shareholders' equity	52,464	38,487
Total liabilities and shareholders' equity	\$ 95,061	\$ 74,709

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

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

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021
Revenues		
Rentals and fees	\$ 51,057	\$ 28,640
Merchandise sales	3,010	2,255
Total revenues	54,067	30,895
Cost of revenues		
Cost of rentals and fees	17,646	8,465
Cost of merchandise sold	2,005	1,448
Total cost of revenues	19,651	9,913
Gross profit	34,416	20,982
Store expenses		
Personnel costs	12,445	6,493
Occupancy costs	3,416	1,791
Advertising	989	375
Other store expenses	11,980	5,960
Other general and administrative expenses	5,466	4,101
Selling, general and administrative expenses	34,296	18,720
Operating income	120	2,262
Interest expense and other, net	(2,352)	(2,865)
Loss before income taxes	(2,232)	(603)
Income taxes benefit (expense)	13,630	(336)
Earnings in equity method investments	10,149	7,873
Net income	\$ 21,547	\$ 6,934
Earnings per share - basic and diluted	\$ 1.67	\$ 0.56
Basic and diluted weighted average shares outstanding	12,874	12,347
Net income	\$ 21,547	\$ 6,934
Foreign currency translation adjustments	155	(381)
Comprehensive income	\$ 21,702	\$ 6,553

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

bebe stores, inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Other	Deficit	Equity
			Capital	Comprehensive		
				Income (loss)		
Balances as of July 4, 2020	11,374	\$ 11	\$ 166,294	\$ 647	\$ (139,520)	\$ 27,432
Net income					6,934	6,934
Shares Issued	1,500	2	7,498			7,500
Other comprehensive loss				(381)		(381)
Dividends declared and paid					(2,998)	(2,998)
Other			1		(1)	—
Balances as of July 3, 2021	12,874	\$ 13	\$ 173,793	\$ 266	\$ (135,585)	\$ 38,487
Net income					21,547	21,547
Shares Issued						—
Other comprehensive income				155		155
Dividends declared and paid					(7,724)	(7,724)
Other					(1)	(1)
Balances as of July 2, 2022	12,874	\$ 13	\$ 173,793	\$ 421	\$ (121,763)	\$ 52,464

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

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

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021 (as restated)
Cash flows from operating activities:		
Net income	\$ 21,547	\$ 6,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings in equity method investment	(10,149)	(7,873)
Cash receipt from equity method investment	9,883	7,586
Depreciation of rental merchandise	13,489	6,986
Write off of rental merchandise	2,948	1,100
Amortization of intangibles	1,462	855
Amortization of intangibles - leases	243	103
Amortization of financing fees	208	954
Amortization of finance lease right of use assets	99	-
Depreciation of property and equipment	587	286
Deferred income taxes	(13,825)	17
Changes in operating assets and liabilities:		
Receivables	(410)	-
Payments made by the franchisor on behalf of the Company	-	13,492
Collections received by the franchisor on behalf of the Company	-	(15,686)
Rental merchandise	(17,048)	(7,330)
Other assets	37	(124)
Prepaid expenses and other	(91)	(494)
Accounts payable	124	145
Due to franchisor	80	-
Deferred revenue	32	216
Accrued liabilities	74	1,299
Net cash provided by operating activities	9,290	8,466
Cash flows from investing activities:		
Acquisition of franchise stores, net of cash acquired	(6,025)	(34,989)
Return of equity method investment	1,534	2,320
Purchase of property and equipment	(295)	(12)
Purchase of intangible assets	(100)	-
Net cash used in investing activities	(4,886)	(32,681)
Cash flows from financing activities:		
Proceeds from issuance of common stock	-	7,500
Proceeds from note payable	25,000	22,000
Payments on note payable	(21,725)	(275)
Debt issuance costs	(1,206)	(954)
Payments on finance lease liabilities	(90)	-
Dividends paid	(7,724)	(2,998)
Net cash (used in) provided by financing activities	(5,745)	25,273
Net (decrease) increase in cash and cash equivalents	(1,341)	1,058
Effect of exchange rate changes on cash	155	(381)
Cash and cash equivalents:		
Beginning of period	8,952	8,275
End of period	\$ 7,766	\$ 8,952
Supplemental information:		
Acquisition of rental merchandise with non-cash financing	\$ 2,765	\$ 2,478
Right of use assets obtained in exchange for new operating lease liabilities	\$ 4,201	\$ 6,957
Cash paid for amounts included in measurement of operating lease liabilities	\$ 3,141	\$ 1,620
Cash paid for short-term operating leases not included in operating lease liabilities	\$ 505	\$ 288
Right of use assets obtained in exchange for new finance lease liabilities	\$ 998	\$ -
Cash paid on interest expense	\$ 1,967	\$ 2,256
Cash paid on income taxes	\$ 693	\$ 64

