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# bebe stores, inc.

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## California

(State or Jurisdiction of  
Incorporation or Organization)

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

**Telephone: (415) 251-3355**  
**investor-relations@bebe.untld.com**

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**SIC Code: 7359**

## **Annual Report**

**For the fiscal year ended July 6, 2024**  
**(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 6, 2024, and July 1, 2023, 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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**Item 1. Name and addresses(es) of the issuer and its predecessor (if any).**

Current name of issuer: bebe stores, inc. (“bebe” or the “Company”)

Date and state of incorporation: The Company was incorporated in the State of California on June 7, 1976, and is currently active and in good standing.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

Dividends during fiscal year ending July 6, 2024:

A quarterly cash dividend of four cents (\$0.04) per share of the Company’s common stock was paid on June 18, 2024, to shareholders of record at the close of business on May 31, 2024.

A quarterly cash dividend of four cents (\$0.04) per share of the Company’s common stock was paid on March 22, 2024 to shareholders of record as of March 8, 2024.

A quarterly cash dividend of four cents (\$0.04) per share of the Company’s common stock paid on December 1, 2023, to shareholders of record as of November 16, 2023.

A quarterly cash dividend of four cents (\$0.04) per share of the Company’s common stock paid on September 29, 2023, to shareholders of record as of September 19, 2023.

Principal Executive Offices: 550 Wisconsin Street  
San Francisco, CA 94107  
Telephone: 415.251.3355

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

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: ☒ Yes: ☐ If Yes, provide additional details below: N/A

**Item 2. Security Information**

**Transfer Agent:**

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

**Publicly Quoted or Traded Securities:**

bebe has only one class of outstanding stock.  
Title: Common Stock, par value \$0.001 per share  
CUSIP: 075571208  
OTC Pink Limited Trading Symbol: BEBE

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

Common stock-authorized 50,000,000 shares at \$0.001 par value per share; issued and outstanding 12,874,111, as of July 6, 2024

Preferred stock-authorized 1,000,000 shares at \$0.001 par value per share; no shares issued and outstanding, as of July 6, 2024.

Total number of shareholders of record: 25  
(Source: Computershare as of July 8, 2024.)

### **Security Description:**

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. 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. There have been no material modifications to rights of holders of the Company's securities that have occurred over the reporting period covered by this report.

### **Item 3. Issuance History**

#### **A. Changes to the Number of Outstanding Shares.**

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: ☒ Yes: ☐

#### **B. Promissory and Convertible Notes**

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: ☒ Yes: ☐

### **Item 4. Issuer's Business, Products and Services.**

#### **A. Summary of Business Operations:**

**Rent-to-Own Operations:**

bebe operates through its subsidiary, bb BHF Stores LLC, a network of over 60 Buddy's Home Furnishings franchise stores located across 12 states in the Southeastern U.S. These stores provide furniture, appliances, electronics, and accessories to consumers through both retail sales and rent-to-own agreements. Our team comprises approximately 320 employees, supported by a range of service providers and vendors. As franchisees, we enter into separate Franchise Agreements (FA) with our franchisor, Buddy's Franchising and Licensing LLC, for each location. These agreements outline the framework for our operations, including site selection, store maintenance, training, business equipment, IT infrastructure, signage, and trademark usage. They also specify the products and services we can offer, the approved suppliers, and include financial obligations such as a 6% royalty fee on gross sales and a marketing fee capped at 2%. Additional terms are detailed in the FA and related ancillary agreements.

**Brand Royalty Investments:**

bebe holds a 50% membership interest in the joint venture BB Brand Holdings LLC ("BBBH"), associated with the Bebe brand, and a 28.5% membership interest in BKST Brand Management LLC ("BKST"), which manages the Brookstone brand. Both companies distribute their products through retail and wholesale channels in the U.S. and internationally, including online platforms. According to the operating agreements, our independent partner, Blue Star Alliance (BSA), is designated as the manager responsible for operational control and day-to-day management. BSA provides essential back-office services, handles the negotiation and management of licenses and distribution agreements, oversees trademarks and litigation, and manages marketing, accounting, and financial functions, while maintaining comprehensive records and accounts.

(BBBH and BKST collectively called "Brand Investments.")

**B. List any subsidiaries, parent company, or affiliated companies.**

bebe stores, inc.  
bb BAF LLC  
bb BHF Stores LLC  
bebe management, inc.  
bebe stores (Canada), inc.  
bebe studio, inc  
bebe studio realty, LLC

**C. Describe the Company's principal products or services.**

Buddy's Business. Products include furniture, appliances, electronics and related accessories.

BB Brand Holdings LLC (bebe brand). Products include bebe-branded apparel, handbags, eyewear, footwear and accessories.

BKST Brand Management LLC (Brookstone brand). Products include home goods, personal care, specialty goods, outdoor and accessories.

**Item 5. Issuer's Facilities**

Our corporate headquarters 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 2034.

## Item 6 All Officers, Directors, and Control Persons of the Company

The following table sets forth certain information with respect to our executive officers, board of directors, and control persons as of July 6, 2024:

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of 5% or more)	Residential Address (City/State Only)	Number of shares owned	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
B. Riley Financial, Inc.	Owner 5% or more	Woodland Hills, CA	9,815,048	76.2%	Officers: Bryant Riley, Chairman & Co-CEO Thomas Kelleher, Co-CEO Kenneth Young, President Phillip Ahn, CFO/COO Howard Weitzman, CAO Alan Forman, EVP, General Counsel Resident Agent: The Corporation Trust Company 1209 Orange Street City of Wilmington, Delaware 19801
MILFAM LLC	Owner 5% or more	West Palm Beach, FL	814,021	6.3%	Officer: Neil S. Subin, President and Manager
Manny Mashouf	Director	Los Angeles, CA	610,111	4.7%	N/A
Nick Capuano	CEO, Director	Arlington, VA	-	0.0%	N/A
Corrado Federico	Director	Sanibel, FL	32,009	0.2%	N/A
Darrin Klotz	Director	Beverly Hills, CA	-	0.0%	N/A
Perry Mandarino	Director	New York, NY	230	0.0%	N/A
Marc So	CFO	San Francisco, CA	1,925	0.0%	N/A

## Item 7. Legal/Disciplinary History

### A. Disciplinary History.

None of the Company officers or directors listed above, in the past 10 years, have been subject to any of the following:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or
4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

### B. Material Legal Proceedings:

There are currently no material legal proceedings pending, other than ordinary routine litigation incidental to the business, to which the Company or any of its subsidiaries is a party to or of which any of their property is the subject.

## Item 8. Third Party Service Providers

Securities Counsel:

Latham & Watkins LLP  
140 Scott Drive  
Menlo Park, CA 94025  
Telephone: 650-463-3060  
www.lw.com

Auditor:

LaPorte, APAC  
5100 Village Walk Suite 300  
Covington, LA 70433  
Telephone: 985-892-5850  
www.LaPorte.com

Tax Accountant:

Baker Tilly US, LLP  
2055 Gateway Place Suite 140  
San Jose, CA 95110  
Telephone: 312-235-3300  
www.bakertilly.com

## Item 9. Financial Statements

A. This Disclosure Statement was prepared by (name of individual):

Name: Marc So

Title: CFO

Relationship to Issuer: CFO of bebe

B. The following financial statements were prepared in accordance with:

☐ IFRS

☒ U.S. GAAP

C. The following financial statements were prepared by (name of individual):

Name: Marc So

Title: CFO

Relationship to Issuer: CFO of bebe

Describe the qualifications of the person or persons who prepared the financial statements:

Mr. 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 CFO, Acting CFO, Principal Financial Officer, and Senior Director FP&A. Mr. So is a graduate of DePaul University and was a CPA with Arthur Andersen and Co. from 1989 to 1992.

