bebe stores, inc.
Form 10-Q
February 12, 2018

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 0-24395

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company”, and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period or complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the

Exchange Act. ¨

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

The number of shares of the registrant’s common stock, par value $0.001 per share, outstanding as of January 31, 2018 was 11,270,293.

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bebe stores, inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

bebe stores, inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

(unaudited)

	As of December 30, 2017	As of July 1, 2017
Assets:		
Current assets:		
Cash and equivalents	$ 16,835	$ 17,032
Receivables	1,202	5,222
Assets of discontinued operations held for sale	8,613	25,796
Assets of discontinued operations not held for sale	—	818
Prepaid and other	1,401	1,599
Total current assets	28,051	50,467
Equity method investment	907	1,257
Other assets	576	797
Total assets	$ 29,534	$ 52,521
Liabilities and Shareholders' Deficit:		
Current liabilities:		
Accounts payable	$ 11,778	$ 15,265
Accrued liabilities	9,212	12,013
Bridge loan, net of issue discount	16,077	33,158
Liabilities of discontinued operations	1,158	1,955
Total current liabilities	38,225	62,391
Non-current note payable	685	1,142
Liability for uncertain tax positions	90	88
Total liabilities	39,000	63,621
Commitments and contingencies		
Shareholders' deficit:		
Preferred stock-authorized 1,000,000 shares at $0.001 par value per share; no shares issued and outstanding	—	—
Common stock-authorized 14,000,000 shares at $0.001 par value per share; issued and outstanding 8,114,275 and 8,096,090 shares	8	8
Additional paid-in capital	147,234	146,999
Accumulated other comprehensive income	573	573
Accumulated deficit	(157,281)	(158,680)
Total shareholders' deficit	(9,466)	(11,100)
Total liabilities and shareholders' deficit	$ 29,534	$ 52,521

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
Net sales	$—	$—	$—	$—
Cost of sales, including production and occupancy	—	—	—	—
Gross margin	—	—	—	—
Selling, general and administrative expenses	2,387	10,875	4,646	20,339
Operating loss	(2,387)	(10,875)	(4,646)	(20,339)
Interest (expense) and other, net	(828)	121	(1,874)	134
Loss from continuing operations, before income taxes	(3,215)	(10,754)	(6,520)	(20,205)
Income tax provision	—	3	—	3
Earnings in equity method investment	2,141	1,029	3,166	1,479
Loss from continuing operations, net of tax	(1,074)	(9,728)	(3,354)	(18,729)
Income (loss) from discontinued operations, net of tax	(190)	4,498	4,752	5,719
Net income (loss)	$(1,264)	$(5,231)	$1,398	$(13,009)
Basic per share amounts:				
Net loss from continuing operations, net of tax	$(0.13)	$(1.21)	$(0.41)	$(2.33)
Net income (loss) from discontinued operations, net of tax	(0.02)	0.56	0.58	0.71
Net income (loss)	$(0.16)	$(0.65)	$0.17	$(1.62)
Diluted per share amounts:				
Net loss from continuing operations, net of tax	$(0.13)	$(1.21)	$(0.41)	$(2.33)
Net income (loss) from discontinued operations, net of tax	(0.02)	0.56	0.58	0.71
Net income (loss)	$(0.16)	$(0.65)	$0.17	$(1.62)
Basic weighted average shares outstanding	8,142	8,040	8,129	8,023
Diluted weighted average shares outstanding	8,142	8,040	8,129	8,023
Other comprehensive income (loss)	—	—	—	—
Foreign currency translation adjustments	15	(101)	(1)	(168)
Other comprehensive income (loss)	15	(101)	(1)	(168)
Comprehensive income (loss)	$(1,249)	$(5,332)	$1,397	$(13,177)

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	December 30, 2017	December 31, 2016
Cash flows from operating activities:		
Net income (loss)	$1,398	$(13,009)
Adjustments to reconcile net loss to cash used by operating activities:		
Gain on sale of assets of discontinued operations held for sale	(6,666)	—
Non-cash compensation expense	244	602
Depreciation and amortization	—	8,527
Non-cash charge for asset impairment	—	2,673
Earnings in equity method investment	(3,166)	(1,479)
Cash receipt from equity method investment	3,516	1,850
Other	—	(259)
Changes in operating assets and liabilities:		
Receivables	4,842	91
Inventories	—	5,470
Prepaid expenses and other	428	5,796
Accounts payable	(3,406)	1,607
Deferred rent and other lease incentives	—	(1,542)
Accrued liabilities	(2,859)	2,755
Net cash (used) provided by operating activities	(5,669)	13,082
Cash flows from investing activities:		
Purchase of property and equipment	(83)	(1,723)
Proceeds from the sale of assets of discontinued operations held for sale	23,687	—
Net cash provided (used) by investing activities	23,604	(1,723)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	2
Repayment of bridge loan	(18,133)	—
Net cash (used) provided by financing activities	(18,133)	2
Net decrease in cash and equivalents	(198)	11,361
Effect of exchange rate changes on cash	1	(94)
Cash and equivalents:		
Beginning of period	17,032	55,525
End of period	$16,835	$66,792

See accompanying notes to condensed consolidated financial statements.