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

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Business

bebe stores inc.'s ("bebe" 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 acquired 10 and 47 stores in the fiscal year 2022 and fiscal year 2021, respectively. In addition, the Company opened 3 new stores in fiscal year 2022. The Company operates 60 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 audited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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 ends on the first Saturday on or after June 30. Fiscal years 2022 and 2021 both had 52 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 July 2, 2022 and July 3, 2021, 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 third-party 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.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 years ended July 2, 2022 and July 3, 2021.

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 years ended July 2, 2022 and July 3, 2021.

Liquidity— As of July 2, 2022, the Company has working capital of approximately \$13.7 million. The Company has current assets of \$26.1 million and current liabilities of \$12.4 million. The Company expects operating costs to remain consistent with current levels. The Company also expects the Company's revenues from the Buddy's stores and equity investment income to provide sufficient income to fund the Company's anticipated operating costs. As a result of the Company's current liquidity position, the Company has concluded that cash and cash flows from operating activities, will likely be sufficient to fund operations and meet financial obligations through the next twelve months from the issuance of these consolidated financial statements.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 July 2, 2022 and July 3, 2021 was \$1.2 million and \$1.1 million, respectively. The Company expects to recognize all of the deferred revenue as of July 2, 2022 as rental revenue during the fiscal year ended July 1, 2023.

Rental revenue totaled \$43.0 million and \$24.0 million for the years ended July 2, 2022 and July 3, 2021, 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 \$1.7 million and \$1.0 million during the years ended July 2, 2022 and July 3, 2021, 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 \$6.4 million and \$3.7 million during the years ended July 2, 2022 and July 3, 2021, respectively.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$3.0 million and \$2.3 million during the years ended July 2, 2022 and July 3, 2021 respectively.

Advertising costs— Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$1.0 million and \$0.4 million for the years ended July 2, 2022 and July 3, 2021, 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 the consolidated balance sheets. Finance leases are included in finance lease right-of-use assets and finance lease liabilities on the consolidated balance sheets. 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. After considering both positive and negative evidence, the Company released valuation allowance against certain U.S. federal and state deferred tax assets as a result of the acquisition of Buddy's Home Furnishings stores and maintaining three years of cumulative pretax income.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the Company's 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 the Company's 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 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.

Recent Accounting Standards – Pending Adoption

In June 2016, FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* ("CECL"). The purpose of this update is to provide financial statement user with more useful information about expected credit losses on financial instruments. This guidance is effective for the Company for the fiscal year beginning after December 15, 2022. The Company is assessing the impact of this standard on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The guidance directs an entity to compare the fair value of goodwill with its carrying value. If the carrying amount exceeds the fair value of goodwill, then an impairment charge is recognized. This guidance is effective for the fiscal year beginning after December 15, 2022, early adoption is permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, a new standard to simplify the accounting for income taxes. The guidance clarifies accounting for transactions that result in a step-up in the tax basis for goodwill and simplifies accounting for changes in tax laws or rates and certain aspects of accounting for

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

franchise taxes. This guidance is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. The Company is assessing the impact of this standard on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates (IBORs) and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The ASU can be adopted no later than December 1, 2022, with early adoption permitted. The Company has not yet adopted this ASU and is evaluating the effect of adopting this new accounting guidance.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance amends ASC Topic 805, *Business Combinations*, to add a requirement that entities that are considered acquirers in a business combination must recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. This guidance is effective for the fiscal year beginning after December 15, 2022, early adoption is permitted. The Company is assessing the impact of this standard on its consolidated financial statements.

2. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENT

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 fiscal year ended July 3, 2021 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 fiscal year ended July 3, 2021.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENT - continued

(In thousands)	Fiscal year ended July 3, 2021		
	As Previously Reported	Adjustment	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	\$ 9,906	\$ (2,320)	\$ 7,586
Net cash provided by operating activities	\$ 10,786	\$ (2,320)	\$ 8,466
Cash flows from investing activities:			
Return of equity method investment	\$ -	\$ 2,320	\$ 2,320
Net cash used in investing activities	\$ (35,001)	\$ 2,320	\$ (32,681)

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

On January 12, 2018, B. Riley Financial, Inc. entered into an agreement with the Company’s 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, August 25, 2021 and November 10, 2020, the Company completed the acquisition of 2, 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.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACQUISITIONS- Continued

The February 2, 2022 Acquisition

On February 2, 2022 pursuant to the Asset Purchase Agreement between FRG 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 the Franchisor 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	
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 the 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 has not recorded 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.

bebe stores, inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACQUISITIONS- Continued

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 the 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 \$126 thousand was recognized for the year ended July 2, 2022.

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 bore interest at a rate of LIBOR + 15% and mature on November 10, 2021. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACQUISITIONS- Continued

Company paid the outstanding \$21.7 million Secured Notes in full with the 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 ("2020 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:	44,998
Liabilities	
Accrued liabilities	2,194
Operating lease liabilities	6,956
Deferred revenue	848
Total Liabilities	9,998
Consideration transferred	\$ 35,000

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired and liabilities assumed. 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 \$1.3 million was recognized for the year ended July 2, 2022. Amortization expense of \$1.0 million was recognized for the year ended July 3, 2021.

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5. RELATED PARTY TRANSACTIONS

As of July 2, 2022, B. Riley Financial, Inc. beneficially owned approximately 40.0% 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 \$216 thousand and \$203 thousand of such expenses with B. Riley Financial Inc. during the fiscal years ended July 2, 2022 and July 3, 2021, respectively. The outstanding balances payable to B. Riley Financial, Inc. was \$33 thousand and \$33 thousand at July 2, 2022 and July 3, 2021, respectively.

6. RENTAL MERCHANDISE

The following is a summary of rental merchandise, net of accumulated depreciation as of July 2, 2022 and July 3, 2021:

Rental Merchandise (in thousands)	As of July 2, 2022	As of July 3, 2021
On rent		
Cost	\$ 21,658	\$ 15,651
Less accumulated depreciation	(9,633)	(5,129)
Net book value, on rent	12,025	10,522
Held for rent		
Cost	6,892	4,157
Less accumulated depreciation	(1,827)	(517)
Net book value, held for rent	5,065	3,640
Total rental merchandise , net of accumulated depreciation	\$ 17,090	\$ 14,162

Damaged or lost merchandise is written off monthly. Maintenance and repairs to leased merchandise are expensed as incurred. The Company wrote off \$2.9 million and \$1.1 million of rental merchandise for the years ended July 2, 2022, and July 3, 2021, respectively.

The Company recorded \$13.5 million and \$7.0 million of depreciation expense for rental merchandise for the years ended July 2, 2022 and July 3, 2021, 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

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7. EQUITY METHOD INVESTMENTS - Continued

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 84% and 90% of the Company’s total equity earnings for the fiscal years ended July 2, 2022 and July 3, 2021, respectively.

The summarized financial statements for the twelve-month periods ended June 30, 2022 and June 30, 2021 for the Joint Venture is as follows:

	BB Brand Holdings LLC	
	As of	As of
	June 30, 2022	June 30, 2021
	(in thousands)	(in thousands)
Total Assets	\$ 10,154	\$ 10,683
Total Liabilities	\$ 64	\$ 1,004

	BB Brand Holdings LLC	
	Fiscal Year Ended	
	(in thousands)	
	June 30, 2022	June 30, 2021
Revenue	\$ 19,106	\$ 16,168
Net Income	\$ 17,032	\$ 14,093

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 \$16.4 million as of July 2, 2022 and \$18.0 million as of July 3, 2021.