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

## **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 Brand Investments:***

***The success of our Brand Investments depend in large part on the ability of the their 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 Brand Investments' licensees to anticipate, identify and respond effectively to changing customer demands and fashion trends in a timely manner. The home goods, personal care, apparel and accessories etc. 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 Brand Investments business depends in large part on our ability to maintain our brand image and reputation.***

Our ability to maintain our brand image and reputation is integral to our business and our brand royalty business through written agreements with the Brand 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 Brand Investments' marketing efforts and the licensees' ability to provide consistent, high-quality customer experience. In addition, while our brand is mature, 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.

***We face significant competition which could harm our business.***

The home goods, personal care, apparel and accessories space is highly competitive, with low barriers to entry. We expect competition in these markets to increase. The primary competitive factors in these 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 or our Brand Investments are not able to protect our intellectual property our business may be harmed.***

Although we and/or the Brand Investments, may take actions to maintain protect its 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 other proprietary rights.

Historically, we have sought to register our trademarks domestically and internationally and the Brand Investments will continue to do so in the future. Obstacles may prevent the Brand Investments from obtaining a trademark for the bebe brand names or related names, among other marks. The Brand Investments 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 Brand Investments fail 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 Brand Investments. In addition, if our licensees fail to use the bebe trademarks correctly, the reputation and value associated with the trademarks may be diluted. Furthermore, if we or the Brand Investments 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.

***We may be subject to legal proceedings from time to time which seek material damages and could materially adversely affect our financial condition.***

We may be subject to legal proceedings from time to time which seek material damages. The costs and time we incur in defending ourselves or associated with settling any of these proceedings, as well as a material final judgment or decree against us, could materially adversely affect our financial condition by requiring the payment of the settlement amount, attorneys' fees, damages, a judgment or the posting of a bond. Significant settlement amounts, or final judgments could materially and adversely affect adversely affect our liquidity. The failure to pay any material judgment would be a default under our credit facilities.

### ***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 our 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 business, financial condition and results of operations. 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 business, financial condition and results of operations 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 primarily operate our Buddy's business in the consumer retail and rent to own 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 the 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 rent-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 rent-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 rent-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 rent-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 rent-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 rent to own transaction, the fact that consumers can return their rent to own merchandise at any time without penalty or further payment obligations or the numerous other benefits to consumers of rent-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 rent-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 rent-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 rent-to-own models, or any actions by our competitors that are challenged by consumers, advocacy groups, the media or governmental agencies or entities as being abusive or predatory, could result in Buddy’s being perceived as engaging in similar unlawful or inappropriate activities or business practices, merely because we operate in the same general industries as such competitors.

***We may 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 may be heavily dependent on data provided by third-party providers including whether or not an application for a rent to own submitted by a customer will be approved. We may 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 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 franchise locations and how our franchisors operate, style and develop their business.

There can be no assurance that the training programs, operations manual, support 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 services 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, staffing 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.

***Our operating results depend on the effectiveness of our marketing and advertising programs and franchisor's support of these programs.***

Our revenues are influenced by brand marketing and advertising. If our marketing and advertising programs are unsuccessful, we may fail to retain existing customers and attract new customers, which could limit the growth of our revenues or profitability or result in a decline in our revenues or profitability. Moreover, because we are required to pay franchisor monthly marketing and advertising fees a certain amount per store, the support of our franchisor is critical for the success of our marketing programs and any new strategic initiatives we seek to undertake. While we can mandate certain strategic initiatives through enforcement of our franchise agreements, we need the active support of our franchisor if the implementation of our marketing programs and strategic initiatives is to be successful. Although certain actions are required of our franchisor under the franchise agreements, there can be no assurance that our franchisor will continue to effectively support our marketing programs and strategic initiatives. The failure of our franchisor to support our marketing programs and strategic initiatives would adversely affect our ability to implement our business strategy and could have a material adverse effect on our business, financial condition, and results of operations.

***We may be held responsible by third parties, regulators, or courts for the action of, or failure to act, by our franchisor and third-party franchisees and their employees which could expose us to possible fines, other liabilities, bad publicity or damage to our brands.***

We share the same “dba” Buddy’s Home Furnishings with our franchisor and third-party Buddy’s franchisees who also conduct business under the tradename “Buddy’s Home Furnishings.” Accordingly, there is risk that the franchisor and third-party Buddy’s franchisees may be perceived or identified as being controlled or operated by us. Third parties, regulators, or courts may seek or claim to hold us responsible for the actions or failures to act by our franchisor and third-party Buddy’s franchisees. Thus, the failure of our franchisor and third-party Buddy’s franchisees to comply with laws and regulations may expose us to liability and damage that may have an adverse effect on our business.

***If we or our franchisor and third-party vendors are unable to secure our customers’ personal and confidential information, or other private data relating to our associates, suppliers or our business, we could be subject to negative publicity, costly government enforcement actions or private litigation and increased costs, which could damage our business reputation and adversely affect our business, financial condition or results of operations.***

Our information technology systems, such as those we use for our point-of-sale, web and mobile platforms, including payment systems, and for administrative functions, including human resources, payroll, accounting, and internal and external communications, contain personal, financial or other information that is entrusted to us by our customers and associates and is outsourced and managed by our franchisor and/or third-party vendors. Many of our information technology systems also contain proprietary and other confidential information related to our business, customers and suppliers. Although we have developed procedures, training and technology in place to safeguard our customers’ personal information, the private data, suppliers’ data, and our business records and intellectual property and other sensitive information, we may nevertheless, be vulnerable to, and unable to anticipate, detect and appropriately respond to, data security breaches and data loss, including cyber-security attacks. If we or any third-party systems we use experience a data security breach, we could be

exposed to negative publicity, reputational risk with our customers, government enforcement actions and private litigation, in addition to the potential of significant capital investments and other expenditures to remedy cybersecurity problems and prevent future security breaches. These costs, which could be material, could adversely impact our results of operations in the period in which they are incurred and may not meaningfully limit the success of future attempts to breach our information technology systems.

### ***Risks Related to All of Our Businesses***

***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 or unrelated 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.

***Disputes with our Brand Investments partners, franchisor or vendors may have a material adverse effect on our business.***

From time to time, we may engage in disputes with our Brand Investments partners, franchisor or vendors, and some of these disputes could result in litigation or arbitration proceedings. Disputes with our Brand Investments partners, franchisor or vendors may require us to incur significant legal fees, subject us to damages, and occupy a disproportionate amount of management's time. A material increase in the number of these disputes, or unfavorable outcomes in these disputes, may have a material adverse effect on our business. To the extent we have disputes with our Brand Investments partners, franchisor or vendors, these relationships could be negatively impacted, which could hurt our growth prospects or negatively impact our financial performance.