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

The accompanying condensed consolidated balance sheets of the Company as of December 30, 2017 and July 1, 2017, the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended December 30, 2017 and December 31, 2016 and the condensed consolidated statements of cash flows for the six months ended December 30, 2017 and December 31, 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X, without audit. Accordingly, they do not include all of the information required by accounting principles generally accepted in the United States of America for annual financial statements. Therefore, these condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended July 1, 2017.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position at the balance sheet dates and the results of operations for the periods presented have been included. The condensed consolidated balance sheet at July 1, 2017, presented herein, was derived from the audited balance sheet included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 1, 2017.

Going Concern Considerations

As of December 30, 2017, our current liabilities exceeded our current assets by $10.2 million. The current liabilities include a bridge loan of $16.1 million, net of issue discount, used to pay lease termination expenses, which was to mature on May 30, 2018. On January 12, 2018, however, the bridge loan was canceled in its entirety in exchange for common stock in the Company (see Subsequent Events below). Assuming this debt conversion had occurred on December 30, 2017, our current assets would have exceeded our current liabilities by $5.9 million. We continue to hold the LA studio for sale and believe we will eventually sell the building for proceeds in excess of the recorded book value. We expect our operating costs to reduce to an insignificant amount once we have completed our obligations under the transition services agreement. Should we require additional liquidity and in the event that the building is not sold, we believe it can be leveraged. As a result of our improved liquidity position and expectation of available financing, therefore, we have concluded that cash and cash equivalents, cash flows from operating activities and available financing, if necessary, will be sufficient to fund operations and meet our financial obligations through February 28, 2019.

Corporate Restructure and Strategic Partnership

During the fourth quarter of fiscal 2017, bebe stores, inc. (“bebe” or the “Company”) expanded upon its strategic joint venture arrangement entered into during fiscal 2016, and has 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 and is committed to selling its Los Angeles Design Studio. Under this partnership, during fiscal 2016 bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including domain names, social media accounts and agreements with certain of its international distributors to its joint venture BB Brand Holdings LLC (the “Joint Venture”). 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 the Joint Venture and will manage its day-to-day operations. Going forward, the Joint Venture will pursue a licensing strategy designed to capitalize on the value of bebe's brand in all categories and channels on a global scale. The Company expects the Joint Venture to generate long-term, committed royalties from prospective licensees of the bebe brand name. The decision to exit its retail operations was the result of continued operating losses.

The Company has agreed to provide transition services to Global Brands Group (“GBG”), an unrelated third party on a short-term basis not expected to go beyond November 30, 2018 for which it receives a service fee that is expected to cover the Company's costs of providing the services. GBG has entered into a license agreement with the Joint Venture and beginning May 2, 2017 began to operate the website www.bebe.com as well as the international business formerly operated by the Company. In connection with this arrangement, GBG purchased the remaining finished goods inventory of from the Company on May 2, 2017.

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The summarized income statement for the three and six month period ended December 30, 2017 for the Joint Venture is as follows:

	Three Months Ended		Six Months Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(in thousands)		(in thousands)	
Revenue	$5,114	$ 2,395	$8,008	$ 3,733
Gross Profit	5,114	2,395	8,008	3,733
Net income from continuing operations	4,281	2,058	6,332	2,958
Net Income	$4,281	$ 2,058	$6,332	$ 2,958

The Company authorized the Joint Venture to administer payments to a former landlord pursuant to a note payable in connection with a store closure. The amount of each payment is deducted from the quarterly distribution made to bebe from the Joint Venture. For the three and six month period ended December 30, 2017, the amount so deducted by the Joint Venture was $228,429 and $456,858, respectively.

FISCAL YEAR

The Company’s fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. The three month periods ended December 30, 2017 and December 31, 2016 each include 13 weeks.

RECENT ACCOUNTING PRONOUNCEMENTS

See note 1 to the Company’s Annual Report on Form 10-K for the fiscal year ended July 1, 2017.