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7. EQUITY METHOD INVESTMENTS - Continued

Distributions received from the Company's investments for the twelve-month periods ended July 2, 2022 and July 3, 2021 are as follows:

Investment Distributions Received

	Fiscal Year Ended	
	(in thousands)	
	July 2, 2022	July 3, 2021
BB Brand Holdings LLC	\$ 8,250	\$ 6,760
BKST Brand Management LLC	3,167	3,146
Total	\$ 11,417	\$ 9,906

8. PROPERTY AND EQUIPMENT, NET

Property and Equipment, net
(in thousands)

	As of	As of
	July 2, 2022	July 3, 2021
Leasehold Improvements	\$ 1,124	\$ 812
Signs	385	304
Furniture and Fixtures	340	263
Vehicles	158	218
Equipment	92	72
Computers	21	20
Other	67	
Property and Equipment, gross	2,187	1,689
<i>Less accumulated depreciation</i>	813	286
Property and Equipment, net	\$ 1,374	\$ 1,403

The Company recorded \$0.6 million of depreciation expense for property and equipment for the year ended July 2, 2022. The Company recorded \$0.3 million of depreciation expenses for property and equipment for the year ended July 3, 2021.

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9. INTANGIBLE ASSETS, NET

Amortizable intangible assets consist of the following:

July 2, 2022				
<i>(in thousands)</i>	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

July 3, 2021				
<i>(in thousands)</i>	Useful life (years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	5	\$ 6,400	\$ 824	\$ 5,576
Franchise rights	10	485	31	454
Total intangible assets		\$ 6,885	\$ 855	\$ 6,030

The Company recorded \$1.5 million of amortization expense for intangible assets for the year ended July 2, 2022. The Company recorded \$0.9 million of amortization expense for intangible assets for the year ended July 3, 2021.

Estimated amortization expense for each fiscal year is as follows:

Fiscal Year (in thousands)	Estimated Remaining Amortization Expense
2023	\$ 1,500
2024	1,529
2025	1,500
2026	668
2027	98
2028 and after	273
Total	\$ 5,568

10. DUE TO FRANCHISOR

The Company, in the normal course of business, purchases rental merchandise from the franchisor. As of July 2, 2022 and July 3, 2021, the amount due to franchisor for purchased rental merchandise totaled \$2.8 million and \$2.5 million, respectively.

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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 LIBOR (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 interest rate being paid by the Company at July 2, 2022 was 6.8%. The proceeds were used to repay the Company’s outstanding \$21.7 million Secured Notes in full and to provide additional growth capital.

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 the 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 \$207 thousand and \$1 million of debt issuance costs for the years ended July 2, 2022 and July 3, 2021, respectively.

Interest expense on the note was \$2.2 million and \$2.3 million for the years ended July 2, 2022 and July 3, 2021, respectively.

12. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of July 2, 2022 <small>(in thousands)</small>	As of July 3, 2021 <small>(in thousands)</small>
Gift certificates, gift cards and store credits	\$ 3,049	\$ 3,049
Other accrued liabilities	1,938	1,865
	<u>\$ 4,987</u>	<u>\$ 4,914</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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. DISAGGREGATED REVENUES

The following table presents disaggregated revenue for the Buddy's franchise stores for the years ended July 2, 2022 and July 3, 2021. The Company's brand royalty joint venture does not generate operating revenue and is excluded from this presentation.

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021
	(in thousands)	(in thousands)
Revenues		
Rentals and fees	\$ 51,057	\$ 28,640
Merchandise sales	3,010	2,255
Total revenues	\$ 54,067	\$ 30,895

15. OPERATING AND FINANCE LEASES

The Company leases space for all of the 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 2022.

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 an incremental borrowing rate, since the implicit rate is not readily determinable.

As of July 2, 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 7%.

As of July 3, 2021, the weighted-average remaining lease term for store and auto operating leases are 4.3 and 3.6 years, respectively. The discount rate used by the Company for calculating its right-of-use operating leases is 13%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. OPERATING AND FINANCE LEASES - Continued

Total operating lease costs by expense type:

Operating Leases

	Fiscal Year Ended	
	July 2, 2022	July 3, 2021
	(in thousands)	(in thousands)
Rent expense	\$ 3,093	\$ 1,681
Other expense	323	110
Total occupancy expense	3,416	1,791
Vehicle lease expense	554	299
Total operating lease expense	\$ 3,970	\$ 2,090

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 July 2, 2022:

Fiscal Year	Operating Lease Obligation
	(in thousands)
2023	\$ 3,198
2024	2,552
2025	1,742
2026	1,350
2027	840
Thereafter	526
Total undiscounted operating lease liabilities	\$ 10,208
Less interest	(1,744)
Total present value of operating lease liabilities	\$ 8,464