***Our arbitration agreements and class action waivers may not be held enforceable.***

In order to attempt to limit costly and lengthy consumer and other litigation, including class actions, and to provide a streamlined, faster and less expensive method of dispute resolution, we may have arbitration agreements and class action waivers with some of our customers and employees, many of which offer opt-out provisions. Recent judicial and regulatory actions have attempted to restrict or eliminate the enforceability of such agreements and waivers. If we are not permitted to use arbitration agreements and/or class action waivers, or if the enforceability of such agreements and waivers is restricted or eliminated, we could incur increased costs to resolve legal actions brought by customers, employees and others as we would be forced to participate in more expensive and lengthy dispute resolution processes, including class actions.

***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, varying demand, 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 resulting in lower revenues and negatively impacting our business and its financial results.

***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.

***We have or may incur significant transaction and acquisition-related costs and expect to incur integration-related costs in connection with our acquisitions.***

We have or may incur significant transaction and acquisition-related costs and expect to incur integration-related costs in connection with our acquisitions. We have incurred a number of non-recurring costs associated with our acquisitions and expect to incur integration-related costs in combining areas of the companies. The substantial majority of non-recurring expenses consisted of transaction costs related to certain of our acquisitions. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred in connection with the integration of all of these companies' businesses. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of these businesses, should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all.

***Our indebtedness could adversely affect our financial condition, limit our ability to raise additional capital to fund our operations and prevent us from fulfilling our obligations under our debt agreements.***

We have substantial indebtedness, which could adversely affect our ability to fulfill our obligations and have a negative impact on our financing options and liquidity position. Our high level of debt could have significant consequences for us, including the following:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring a significant portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- increasing the cost of future borrowings and, accordingly, our cost of capital;
- imposing restrictive covenants on our operations;
- placing us at a competitive disadvantage to competitors carrying less debt; and
- making us more vulnerable to economic downturns and other conditions, changes in the markets and adverse developments in our business and limiting our ability to withstand competitive pressures.

***We may not be able to generate sufficient cash to service our indebtedness and may be forced to take other actions to satisfy our indebtedness, which may not be successful.***

Cash flows from operations are the principal source of funding for us. Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control, including the availability of financing in the international banking and capital markets. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to fund our day to day operations or to pay the principal, premium, if any, and interest on our indebtedness, or to refinance our indebtedness on commercially reasonable terms or at all, which could materially and adversely affect our business, financial position and results of operations and our ability to satisfy our obligations.

If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash requirements, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to sell assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. We may not be able to affect any such alternative measures, if necessary, on

commercially reasonable terms or at all and, even if successful, such alternative actions may not allow us to meet our scheduled debt service obligations. The agreements that govern our indebtedness may restrict us from accomplishing any of these alternatives on commercially reasonable terms or at all. Additionally, the agreements that govern our indebtedness may restrict (a) our ability to dispose of assets and use the proceeds from any such dispositions and (b) our ability to raise debt capital to be used to repay our indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. Any issuances of additional capital stock would be dilutive to existing stockholders.

If we cannot make scheduled payments on our debt, we will be in default and, as a result, lenders under our existing and future indebtedness could declare (or some of the following could occur automatically) all outstanding principal and interest to be due and payable, the lenders under our credit facilities could terminate their commitments to loan money, our secured lenders could foreclose against the assets securing such borrowings and we could be forced into bankruptcy or liquidation, in each case, which could result in any of the holders of our indebtedness and/or our stockholders losing their investments.

***Despite current and anticipated indebtedness levels, we may still be able to incur substantially more debt.***

If we were to incur substantial additional indebtedness in the future, it could further exacerbate the risks described above. Although the agreements that govern our indebtedness restrict the incurrence of additional indebtedness, these restrictions are and will be subject to a number of qualifications and exceptions and any additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness (which may include, among others, trade payables and other expenses incurred in the ordinary course of business). Further, pursuant to our credit facilities and subject to the limitations set forth therein, we may have the option to increase our commitments under our credit facilities thereunder. If new debt is added to our current debt levels, the related risks that we now face could intensify.

***The terms of the agreements governing our indebtedness may restrict our current and future operations and operating flexibility, particularly our ability to respond to changes in the economy or our industry or to pursue our business strategies, and could adversely affect our capital resources, financial condition and liquidity.***

The agreements that govern our indebtedness contain a number of restrictive covenants that impose significant operating and financial restrictions on us and limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur, assume or guarantee additional indebtedness;
- declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests;
- make any principal payment on, or redeem or repurchase, certain indebtedness;
- make loans, advances or other investments;
- incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into sale and lease-back transactions;
- consolidate or merge with or into, or sell all or substantially all of our assets to, another person;

- enter into transactions with affiliates;
- materially change the nature of our business;
- enter into agreements that restrict the ability of certain subsidiaries to make dividends or other payments; and
- service our indebtedness if covenants under our credit facilities are not satisfied.

Our credit facilities also contain covenants that may limit our ability to service other potential indebtedness. As a result of these restrictions, we may be limited in how we conduct our business, unable to raise additional debt or equity financing to operate during general economic or business downturns, or unable to compete effectively, take advantage of new business opportunities or grow in accordance with our plans.

The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with such covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the holders of such indebtedness and/or amend the covenants. A breach of the covenants under the agreements governing our indebtedness could result in an event of default under the applicable indebtedness, which, if not cured or waived, could result in us having to repay such indebtedness before its due date. Such an event of default may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In addition, such an event of default may permit the lenders in our credit facilities to terminate all commitments to extend further credit thereunder. In the event the repayment of any of our indebtedness is accelerated, we cannot assure you that we will have sufficient assets to repay such indebtedness. If we are forced to refinance such indebtedness on less favorable terms or if we experience difficulty in refinancing such indebtedness, our results of operations or financial condition could be materially affected. Furthermore, if we are unable to repay the amounts due and payable under the agreements governing our secured indebtedness, the lenders or holders of such indebtedness may be able to proceed against the collateral granted to them to secure such indebtedness.

***Our floating rate debt financing exposes us to interest rate risk.***

We may borrow amounts under our credit facilities or otherwise that bear interest at rates that vary with prevailing market interest rates. If such market interest rates increase, our debt service obligations on the variable rate indebtedness will increase, perhaps significantly, even though the amount borrowed may remain the same, and our profit and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease.

***We may seek to continue to expand through acquisitions of and investments in other businesses.***

These acquisition activities may be unsuccessful or divert management's attention. We may consider strategic and complementary acquisitions of and investments in other franchise-centric or brand royalty businesses. In pursuing these opportunities, we will likely be competing with third parties that may have substantially greater financial resources than us. Acquisitions or investments in brands, businesses, properties or assets, as well as third-party alliances are subject to risks that could affect our business, including risks related to: (i) issuing shares of stock that could dilute the interests of our existing stockholders, (ii) spending cash and incurring debt, (iii) assuming contingent liabilities, or (iv) creating additional expenses.

We may not be able to identify opportunities or complete transactions on commercially reasonable terms or at all or we may not actually realize any anticipated benefits from such acquisitions or investments. Similarly, we may not be able to obtain financing for acquisitions or investments on attractive terms or at all, or the ability to obtain financing may be restricted by the terms of our indebtedness. In addition, the success of any acquisition

or investment also will depend, in part, on our ability to integrate the acquisition or investment with our existing operations. Finally, any potential acquisitions or investments could demand significant attention from management that would otherwise be available for business operations, which could harm our business.