DISCONTINUED OPERATIONS

In the fourth quarter of fiscal 2017, as a result of continued operating losses, the Company closed all of its stores and transferred its license to operate its online store and international operations to its equity method investment.

The results of the Company's retail operations have been presented as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss) for all periods presented and are as follows:

	Three Months Ended		Six Months Ended	
	December 30, 2017	December 31, 2016	December 30, 2017	December 31, 2016
	(in thousands)		(in thousands)	
Net sales	$—	$101,931	$—	$189,169
Cost of sales, including production and occupancy	—	(66,903)	(10)	(126,647)
Gross margin	—	35,028	(10)	62,522
Selling, general and administrative expenses	(320)	(30,524)	(1,886)	(56,780)
Gain on sale of assets	—	—	6,666	—
Income (loss) from discontinued operations, before income tax provision	(320)	4,504	4,770	5,742
Tax provision	130	(6)	(18)	(23)
Income (loss) from discontinued operations, net of tax provision	$(190)	$4,498	$4,752	$5,719

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Costs associated with these exit activities are as follows:

	Lease Termination	Severance	Total
	(in thousands)		
Balance as of July 1, 2017	$2,024	$ 1,772	$3,796
Costs incurred in fiscal 2018	—	1,143	1,143
Cash payments made	(654)	(1,354)	(2,008)
Balance as of December 30, 2017	$1,370	$ 1,561	$2,931

The Company anticipates completing lease termination payments by July 1, 2019 and severance payments before December 31, 2018.

ASSETS OF DISCONTINUED OPERATIONS HELD FOR SALE

Assets of discontinued operations held for sale consist of the following, which are stated at the lower of cost or market:

Description	December 30, 2017	July 1, 2017
	(in thousands)	
Distribution Center	$—	$15,622
LA Studio	8,613	8,613
Condominiums	—	1,561
Total	$8,613	$25,796

The Company sold its distribution center and condominiums for net proceeds totaling $23.7 million during the first quarter of fiscal 2018 and recorded a gain on sale totaling $6.7 million, which is included in income from discontinued operations, net of tax.

FAIR VALUE MEASUREMENTS

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

As of December 30, 2017, the Company held no financial instruments that are measured at fair value on a recurring basis.

The following items are measured at fair value on a recurring basis as of July 1, 2017:

Description	July 1, 2017	Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair value measurements at reporting date (In thousands)			
Cash equivalents	$ 236	$ 236	$ —	$ —
Total	$ 236	$ 236	$ —	$ —

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INCOME TAXES

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expenses. The Company regularly assesses the need for a valuation allowance against its deferred tax assets. In evaluating whether it is more likely than not that some or all of the Company's deferred tax assets will not be realized, it considers all available positive and negative evidence, including recent year's operational results which is objectively verifiable evidence. As a result of its evaluation of the realizability of its deferred tax assets as of December 30, 2017, the Company continues to believe, based upon all available evidence, that it is more likely than not that the majority of its deferred tax assets will continue to not be realized. Accordingly, the tax benefit related to the current quarter losses is not recognized. The Company will continue to maintain a valuation allowance against its deferred tax assets until the Company believes it is more likely than not that these assets will be realized in the future. If sufficient positive evidence arises in the future indicating that all or a portion of the deferred tax assets meet the more likely than not standard, the valuation allowance will be reversed accordingly in the period that such determination is made.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law, which reduced the current corporate federal income tax rate to 21% from 35%. Accordingly, during the second quarter of fiscal 2018, we revalued our U.S. deferred tax assets and liabilities based on the lower rate. We simultaneously recognized the effect of this rate change on our deferred tax asset valuation allowances. As a result, the Act had no impact to the statement of operations and comprehensive loss.

BRIDGE LOAN

The Bridge Loan on the accompanying balance sheets is presented net of original issue discount and includes debt issuance costs. During the six month period ended December 31, 2017, we repaid $18.1M of the Bridge Loan's outstanding balance. Amortization of the original issue discount and debt issuance costs for the same period totaled $1.1M.

EARNINGS (LOSS) PER SHARE

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

There is no difference between the number of shares used in the basic and diluted earnings per share computations. Excluded from the computation of the number of diluted weighted average shares outstanding were options to purchase 72,531 and 389,453 shares of common stock for the three months ended December 30, 2017 and December 31, 2016 and 83,752 and 312,572 shares of common stock for the six months ended December 30, 2017 and December 31, 2016, respectively, which would have been anti-dilutive.