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16. INCOME TAXES

The benefit (provision) for income tax consists of:

	Fiscal Year Ended July 2, 2022	Fiscal Year Ended July 3, 2021
	(in thousands)	(in thousands)
Current:		
Federal	\$ (50)	\$ -
State	(144)	(319)
Foreign	-	-
	<u>\$ (194)</u>	<u>\$ (319)</u>
Deferred:		
Federal	11,875	(12)
State	1,949	(5)
Foreign	-	-
	<u>\$ 13,824</u>	<u>\$ (17)</u>
(Provision) benefit for income taxes	<u>\$ 13,630</u>	<u>\$ (336)</u>

The components of income from continuing operations before income taxes are as follows:

	Fiscal Year Ended July 2, 2022	Fiscal Year Ended July 3, 2021
	(in thousands)	(in thousands)
United States	\$ 7,917	\$ 7,270
Foreign	-	-
Total income from continuing operations before income taxes	<u>\$ 7,917</u>	<u>\$ 7,270</u>

A reconciliation of the federal statutory tax rate with the Company's effective income tax rate from operations is as follows:

	Fiscal Year Ended July 2, 2022	Fiscal Year Ended July 3, 2021
Federal statutory rate	21.0%	21.0%
State rate, net of federal benefit	(19.0%)	10.8%
Valuation allowance	(169.1%)	(29.0%)
Other	3.7%	1.9%
Effective tax rate	<u>(163.4%)</u>	<u>4.7%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes.

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16. INCOME TAXES - Continued

Significant components of the Company's deferred tax assets (liabilities) are as follows:

	As of July 2, 2022 (in thousands)	As of July 3, 2021 (in thousands)
Gift certificates, gift cards and store credits	\$ 783	\$ 815
Other accrued expenses	(25)	102
Prepaid expenses	(132)	(128)
Basis difference in fixed assets	188	60
Intangible assets	249	236
Foreign tax credit	718	895
Tax credit and net operating loss carryovers	77,609	78,928
Retail merchandise	(343)	236
Other	1,014	1,078
Total non-current	80,061	82,222
Valuation allowance	(66,252)	(82,239)
Deferred tax assets (liabilities), net	<u>\$ 13,809</u>	<u>\$ (17)</u>

As of July 2, 2022, the Company has federal and state gross net operating loss carryovers of approximately \$302.6 million and \$230.7 million, respectively. If not used, these carry forwards will expire at various dates from fiscal year 2023 to fiscal year 2037. The Federal NOL generated in the fiscal year ended July 6, 2019 can be carried forward indefinitely.

The Company also has foreign tax credit carry forwards of approximately \$0.7 million, which will be available to offset future taxable income. If not used, the foreign tax credit carry forwards will expire at various dates from fiscal year 2021 to 2028.

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. After considering both positive and negative evidence, for the year ended July 2, 2022, the Company released approximately \$13.6 million of valuation allowance against certain U.S. federal and state deferred tax assets as a result of the acquisition of Buddy's Home Furnishings stores and maintaining three years of cumulative pretax income.

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 the Company's 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 the Company's 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 tax liability recorded against the indefinite-lived intangible asset. In connection to the 2017 Tax Cuts and

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16. INCOME TAXES - Continued

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.

The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the fiscal year ended July 2, 2022, the Company did not recognize such interest or penalties. The Company had no accruals for interest and penalties at July 2, 2022.

The Company could be subject to Federal income tax examinations for fiscal years 2014 and forward and could be subject to state and Canada examinations for fiscal years 2010 and forward. The Company is not currently under examination with the IRS.

As of July 2, 2022, the Company has no unrecognized tax benefits.

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 the Company's 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 the Company's 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 sales 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. The royalty fees for the years ended July 2, 2022 and July 3, 2021 were \$3.2 million and \$1.9 million, respectively.

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18. SUBSEQUENT EVENTS

The Company evaluated its 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 consolidated financial statements.

On September 19, 2022, the Company's Board of Directors authorized and declared a quarterly cash dividend of \$0.15 per share of the Company's common stock. The dividend will be paid on October 18, 2022 to shareholders of record at the close of business on October 4, 2022.