***If we, our franchisor or Brand Investments partners and their licensees and vendors fail to comply with marketing and advertising laws, including with regard to direct marketing we may face significant damages.***

We rely on and outsource a variety of digital and traditional marketing techniques, including telemarketing, email and social media marketing and postal mailings, and we are subject to various laws and regulations in the U.S. and internationally that govern marketing and advertising practices. The retention of customers by our business and franchisor and Brand Investments partners, and our ability to attract additional consumers, depends on the use of these marketing techniques to contact customers and potential franchisees and dealers. However, for example, the Telephone Consumer Protection Act (“TCPA”) imposes significant restrictions on the ability to utilize telephone calls and text messages to mobile telephone numbers as a means of communication, when the prior consent of the person being contacted has not been obtained, among other requirements. Violations of the TCPA may be enforced by individual customers through class-actions, and statutory penalties for TCPA violations range from \$500 to \$1,500 per violation. If we fail to ensure that our own telemarketing and telemarketing efforts are TCPA compliant, or if we, our franchisor or Brand Investments partners, and their licensees and vendors fail to do so and we are held responsible for their behavior, we may incur significant damages.

***Compliance with governmental regulations or newly enacted laws could increase our costs significantly and adversely affect our operating income and financial results.***

The products offered by our business segments are subject to federal laws and regulation by one or more federal agencies. These activities are also regulated by various state, local and international laws and agencies of the states and localities in which our products or services are provided. Regulations may prevent or delay the introduction, or require the reformulation, of our products, which could result in lost sales and increased costs to us.

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

The Company has previously had certain material weaknesses in its internal control over financial reporting. 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. We cannot be certain that we will effectively implement and maintain adequate controls over our financial processes and reporting in the future. 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 us. 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 and services include local and global recessionary economic cycles, higher interest rates, higher fuel and other energy costs, inflation, deflation, increases in commodity prices, higher levels of unemployment, the liquidity concerns at banks and other financial institutions, 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 Brand Investments 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 and services 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, including as a result of the COVID-19 pandemic, labor strikes, natural disasters, regional wars or conflicts like the war in Ukraine, could result in our inability to meet our customers' expectations, higher costs, an inability to stock our stores, or longer lead time associated with distributing merchandise. Any such disruption within our supply chain network could also result in decreased net sales, increased costs and reduced profits.

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

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

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

***Our ability to conduct business could be negatively impacted by the effects of natural disasters, war, terrorism, public health concerns or other catastrophes.***

We operate a corporate office in San Francisco, California and Buddy's franchise stores in twelve states in the southeast region of the United States. Any serious disruption at the corporate office or at our stores whether due to construction, relocation, fire, flood, earthquake, terrorist acts, natural disasters, pandemics or otherwise could harm our business. Natural disasters, extreme weather and public health concerns, including severe infectious diseases, could impact our ability to open and run our corporate office or our stores. In addition, our ability to continue to operate our business without significant interruption in the event of a disaster or other disruption depends, in part, on the ability of our information systems to operate in accordance with our disaster

recovery and business continuity plans. Lower client traffic due to the effect of natural disasters or extreme weather, security concerns, war or the threat of war and public health concerns could result in decreased sales that could have a material adverse effect on our business. In addition, threat of terrorist attacks or actual terrorist events in the United States and world-wide could cause damage or disruption to international commerce and the global economy, disrupt the production, shipment or receipt of our merchandise or lead to lower client traffic. Our ability to mitigate the adverse impact of these events depends, in part, upon the effectiveness of our disaster preparedness and response planning as well as business continuity planning. However, we cannot be certain that our plans will be adequate or implemented properly in the event of an actual disaster or other catastrophic situation. We cannot guarantee that the amount of any hurricane, windstorm, earthquake, flood, business interruption or other casualty insurance we may maintain from time to time would cover any or all damages caused by any such event.

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

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

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

As a public company who owns and operates franchises, we are subject to numerous regulatory requirements. In addition, we are subject to numerous domestic and foreign laws and regulations affecting our business, including those related to labor, employment, worker health and safety, competition, privacy, consumer protection, credit cards, import/export and anti-corruption, including the Foreign Corrupt Practices Act and the Telephone Consumer Protection Act. Our employees, contractors, subcontractors, vendors and suppliers could take actions that violate these requirements and/or our compliance policies and procedures, which could have a material adverse effect on our reputation, financial condition and on the market price of our common stock..

***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 primarily from third parties, including from our franchisor. The efficient operation of our business is dependent on these systems and parties to effectively manage our financial and operational data. The failure of these 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 cybersecurity risks and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents.***

If we, or our third parties, experience a significant cyber incident or data breach or fail to detect and appropriately respond to a significant cyber incident or data breach, we or the Brand Investments could be exposed to government enforcement actions and private litigation, and our business could be adversely affected. We cannot assure you that we will not suffer future breaches of the portion of our network that handles payment card data, with further payment card and client information being stolen. These sorts of breaches might cause our customers to lose confidence in our or Brand Investments' ability to protect their personal information, which could cause them to stop shopping for our brands. The loss of confidence from a significant cyber incident or data 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 B. Riley Financial, Inc. ("B. Riley") beneficially owns a majority of the outstanding shares of our common stock, approximately 76%, other shareholders have limited ability to influence corporate matters. As a result, B. Riley also has the ability to control our management and affairs and substantially all matters submitted to our shareholders for approval, including the election and removal of directors and approval of any significant transaction. 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.***

B. Riley also has two representatives who serve on our Board of Directors and one of those representatives also serves as our CEO. The interests of B. Riley may be different from the interests of our other stockholders. Additionally, while any future transaction with B. Riley or other significant stockholders could benefit us, the interests of B. Riley could at times conflict with bebe and 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 and management may adversely affect the trading price of our common stock because investors may perceive disadvantages in owning equity in a company with concentrated ownership and management.

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

Our common stock is currently quoted on the OTC Pink Limited Markets, and our common stock 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; limited amount of publicly available information required by the OTC Pink Limited Markets; announcements by our competitors; the trading volume of our stock; changes in estimates of our performance by analysts; litigation; overall economic and political conditions, including the global economic downturn; the condition of the financial markets, and other events or factors outside of our control could cause our stock price to fluctuate substantially.

***The Company's small public float on the OTC can impact liquidity, volatility, and stock price performance.***

A small public float means there are fewer shares available to trade, which can make it difficult to buy or sell shares when desired. Because of the relatively illiquidity, stocks with a smaller float tend to be more volatile than stocks with a larger float. Because of bebe's concentrated share ownership and resulting limited public float, trades in bebe's stock can have a meaningful impact on the stock price. In addition, it may be difficult to acquire additional shares or sell shares on desired timelines. As a result of the foregoing, trading in bebe's stock may involve greater risk than investing in a stock with a more significant public float or a stock that trades on a major stock exchange.

***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 an adequate surplus prior to the declaration of dividends. Although we expect to pay a quarterly cash dividend to holders of our common stock, we have no obligation to do so, and our dividend policy may change at any time without notice to our stockholders. We cannot provide an assurance that we will continue to pay dividends at any specific level or at all.