LEGAL PROCEEDINGS

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

A former employee filed a complaint against the Company on November 2, 2010, in the Superior Court of California, San Bernardino County (Case No. CIVRS1011823) alleging failure to pay wages, failure to provide meal and rest periods, and other violations of the California Labor Code and Business & Professions Code §17200 et. seq. The plaintiff purported to bring the action on behalf of current and former California bebe stylists and sales associates who are similarly situated. The complaint sought damages, civil penalties, and injunctive relief among other remedies. In June 2016, the parties entered into a settlement agreement conditioned upon final Court approval. In December 2017, the Court issued its order granting final approval of the class action settlement. The parties are in the process of the administration of the settlement with the class members. The Company believes the settlement amounts, accrued in Q4 of fiscal 2017, will not have a material adverse effect on our business, financial condition or results of operations.

A customer served the Company with a complaint on January 31, 2014, in the United States District Court for the Northern District of California (Civil Action No. C14-267 DMR) alleging various violations of the Telephone Consumer Protection Act (47 U.S.C. §§227 et seq.) and violations of California’s unfair competition law (California Business and Professions Code §§ 17200, et. seq.) stemming from an alleged failure to obtain customer consent prior to sending text messages. The plaintiff purported to bring the action on behalf of others similarly situated. The complaint sought damages and

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injunctive relief among other remedies. A companion proceeding, previously reported, in the United States District Court for the Northern District of California (Civil Action No. 3:14-CV-01968)) was consolidated with this action. In April 2016, the parties entered into a settlement agreement conditioned upon final Court approval. In December 2017, the Court issued its order granting final approval of the class action settlement. The parties are in the process of the administration of the settlement with the class members. The Company believes the settlement amounts, accrued in fiscal 2017, will not have a material adverse effect on our business, financial condition or results of operations.

The Company is subject to various other legal proceedings and claims arising in the ordinary course of business. Regarding all matters referenced herein, the Company intends to vigorously defend itself and has accrued estimated amounts of liability where required, appropriate and determinable. Any such estimates may be revised as further information becomes available. The results of any litigation are inherently uncertain and as such the Company cannot assure that it will be able to successfully defend itself in these proceedings or that any amounts accrued are sufficient.
SUBSEQUENT EVENTS

Debt Conversion, Purchase and Sale Agreement
On January 12, 2018, the Company entered into an agreement with its bridge loan lender under which the lender canceled all of the outstanding principal amount and accrued interest under the bridge loan in exchange for 2,819,528 shares in the Company at a conversion price of $6.00 per share. The bridge loan carried a balance, including accrued interest, of $16.9 million as of December 30, 2017. The lender also acquired 250,000 shares of common stock from both the Company and its principal shareholder, also at $6.00 per share for which the Company received $1.5 million. Following the closing of these transactions the lender owned 3,319,528 shares of common stock or approximately 29.4% of our outstanding capital stock.
Pursuant to this agreement, certain changes were made to the composition of the Company’s board of directors, including (i) the size of the board was set at five members, (ii) two of the Company’s independent directors resigned from the board effective immediately, (iii) the remaining two other independent directors submitted resignations to the board to be effective no later than October 1, 2018, and (iv) two new directors were appointed to the board as designees of the purchaser.
The agreement also provides that we will at least annually distribute a cash dividend to our shareholders from the cash proceeds received by us from the Joint Venture after providing for our expenses and liabilities.
Investor Agreement and Material Modification to Rights of Security Holders
Also on January 12, 2018, the purchaser entered into an agreement with our principal stockholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal stockholder 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 plan reduces the likelihood that such changes will occur, by acting as a deterrent to any person acquiring shares of the Company equal to or exceeding certain thresholds without the approval of the board.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from those

anticipated in these forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “thinks” and similar expressions are forward-looking statements. Forward-looking statements include statements about our expected results of operations, capital expenditures and store openings. Although we believe that these statements are based upon

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reasonable assumptions, we cannot assure you that our goals will be achieved. These forward-looking statements are made as of the date of this Form 10-Q, and we assume no obligation to update or revise them or provide reasons why actual results may differ. Factors that might cause such a difference include, but are not limited to, our ability to respond to changing fashion trends, obtain raw materials and find manufacturing facilities, attract and retain key management personnel, develop new concepts, successfully open future stores, successfully manage our online business, maintain and protect information technology, respond effectively to competitive pressures in the apparel industry and adverse economic conditions and protect our intellectual property as well as declines in comparable store sales performance, changes in the level of consumer spending or preferences in apparel and/or other factors discussed in “Risk Factors” and elsewhere in this Form 10-Q.