**Item 10. Issuer's Certifications.**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Nick Capuano, 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: October 29, 2024

BY: /s/ Nick Capuano  
Nick Capuano  
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: October 29, 2024

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

**bebe stores, inc.**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## Independent Auditor's Report



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### Independent Auditor's Report

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

#### Opinion

We have audited the consolidated financial statements of bebe stores, inc. (the Company), which comprise the consolidated balance sheet as of July 6, 2024, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity and cash flows for the fifty-three week period ended July 6, 2024, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of July 6, 2024, and the results of its operations and its cash flows for the fifty-three week period ended July 6, 2024 in accordance with the accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Matter

The financial statements of the Company, as of July 1, 2023 and for the fifty-two week period ended July 1, 2023, were audited by other auditors, whose report, dated September 28, 2023, expressed an unmodified opinion on those statements.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but it not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



A Professional Accounting Corporation

Covington, LA  
October 28, 2024

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

	As of July 6, 2024	As of July 1, 2023
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 11,111	\$ 6,323
Accounts receivable, net	352	581
Rental merchandise, net	14,235	16,677
Prepaid and other current assets	910	879
Total current assets	26,608	24,460
Equity method investments	14,846	16,397
Property and equipment, net	1,334	1,248
Intangible assets, net	2,655	4,183
Goodwill	19,136	19,136
Operating lease right-of-use assets, net	9,321	8,247
Finance lease right-of-use assets, net	3,659	1,539
Deferred tax asset, net	11,807	12,856
Other assets	134	100
Total assets	<u>\$ 89,500</u>	<u>\$ 88,166</u>
<b>Liabilities and Shareholders' Equity:</b>		
Current liabilities:		
Accounts payable	\$ 223	\$ 216
Due to franchisor, net	1,250	1,535
Deferred revenue	1,530	1,024
Note payable, net	1,250	1,250
Operating lease liabilities	2,746	2,305
Finance lease liabilities	835	356
Accrued liabilities	5,249	4,892
Total current liabilities	13,083	11,578
Non-current liabilities:		
Note payable, net	20,737	21,742
Operating lease liabilities	6,553	5,755
Finance lease liabilities	2,954	1,237
Total non-current liabilities	30,244	28,734
Total liabilities	43,327	40,312
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	653	529
Accumulated deficit	(128,286)	(126,481)
Total shareholders' equity	46,173	47,854
Total liabilities and shareholders' equity	<u>\$ 89,500</u>	<u>\$ 88,166</u>

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

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

	Fiscal Year Ended	
	July 6, 2024	July 1, 2023
Revenues		
Rentals and fees	\$ 52,680	\$ 54,580
Merchandise sales	1,815	2,301
Total revenues	54,495	56,881
Cost of revenues		
Cost of rentals and fees	17,589	19,580
Cost of merchandise sold	1,866	1,853
Total cost of revenues	19,455	21,433
Gross profit	35,040	35,448
Store expenses		
Personnel costs	15,354	15,418
Occupancy costs	3,977	3,874
Advertising	858	1,397
Other store expenses	13,495	13,863
Other general and administrative expenses	5,274	5,809
Selling, general and administrative expenses	38,958	40,361
Operating (loss)	(3,918)	(4,913)
Interest expense and other, net	(2,871)	(2,877)
Loss before income taxes	(6,789)	(7,790)
Income tax(expense)	(1,093)	(1,342)
Earnings from equity method investments	8,138	8,534
Net income (loss)	\$ 256	\$ (599)
Earnings per share - basic and diluted	\$ 0.02	\$ (0.05)
Basic and diluted weighted average shares outstanding	12,874	12,874
Net income (loss)	\$ 256	\$ (599)
Foreign currency translation adjustments	124	108
Comprehensive income (loss)	\$ 380	\$ (491)

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



bebe stores, inc.  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands)  
**For fiscal Years Ended July 6, 2024 and July 1, 2023**

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Other Comprehensive Income	Deficit	Equity
Balances as of July 2, 2022	12,874	\$ 13	\$ 173,793	\$ 421	\$ (121,763)	\$ 52,464
Net (loss)					(599)	(599)
Shares Issued						—
Other comprehensive income				108		108
Dividends declared and paid					(4,119)	(4,119)
Other					(0)	(0)
Balances as of July 1, 2023	12,874	\$ 13	\$ 173,793	\$ 529	\$ (126,481)	\$ 47,854
Net income					256	256
Shares Issued						—
Other comprehensive income				124		124
Dividends declared and paid					(2,060)	(2,060)
Other					(1)	(1)
Balances as of July 6, 2024	12,874	\$ 13	\$ 173,793	\$ 653	\$ (128,286)	\$ 46,173

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 6, 2024	July 1, 2023
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 256	\$ (599)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Earnings in equity method investment	(8,138)	(8,534)
Cash receipt from equity method investment	8,526	9,208
Depreciation of rental merchandise	12,948	14,894
Write-off of rental merchandise	3,792	3,705
Amortization of intangibles	1,548	1,514
Amortization of intangibles - leases	165	263
Amortization of financing fees	245	240
Amortization of finance lease right of use assets	623	308
Depreciation of property and equipment	379	551
Deferred income taxes	1,049	952
Bargain purchase (gain)	(69)	-
Gain on sale of property, equipment and finance leases	(30)	-
Changes in operating assets and liabilities:		
Receivables	229	(172)
Rental merchandise	(12,951)	(17,914)
Other assets	(32)	423
Prepaid expenses and other	(30)	(32)
Operating lease right-of-use assets	2,871	3,159
Accounts payable	6	(80)
Due to franchisor	(1,535)	(1,230)
Deferred revenue	505	(161)
Accrued liabilities	357	(96)
Operating lease liabilities	(2,871)	(3,159)
Net cash provided by operating activities	7,843	3,240
<b>Cash flows from investing activities:</b>		
Acquisition of franchise stores, net of cash acquired	-	(450)
Return of equity method investment	1,163	1,766
Purchase of property and equipment	(465)	(450)
Proceeds from sale of property and equipment	24	25
Purchase of intangible assets	(50)	(50)
Net cash provided by (used in) investing activities	672	841
<b>Cash flows from financing activities:</b>		
Payments on note payable	(1,250)	(1,250)
Payments on finance lease liabilities	(541)	(263)
Dividends paid	(2,060)	(4,119)
Net cash used in financing activities	(3,851)	(5,632)
Effect of exchange rate changes on cash	124	108
Net increase (decrease) in cash and cash equivalents	4,788	(1,443)
Cash and cash equivalents:		
Beginning of period	6,323	7,766
End of period	\$ 11,111	\$ 6,323
<b>Supplemental Disclosures of Non-Cash Investing and Financing Transactions:</b>		
Acquisition of rental merchandise with non-cash financing	\$ 1,250	\$ 1,535
Right of use assets obtained in exchange for new operating lease liabilities	\$ 4,110	\$ 2,756
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 2,839	\$ 948
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid on interest expense	\$ 2,658	\$ 2,478
Cash paid on income taxes	\$ 191	\$ 92

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

The Company is a partner in BB Brand Holdings LLC ("BBBH"). Through BBBH, 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 year 2024 had 53 weeks and fiscal year 2022 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 6, 2024, and July 1, 2023, the Company had no cash equivalents.

***Accounts receivable and allowance for credit losses***—Prior to July 2, 2023, accounts receivable consist primarily of amounts due from our rent-to-own customer for uncollected rental payments, net of any allowance for doubtful accounts and are collateralized. The Company routinely assessed its accounts receivable and established an allowance for doubtful accounts based on historical collection rates and existing economic conditions. As of July 1, 2023, the allowance for doubtful accounts totaled \$473 thousand.