OVERVIEW

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this report. The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under “Risks Factors” under Item 1A of this report.

During fiscal 2017 as a result of continued operating losses, we shut down our retail operations and transferred the remainder of our licenses and intellectual property to our equity method investment. We have entered into an agreement to provide transition services to a third party, GBG, that has taken over bebe's online and international licensee businesses. The agreement is scheduled to end November 30, 2018 and we are being paid a fee which we expect to cover substantially all of the costs of providing these services. Once this agreement ends, we will transition to managing our investment in the Joint Venture and we expect to receive a quarterly cash dividend from this investment. In addition, we expect our operating costs to reduce to an insignificant amount once we have completed the transition.

Strategic partnership During the fourth quarter of fiscal 2016, we entered into a strategic joint venture arrangement with Bluestar. Under this partnership, bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including certain domain names, to the Joint Venture and received just over 50% ownership interest in the joint venture. Bluestar contributed $35 million to the Joint Venture that was then paid to bebe and received just under 50% ownership interest in the joint venture. Bluestar will leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for the joint venture and will manage its day-to-day operations. During fiscal 2018 and in future years, the Joint Venture will pursue a licensing strategy designed to capitalize on the value of our brand in all categories and channels on a global scale. We expect the Joint Venture to generate long-term, committed royalties from prospective licensees of the bebe brand name.

Historically, we designed, developed and produced a distinctive line of contemporary women’s apparel and accessories that is unique, sophisticated and timelessly sexy. We were founded by Manny Mashouf, our Chief Executive Officer and Chairman of the Board. We opened our first store in San Francisco, California in 1976, which was also the year we incorporated in California. We marketed our products under the bebe and BEBE SPORT brand names through our retail stores, the significant majority of which were bebe stores, including an on-line store at www.bebe.com, and also through bebe outlet stores. The 82 international licensees’ operated stores in 22 countries and, pursuant to our product licensing, through certain select domestic and international retailers.

Delisting from Nasdaq On December 18, 2017, we delisted from, and ceased trading on, the NASDAQ Stock Market. We began trading on the OTCQB Market, which is operated by OTC Markets Group, a centralized electronic quotation service for over-the-counter securities. The decision of the board of directors to move the listing of its common stock from Nasdaq to the OTCQB was driven by cost savings. We have retained the trading symbol BEBE.

Debt Conversion, Purchase and Sale Agreement On January 12, 2018, we entered into an agreement with our bridge loan lender under which the lender canceled all of the outstanding principal amount and accrued interest under the bridge loan in exchange for 2,819,528 shares of our common stock at a conversion price of $6.00 per share. The bridge loan carried a balance, including accrued interest, of $16.9 million as of December 30, 2017. The lender also

acquired 250,000 shares of common stock from both us and our principal shareholder, also at $6.00 per share for which the Company received $1.5 million. Following the closing of these transactions, the lender owned 3,319,528 shares of common stock or approximately 29.4% of our outstanding capital stock.
Pursuant to this agreement, certain changes were made to the composition of our board of directors, including (i) the size of the board was set at five members, (ii) two of our independent directors resigned from the board effective immediately, (iii) the remaining two other independent directors submitted resignations to the board to be effective no later than October 1, 2018, and (iv) two new directors were appointed to the board as designees of the purchaser.

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The agreement also provides that we will at least annually distribute a cash dividend to our shareholders from the cash proceeds received by us from the Joint Venture after providing for our expenses and liabilities.

Investor Agreement and Material Modification to Rights of Security Holders

Also on January 12, 2018, the purchaser entered into an agreement with our principal stockholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal stockholder to avoid an “ownership change” of the Company within the meaning of Section 382 of the Code. This agreement was entered into in order to preserve certain of our net operating losses for U.S. federal income tax purposes.

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

CRITICAL ACCOUNTING POLICIES

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

The preparation of these financial statements requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements. We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. Our most critical accounting policies are those related to revenue recognition, stock based compensation, inventories, marketable securities, impairment of long lived assets and income taxes. We continually evaluate these accounting policies and estimates, and we make adjustments when facts and circumstances dictate a change. Our accounting policies are described in Note 1 to the consolidated financial statements in our annual report on Form 10-K for the fiscal year ended July 1, 2017. This discussion and analysis should be read in conjunction with such discussion and with our condensed consolidated financial statements and related notes included in Part 1, Item 1 of this quarterly report.

RESULTS OF OPERATIONS

Our fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. The three months ended December 30, 2017 and December 31, 2016 include 13 weeks respectively. The six months ended December 30, 2017 and December 31, 2016 include 26 weeks respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses during the second quarter of fiscal 2018 primarily represents the costs to support the transition services provided to GBG, offset by fees charged to GBG.

For the three months ended December 30, 2017, selling, general and administrative expenses decreased to $2.4 million from $10.9 million for the comparable period of the prior year, a decrease of $8.5 million, or 78.1%. The decrease was primarily driven by the discontinuation of operations in the fourth quarter of fiscal 2017. Expenses were further reduced by $4.3 million of fees charged to GBG during the second fiscal quarter of 2018 pursuant to the transition services agreement entered into in the fourth quarter of fiscal 2017.

For the six months ended December 30, 2017, selling, general and administrative expenses decreased to $4.6 million during the six months ended December 30, 2017 from $20.3 million for the comparable period of the prior year, a decrease of $15.7 million, or 77.2%. The decrease was primarily driven by the impact of $11.2 million of fees charged to GBG during the six months of 2018 pursuant to the transition services agreement entered into in the fourth quarter of fiscal 2017 as well as the discontinuation of operations in the fourth quarter of fiscal 2017.

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Interest and Other (Loss) Income, net. Interest expense, net increased to $0.8 million and $1.9 million for the three and six month periods ended December 30, 2017, reflecting the bridge loan entered into in the fourth quarter of fiscal 2017. Interest expense was nominal during fiscal 2017. As disclosed above, on January 12, 2018, all amounts outstanding under the bridge loan were converted into shares of our common stock. Following that conversion, we will no longer incur any interest expense.
Provision for Income Taxes. Tax provisions for both the three and six month periods ended at both of December 30, 2017 and December 31, 2016 reflect a zero percentage effective tax rate because of our pre-tax losses in both years. The effective tax rate for all periods reflects the continuing impact of maintaining a valuation allowance against net deferred tax assets.

Earnings in equity method investment. Earnings in our equity method investment increased to $2.1 million for the three months ended December 30, 2017, from $1.0 million in the comparable prior year quarter, as a result of improved operating results of our Joint Venture. For the six month period ended December 30, 2017, earnings in our equity method investment increased to $3.2 million from $1.5 million in the first six months of the prior year, an increase of $1.7 million. The increase primarily reflects that the Joint Venture did not exist for the full first fiscal quarter in 2017.

Income (Loss) from Discontinued Operations, net of tax. Income (Loss) from discontinued operations during the three months ended December 30, 2017 was ($0.2) million compared to $4.5 million for the three months ended December 30, 2016, as we substantially completed the wind-down of our retail operations. Income (Loss) from discontinued operations for the six months ended December 30, 2017 was $4.8 million compared to $5.7 million in the comparable period of the prior year, primarily because of the net gain on sale of real estate sold during the first quarter of fiscal 2018. The previous year's amount reflected the results of our retail operations which were discontinued in the fourth quarter of fiscal 2017.

SEASONALITY OF BUSINESS AND QUARTERLY RESULTS
The business of our equity method investment varies somewhat with general seasonal trends that are characteristic of the retail and apparel industries. As a result, a higher percentage of our annual income from our equity method investment is generated in the second quarter of our fiscal year, which includes the holiday selling season, compared to the other quarters of our fiscal year. If for any reason the income of the joint venture were below seasonal norms during the second quarter of our fiscal year, our annual operating results would be negatively impacted. Because of the seasonality of the business, results for any quarter are not necessarily indicative of results that may be achieved for a full fiscal year or for any other fiscal quarter.
LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2017, as a result of continued operating losses, we shut down our retail operations. We have entered into an agreement to provide transition services to a third party that has taken over bebe's online and international licensee businesses. We are being paid a fee which we expect to cover substantially all of the costs of providing these services. Once this agreement ends, we will transition to managing our investment in the Joint Venture and we expect to continue to receive a quarterly cash dividend from this investment. In addition, our other operating costs have been reduced to insignificant levels following the transition described above.
As of December 30, 2017, all cash and equivalents were held in accounts managed by third-party financial institutions consisting of invested cash and cash in our operating accounts. The invested cash is invested in interest bearing funds managed by third-party financial institutions. These funds invest in direct obligations of the government of the United States. To date, we have experienced no loss or lack of access to our invested cash or equivalents; however, we can provide no assurances that access to our invested cash and equivalents will not be impacted by adverse conditions in the financial markets.
We hold our operating and invested cash in accounts that are with third-party financial institutions. These balances exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor daily the cash balances in our

operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to invested cash or cash in our operating accounts.