After the adoption of FASB ASC 326-20 Financial Instruments – Credit losses on July 2, 2023, management determines the allowance using an estimate of expected credit losses, applied to customer groupings with similar risk characteristics, based on historical experience, current economic conditions and certain forward-looking information. Account balances are written-off against the established allowance when management determines it is probable the receivable will not be collected. As of July 6, 2024, the total allowance for credit losses was \$417 thousand. The Company's opening balance in account receivable, net on July 3, 2022 totaled \$410 thousand.

bebe stores, inc.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Investment**— The Company uses the equity method to account for its investment in BBBH and BKST BRAND MANAGEMENT LLC because it has the ability to exercise significant influence but not control. The Company's share of earnings as reported by BBBH and BKST are recorded as earnings in equity method investments on the consolidated statements of operations and comprehensive income (loss).

**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.

**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 two 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 Accounting Standards Codification (ASC) 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 was no impairment of intangible assets and long-lived assets recorded for the fiscal years ended July 6, 2024, and July 1, 2023.

**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 fiscal years ended July 6, 2024, and July 1, 2023.

**Liquidity**— As of July 6, 2024, the Company has working capital of approximately \$13.5 million, which consists of current assets of \$26.6 million and current liabilities of \$13.1 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

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

likely be sufficient to fund operations and meet financial obligations through at least the next twelve months from the issuance of these consolidated financial statements.

***Revenues***

***Rental Revenues***

Merchandise, such as furniture, appliances and consumer electronics, are rented to customers pursuant to rental purchase agreements which provide for weekly, semi-monthly or monthly rental terms with non-refundable rental payments. At the end of each rental term, the customer may renew the agreement for the next rental term, by making a payment in advance. The customer can acquire ownership of the merchandise on lease by completing payment of all required rental periods. The Company maintains ownership of the rental merchandise until all payment obligations are satisfied. The customer can terminate the lease agreement at any time during the lease term and return the leased merchandise to the store. All prior rental payments are nonrefundable.

The accounting guidelines of ASC 842, *Leases*, 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 6, 2024, was \$1.5 million. The Company expects to recognize all of this deferred revenue as rental revenue during the fiscal year ending July 05, 2025.

Rental revenue totaled \$43.7 million and \$45.4 million for the years ended July 6, 2024, and July 1, 2023, 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 operations and comprehensive income (loss). 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 \$1.8 million and \$1.9 million during the years ended July 6, 2024, and July 1, 2023, 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 \$7.2 million and \$7.3 million during the years ended July 6, 2024, and July 1, 2023, 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 from merchandise sales and early purchase option is recognized in accordance with ASC 606, *Revenue from Contracts with Customers*, 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 \$1.8 million and \$2.3 million during the fiscal years ended July 6, 2024 and July 1, 2023 respectively.

**Advertising costs**— Costs incurred for producing and communicating advertising are expensed when incurred. Advertising expense was \$0.9 million and \$1.4 million for the fiscal years ended July 6, 2024 and July 1, 2023, 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 a portion of the valuation allowance against certain U.S. federal and state deferred tax assets in the quarter ended April 2, 2022 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**

***Income taxes — continued***

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

The Company recorded a valuation allowance against its net deferred tax assets that are in excess of the deferred tax liabilities (excluding “naked credits”). Naked credits refer to deferred tax liabilities associated with the tax amortization of goodwill and indefinite lived intangible assets that are not amortized for financial reporting purposes. 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 is available to offset the naked credits.

***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 (loss)***—The Company’s comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments for the period presented. Such components of comprehensive income (loss) are shown in the consolidated statements of operations and comprehensive income (loss).

***Recent Accounting Standards – Adopted and Pending Adoption***

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 adopted this ASU in 2024 and it did not have a material impact on its consolidated financial statements.

bebe stores, inc.  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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*. This guidance is effective for the fiscal year beginning after December 15, 2022. The Company adopted this ASU in 2024, and it did not have a material impact on its consolidated financial statements.

In July 2023, the Company adopted Accounting Standards Update (ASU) 2016-13 and all subsequent ASUs that modified ASU 2016-13, which have been codified under ASC 326, Financial Instruments - Credit Losses. The Company adopted this guidance using the modified retrospective approach, as required, and has not adjusted prior period comparative information and will continue to disclose prior period financial information in accordance with previous accounting guidance. Adoption of ASC 326 to the estimate of the allowance for credit losses was insignificant.

**Reclassification** — Certain prior year amounts have been reclassified for consistency with current year presentation. The reclassifications had no impact on the reported results of operations.

**2. 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 Company's board of directors, 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 of directors 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).



**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. ACQUISITIONS**

*Fiscal Year 2024*

No acquisitions in fiscal year 2024.

*Fiscal Year 2023*

On August 18, 2022, the Company completed the acquisition of 1 Buddy's Home Furnishings stores from MSLA Group, Inc for total purchase price of \$250 thousand paid in cash. As part of the acquisitions, the Company acquired certain assets related to 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 total assets acquired totaled \$264 thousand, including \$100 thousand of goodwill. The liabilities assumed totaled \$14 thousand. The goodwill represents the excess of the purchase price over the fair value of the net assets acquired and liabilities assumed.

On October 28, 2022, the Company completed the acquisition of 1 Buddy's Home Furnishings stores from Blue Ocean Partners, LLC for total purchase price of \$200 thousand paid in cash.

**4. RELATED PARTY TRANSACTIONS**

B. Riley Financial, Inc. provided information technology, back-office, and related services to the Company. The Company incurred \$211 thousand and \$211 thousand of such expenses with B. Riley Financial Inc. during the fiscal years ended July 6, 2024, and July 1, 2023, respectively. The outstanding balances payable to B. Riley Financial, Inc. were \$123 thousand and \$53 thousand at July 6, 2024, and July 1, 2023, respectively.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. RENTAL MERCHANDISE**

The following is a summary of rental merchandise, net of accumulated depreciation as of July 6, 2024, and July 1, 2023:

Rental Merchandise (in thousands)	As of July 6, 2024	As of July 1, 2023
On rent		
Cost	\$ 22,073	\$ 24,629
Less accumulated depreciation	(11,176)	(11,948)
Net book value, on rent	10,897	12,681
Held for rent		
Cost	6,200	6,522
Less accumulated depreciation	(2,862)	(2,526)
Net book value, held for rent	3,338	3,996
Total rental merchandise , net of accumulated depreciation	\$ 14,235	\$ 16,677

Damaged or lost merchandise is written off monthly. Maintenance and repairs to leased merchandise are expensed as incurred. The Company wrote off \$3.8 million and \$3.7 million of rental merchandise for the fiscal years ended July 6, 2024, and July 1, 2023, respectively.

The Company recorded \$12.9 million and \$14.9 million of depreciation expense for rental merchandise for the fiscal years ended July 6, 2024, and July 1, 2023, respectively.

**6. 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

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. EQUITY METHOD INVESTMENTS - Continued**

intellectual property, including domain names, social media accounts and agreements with certain of its international distributors to BBBH. The Company's partner in the venture, Bluestar Alliance, LLC ("Bluestar"), continues to leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for BBBH and manages its day-to-day operations. BBBH continues to pursue a licensing strategy designed to capitalize on the value of bebe's brand in all categories and channels on a global scale. The decision to exit its retail operations was the result of continued operating losses.

bebe's equity investment in BBBH generates the most significant amount of equity earnings and represented approximately 83% and 83% of the Company's total equity earnings for the fiscal years ended July 6, 2024 and July 1, 2023, respectively.

The summarized financial statements for the twelve-month periods ended June 30, 2024, and June 30, 2023 for BBBH is as follows:

<b>BB Brand Holdings LLC</b>			
	As of		As of
	<b>June 30, 2024</b>		<b>June 30, 2023</b>
	(in thousands)		(in thousands)
Total Assets	\$ 9,013	\$	9,330
Total Liabilities	\$ 1,315	\$	776

<b>BB Brand Holdings LLC</b>			
	Fiscal Year Ended		
	(in thousands)		
	<b>June 30, 2024</b>		<b>June 30, 2023</b>
Revenue	\$ 16,136	\$	16,605
Net Income	\$ 13,617	\$	14,061

*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. On October 19, 2018, bebe partnered with Bluestar to acquire the Brookstone brand and certain related assets. The carrying value of this entity was \$13.5 million as of July 6, 2024, and \$14.7 million as of July 1, 2023.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. EQUITY METHOD INVESTMENTS - Continued**

Distributions received from the Company's investments for the twelve-month periods ended July 6, 2024, and July 1, 2023 are as follows:

**Investment Distributions Received**

	<b>Fiscal Year Ended</b> (in thousands)	
	<b>July 6, 2024</b>	<b>July 1, 2023</b>
BB Brand Holdings LLC	\$ 7,150	\$ 7,750
BKST Brand Management LLC	2,539	3,224
Total	\$ 9,689	\$ 10,974

**Item 7. PROPERTY AND EQUIPMENT, NET**

<b>Property and Equipment, net</b> (in thousands)	<b>As of</b>	<b>As of</b>
	<b>July 6, 2024</b>	<b>July 1, 2023</b>
Leasehold Improvements	\$ 1,949	\$ 1,535
Signs	463	439
Furniture and Fixtures	381	360
Vehicles	141	141
Equipment	91	91
Computers	28	26
Other	10	6
Property and Equipment, gross	3,063	2,598
Less accumulated depreciation	1,729	1,350
Property and Equipment, net	\$ 1,334	\$ 1,248

The Company recorded \$0.4 million of depreciation expense for property and equipment for the fiscal year ended July 6, 2024. The Company recorded \$0.6 million of depreciation expenses for property and equipment for the fiscal year ended July 1, 2023.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. INTANGIBLE ASSETS, NET**

Amortizable intangible assets consist of the following:

<b>July 6, 2024</b>				
<i>(in thousands)</i>	<u>Useful life (years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	5	\$ 7,229	\$ 5,126	\$ 2,103
Franchise rights	10	805	253	552
Total intangible assets		<u>\$ 8,034</u>	<u>\$ 5,379</u>	<u>\$ 2,655</u>

  

<b>July 1, 2023</b>				
<i>(in thousands)</i>	<u>Useful life (years)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	5	\$ 7,209	\$ 3,659	\$ 3,550
Franchise rights	10	805	171	634
Total intangible assets		<u>\$ 8,014</u>	<u>\$ 3,831</u>	<u>\$ 4,183</u>

The Company recorded \$1.5 million of amortization expense for intangible assets for the fiscal year ended July 6, 2024. The Company recorded \$1.5 million of amortization expense for intangible assets for the fiscal year ended July 1, 2023.

Estimated amortization expense for each fiscal year is as follows:

<b>Fiscal Year</b> <i>(in thousands)</i>	<b>Estimated Remaining Amortization Expense</b>
2025	\$ 1,521
2026	689
2027	119
2028	84
2029	80
2030 and after	162
Total	<u>\$ 2,655</u>

**9. DUE TO FRANCHISOR**

The Company, in the normal course of business, purchases rental merchandise from the franchisor. As of July 6, 2024, and July 1, 2023, the amount due to franchisor for purchased rental merchandise totaled \$1.2 million and \$1.5 million, respectively.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. 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 1, 2023 was 6.8%. The 2026 Secured Notes are collateralized by a first lien on all Company assets, pledges of capital stock including pledges of the Company’s equity interest in BB Brand Holdings, LLC and BKST BRAND MANAGEMENT LLC. The proceeds were used to repay the Company’s outstanding \$21.7 million Secured Notes in full and to provide additional growth capital. At July 6, 2024, the outstanding balance on the 2026 Secured Notes was \$22.5 million.

On March 21, 2023, the Company entered into an amendment to its 2026 Secured Notes credit agreement. The amendment moved from the Eurodollar Rate pricing model to a Term SOFR based pricing model and changed the terms of the calculation of the interest rate. Beginning March 21, 2023, the interest rate on the 2026 Secured Notes will be calculated at the beginning of each fiscal quarter based on the Company’s previous fiscal quarters consolidated fixed charge coverage ratio and leverage ratio (as defined in the agreement) as follows:

- a. If the Company’s consolidated fixed charge coverage ratio is equal to or greater than 1.10:1.00 and the leverage ratio is greater than 1.50:1.00 then the interest rate will be Term SOFR (subject to a 1.00% floor) plus 5.50%.
- b. If the Company’s consolidated fixed charge coverage ratio is equal to or greater than 1.10:1.00 and the leverage ratio is less than or equal to 1.50:1.00 then the interest rate will be Term SOFR (subject to a 1.00% floor) plus 5.25%.
- c. If the Company’s consolidated fixed charge coverage ratio is less than 1.10:1.00 then the interest rate will be Term SOFR (subject to a 1.00% floor) plus 6.00%.

As of July 6, 2024, the interest rate on the 2026 Secured Notes was 11.1%.

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 \$0.2 million and \$0.2 million of debt issuance costs for the years ended July 6, 2024, and July 1, 2023, respectively.

Interest expense on the note was \$2.9 million and \$2.9 million for the fiscal years ended July 6, 2024 and July 1, 2023, respectively. This amount includes amortization of debt finance costs.

On September 30, 2022, the Company commenced quarterly principal payments of 1.25% of the debt balance as of September 30, 2022, of \$25.0 million or a quarterly payment of \$0.3 million, to SLR Credit Solutions, as per the credit agreement for the 2026 Secured Notes. These quarterly principal payments will continue through the maturity date of August 24, 2026. The Company made \$1.3 million of such principal payments during the year ended July 6, 2024.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**10. NOTE PAYABLE – Continued**

Note payable, net at July 6, 2024 consisted of the following:

<b>Note Payable</b> (in thousands)		
Total note payable	\$	22,500
Less debt issuance costs		(513)
Total note payable, net		21,987
Less current portion of note payable		(1,250)
Note payable, net - non-current	\$	20,737

The aggregate maturity for the note payable is as follows:

<b>Estimated Remaining Principal Payments</b> (in thousands)		
Fiscal year 2025	\$	1,250
Fiscal year 2026		1,250
Fiscal year 2027		20,000
Total estimated remaining principal payments	\$	22,500

**11. ACCRUED LIABILITIES**

Accrued liabilities consist of the following:

	<b>As of</b> <b>July 6, 2024</b> (in thousands)	<b>As of</b> <b>July 1, 2023</b> (in thousands)
Gift certificates, gift cards and store credits	\$ 3,037	\$ 3,048
Other accrued liabilities	2,115	1,844
	<u>\$ 5,152</u>	<u>\$ 4,892</u>

**12. ALLOWANCE FOR CREDIT LOSSES**

The following table presents an analysis of the activity in the allowance for credit losses on accounts receivable for the year ended July 6, 2024, and includes the cumulative effect of adopting ASC 326. (see footnote 1.)