Net cash used by operating activities for the six months ended December 30, 2017 was $5.7 million compared to net cash generated by operating activities of $13.1 million for the six months ended December 31, 2016. The increase in cash usage of $18.8 million from the comparable period was primarily the result of our paying down accounts payable and accrued liabilities

in fiscal 2018, as well as an decrease in accounts receivable balances for the six months ended December 30, 2017. The increase also reflects the liquidation of inventories and prepaid assets in the same period of the prior year.
Net cash provided by investing activities for the six months ended December 30, 2017 was $23.6 million compared to $1.7 million used by investing activities for the six months ended December 31, 2016. The $25.3 million increase versus the prior year comparable period was primarily due to proceeds from sale of real estate holdings in the current year.
Net cash used by financing activities was $18.1 million for the six months ended December 30, 2017 compared with the $0.0 million provided by financing activities for the six months ended December 31, 2016. The cash usage in the first quarter of fiscal 2018 represented the repayment of a portion of the bridge loan during the fiscal quarter.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

According to our investment policy, we may invest in taxable and tax-exempt instruments. In addition, the policy establishes limits on credit quality, maturity, issuer and type of instrument. We do not use derivative financial instruments.
The following table lists our cash as of December 30, 2017:

	Fair Value (Dollars in thousands)	
Cash	$ 16,835	
Weighted average interest rate	0.00	%
Total	$ 16,835	

Foreign Currency Risks

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

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.
Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report at the reasonable assurance level.

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There has been no change in our internal control over financial reporting during the quarter ended December 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

Our future success depends, in part, upon the ability of the Joint Venture's licensees to anticipate, identify and respond effectively to changing customer demands and fashion trends in a timely manner. The specialty retail apparel business fluctuates according to changes in customer preferences directed by trends and fashions. If they miscalculate customers' product preferences or the demand for their products, they may be faced with excess inventory, which historically has resulted in markdowns and/or write-offs of raw materials as well as finished goods, which could impair their profitability, and may do so in the future. Similarly, any failure on their part to anticipate, identify and respond effectively to changing customer demands and fashion trends will adversely affect our business. Starting in the fourth quarter of fiscal 2016 and expanding in fiscal 2017, the Company entered into the Joint Venture and shifted its strategy, such that we have closed all of our retail stores, sold our merchandise, inventory, furnishings, trade fixtures, equipment, improvements in real property, purchase orders related to our website and international wholesale business and are committed to selling our Los Angeles Design Studio. Further, bebe has contributed all of its trademarks, trademark license arrangements and related intellectual property to the Joint Venture, including domain names, social media accounts and agreements with certain of its international distributors to the Joint Venture.

Our strategic focus for fiscal 2018 and the years to come is to continue to focus on discretionary spending, restructure our operations and based on the success of initiatives in the Joint Venture, collect revenue from its licensing arrangements. The inability to generate positive cash flow from such operations could have a material adverse effect on our business and financial conditions. In addition, if additional financing is needed, we may not be able to secure such financing on favorable terms, or at all.

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

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

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3. We face significant competition in the retail and apparel industries, which could harm our business.
The retail and apparel industries are highly competitive and are characterized by low barriers to entry. We expect competition in these markets to increase. The primary competitive factors in our markets are: brand name recognition and appeal, sourcing, product styling, quality, presentation and pricing, timeliness of product development and delivery, store ambiance, customer service and convenience. The Joint Venture competes 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 Joint Venture or maintain comparatively lower cost of operations, it may lack the resources to effectively compete with them. If the Joint Venture fails to remain competitive in any way, it could harm our business, financial condition and results of operations.

4. Our business has recently undergone significant changes, including management, personnel and business changes. If we do not effectively and successfully adapt to these changes, it could have a material adverse effect on our business.
As we realign our business around the initiatives of the Joint Venture, we continue to make substantial personnel and operational changes in an effort to streamline our business and control costs. These significant changes have created additional pressures on existing personnel, and we have been working to adapt to operating our business in a manner that differs meaningfully from prior periods. We cannot assure that these changes will lead to the desired improvement in our business and results of operations. If we do not effectively and successfully adapt to these changes, it could have a material adverse effect on our business.

5. General economic conditions, including increases in energy and commodity prices, that are largely out of our control, may adversely affect our financial condition and results of operations.
The demand for bebe products is influenced by national and local economic factors that may affect consumer spending or buying habits. Factors that could adversely affect the demand for our products include recessionary economic cycles, higher interest rates, higher fuel and other energy costs, inflation, deflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws. A decline in economic conditions could also result in limitations on the prices the Joint Venture's licensees can charge for bebe products, either of which could adversely affect our business. We can provide no assurance that demand for bebe products will not be adversely affected by national or local economic conditions, thereby harming our business.