Allowance at July 1, 2023	\$ 473
Cumulative Effect of the Adoption of ASC 326	-
Allowance at July 1, 2023	473
Charge-Offs	(56)
Recoveries	-
Net Charge-Offs	(56)
Provision for Credit Losses	-
<b>Allowance at July 6, 2024</b>	<b><u>\$ 417</u></b>

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. SHAREHOLDERS' EQUITY**

**Common Stock**

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

**Preferred Stock**

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

**14. DISAGGREGATED REVENUES**

The following table presents disaggregated revenue for the Buddy's franchise stores for the fiscal years ended July 6, 2024, and July 1, 2023. The Company's brand royalty joint ventures do not generate operating revenue and is excluded from this presentation.

	<b>Fiscal Year Ended</b>	
	<b>July 6, 2024</b>	<b>July 1, 2023</b>
	<b>(in thousands)</b>	<b>(in thousands)</b>
Revenues		
Rentals and fees	\$ 52,680	\$ 54,580
Merchandise sales	1,815	2,301
Total revenues	\$ 54,495	\$ 56,881



**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 2034. 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 2029. The Company's corporate headquarter is located in a leased office in San Francisco, California, with a lease term expiring in December 2025.

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.

Supplemental consolidated balance sheet information related to leases is as follows:

	Fiscal Year Ended	
	July 6, 2024	July 1, 2023
Weighted-average remaining lease term:		
Operating leases - stores	4.0 years	3.8 years
Operating leases - autos	3.3 years	3.2 years
Finance leases	4.2 years	4.1 years
Weighted-average discount rate:		
Operating leases - stores	10.5%	10.2%
Operating leases - autos	9.0%	8.9%
Finance leases	9.4%	8.2%

Total operating lease costs by expense type:

**Operating Leases**

	Fiscal Year Ended	
	July 6, 2024	July 1, 2023
	(in thousands)	(in thousands)
Rent expense	\$ 3,625	\$ 3,496
Other expense	352	378
Total occupancy expense	3,977	3,874
Vehicle lease expense	500	502
Total operating lease expense	\$ 4,477	\$ 4,376

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**15. OPERATING AND FINANCE LEASES - Continued**

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 finance lease liability to the present value finance lease liabilities at July 6, 2024:

Fiscal Year	Finance Lease Obligation
	(in thousands)
2024	\$ 1,156
2025	1,156
2026	1,054
2027	823
2028	412
Total undiscounted finance lease liabilities	<u>\$ 4,599</u>
Less interest	(810)
Total present value of finance lease liabilities	<u>\$ 3,789</u>

Reconciliation of undiscounted operating lease liability to the present value operating lease liabilities at July 6, 2024:

Fiscal Year	Operating Lease Obligation
	(in thousands)
2024	\$ 3,484
2025	2,985
2026	2,295
2027	1,561
2028	650
Thereafter	515
Total undiscounted operating lease liabilities	<u>\$ 11,490</u>
Less interest	(2,191)
Total present value of operating lease liabilities	<u>\$ 9,299</u>

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. INCOME TAXES**

The benefit (provision) for income tax consists of:

	<b>Fiscal Year Ended July 6, 2024</b>	<b>Fiscal Year Ended July 1, 2023</b>
	(in thousands)	(in thousands)
Current:		
Federal	\$ -	\$ -
State	(44)	(390)
Foreign	-	-
	<u>\$ (44)</u>	<u>\$ (390)</u>
Deferred:		
Federal	(948)	(801)
State	(101)	(151)
Foreign	-	-
	<u>\$ (1,049)</u>	<u>\$ (952)</u>
Benefit (provision) for income taxes	<u>\$ (1,093)</u>	<u>\$ (1,342)</u>

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

	<b>Fiscal Year Ended July 6, 2024</b>	<b>Fiscal Year Ended July 1, 2023</b>
	(in thousands)	(in thousands)
United States	\$ 1,348	\$ 743
Total income from continuing operations before income taxes	<u>\$ 1,348</u>	<u>\$ 743</u>

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

	<b>Fiscal Year Ended July 6, 2024</b>	<b>Fiscal Year Ended July 1, 2023</b>
Federal statutory rate	21.0%	21.0%
State rate, net of federal benefit	2.6%	38.1%
Valuation allowance	24.3%	63.5%
Naked credits	22.6%	43.6%
Foreign tax credits	11.2%	15.7%
Other	(0.6%)	(1.2%)
Effective tax rate	<u>81.1%</u>	<u>180.7%</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.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. INCOME TAXES – Continued**

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

	As of <b>July 6, 2024</b> (in thousands)	As of <b>July 1, 2023</b> (in thousands)
Gift certificates, gift cards and store credits	\$ 812	\$ 818
Other accrued expenses	-	-
Prepaid expenses	(153)	(146)
Basis difference of fixed assets	312	317
Intangible assets	54	154
Foreign tax credit	450	602
Tax credit and net operating loss carryovers	76,129	76,475
Retail merchandise	(208)	(129)
Partnership JV interest	681	1,121
Other	(565)	(267)
Total non-current	77,512	78,945
Valuation allowance	(65,705)	(66,089)
Deferred tax assets (liabilities), net	\$ 11,807	\$ 12,856

As of July 6, 2024, the Company has federal and state net operating loss carryforwards of approximately \$295.8 million and \$228.0 million, respectively. If not used, these carryforwards will expire at various dates from fiscal year 2024 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 \$0.4 million, which will be available to offset future taxable income. If not used, the foreign tax credit carryforwards will expire at various dates from fiscal year 2025 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.

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

The Company recorded a valuation allowance against its net deferred tax assets that are in excess of the deferred tax liabilities (excluding “naked credits”). Naked credits refer to deferred tax liabilities associated with the tax amortization of

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. INCOME TAXES - Continued**

goodwill and indefinite lived intangible assets that are not amortized for financial reporting purposes. 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 is available to offset the naked credits.

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 6, 2024, the Company did not recognize such interest or penalties. The Company had no accruals for interest and penalties at July 6, 2024.

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

**17. COMMITMENTS AND CONTINGENCIES**

*Legal Proceedings*

The Company 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 6, 2024 and July 1, 2023 were \$3.3 million and \$3.4 million, respectively.

**bebe stores, inc.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 condensed consolidated financial statements.

On October 25th, 2024, the Company signed and closed a Membership Interest Purchase Agreement to sell all of its membership interests in the bebe and Brookstone brand joint ventures, 50% in BB Brand Holdings LLC, and 28.5% in BKST Brand Management LLC respectively, for \$46.624 million in cash proceeds to bebe. With these proceeds, the Company repaid all outstanding amounts under the Credit Agreement and the other loan documents with SLR Credit Solutions. The Company's Board of Directors declared a special cash dividend of \$2.00 per common share to its shareholders of record at the close of business on November 11, 2024, payable on or after November 22, 2024. Following the payment of this dividend and estimated taxes associated with the sale, the Company plans to retain approximately \$8.5 million in cash to fund working capital for the Company's 60+ Buddy's Home Furnishing franchise stores and corporate expenses.