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

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

7. Our ability to conduct business could be negatively impacted by the effects of natural disasters, war, terrorism, public health concerns or other catastrophes.
We operate a corporate office in Brisbane, California, a design studio in Los Angeles, California and a distribution facility in Hong Kong. Any serious disruption at these facilities whether due to construction, relocation, fire, flood,

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

8. If we, through our interest in the Joint Venture, are not able to protect our intellectual property our business may be harmed.
Although we and the Joint Venture take actions to protect our trademarks and other proprietary rights, we cannot assure you that we will be successful or that others will not imitate our products or infringe upon our intellectual property rights. In addition, we cannot assure that others will not resist or seek to block the sale of our products as infringements of their trademark and proprietary rights.

Historically, we have sought to register our trademarks domestically and internationally and the Joint Venture will continue to do so in the future. Obstacles may exist that may prevent the Joint Venture from obtaining a trademark for the bebe and BEBE SPORT brand names or related names. The Joint Venture may not be able to register certain trademarks, purchase the right or obtain a license to use these names or related names on commercially reasonable terms. If the Joint Venture fails to obtain trademarks of, or ownership or license of the requisite rights, it would limit the ability to expand the business under the bebe brand.

In some jurisdictions, despite successful registration of bebe's trademarks, third parties may allege infringement and bring actions against us and or the Joint Venture. In addition, if our licensees fail to use the bebe intellectual property correctly, the reputation and value associated with the trademarks may be diluted. Furthermore, if we or the Joint Venture do not demonstrate use of our trademarks, our trademark rights may lapse over time.

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

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

10. 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.

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11. We are subject to cyber-security risks and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents.
We currently support the business of the Joint Venture via a transition services agreement, which involves the storage and transmission of customers' personal information, consumer preferences and credit card information. We also facilitate the Joint Venture's use mobile devices, social networking and other on-line activities to connect with our customers. If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we or the Joint Venture could be exposed to government enforcement actions and private litigation, and our business could be adversely affected. For example, in November 2014, we detected suspicious activity on computers that operate the payment processing system for our stores, which appeared to be limited to data from payment cards swiped in the United States and its territories between November 8, 2014 and November 26, 2014. The data may have included cardholder name, account number, expiration date and verification codes, although we have no indication of fraudulent charges to date. We cannot assure 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 bebe customers to lose confidence in our or the Joint Venture's ability to protect their personal information, which could cause them to stop shopping with bebe altogether. The loss of confidence from a significant data security breach involving our employees could also hurt our reputation and adversely affect our business and financial results.

12. The Joint Venture relies on information technology to help manage its operations and our e-commerce store, the disruption of which could adversely impact our business.
We currently assist the Joint Venture with various information systems, which it relies on to help manage its operations and regularly assess the cost-benefit analysis associated with making additional investments to upgrade, enhance or replace such systems. If at any time we experience any disruptions that impact the Joint Venture's information systems we could experience a material adverse impact on our business.

13. We are responsible for maintaining the privacy of personally identifiable information of our customers.
Through our sale transactions, loyalty 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. We are highly dependent on the use of credit cards to complete sale transactions through our websites, and if we fail to comply with Payment Card Industry Data Security Standards, we may become subject to limitations on our ability to accept credit cards. Moreover, third parties may seek to access this information through improper means such as computer hacking, malware and viruses. Any incidents involving unauthorized access or improper use of our customers' personally identifiable information could damage our reputation and brand and result in legal or regulatory action against us.

Risks Related to Our Common Stock

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

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

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

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 6. EXHIBITS

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

Exhibit	Description
10.1(*)	Retention Bonus Letter Agreement, dated June 28, 2017, by and between bebe stores, inc. and Walter Parks
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Presentation Linkbase

(*) Indicates management contracts or compensatory plans or arrangements required to be filed as exhibits to this report on Form 10-Q.

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EXHIBIT INDEX

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101.PRE	XBRL Taxonomy Presentation Linkbase

(*) Indicates management contracts or compensatory plans or arrangements required to be filed as exhibits to this report on Form 10-Q.

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SIGNATURE

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

Dated February 12, 2018

bebe stores, inc.

/s/ Joe Scirocco
Joe Scirocco, Managing Director (Principal Financial and Accounting Officer)