bebe stores, inc.
Form 10-K
September 18, 2014

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

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended July 5, 2014
OR
o 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, including zip code)
Telephone: (415) 715-3900
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	o	Accelerated filer	x

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x
The aggregate market value of voting stock held by non-affiliates of the registrant was approximately $184,000,000 as of January 3, 2014, the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price per share of $5.62 of the registrant's Common Stock as reported on the Nasdaq National Market on such date. Shares of Common Stock held by each executive officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.
As of August 29, 2014, 79,557,869 shares of Common Stock, $0.001 per share par value, of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Part III incorporates information by reference from the definitive Proxy Statement for the 2014 Annual Meeting of Shareholders, to be filed with the Commission no later than 120 days after the end of the registrant's fiscal year covered by this Form 10-K.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the 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 and closings and our product developments. Although we believe that these statements are based on 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-K, 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-K.

PART I

ITEM 1. BUSINESS

General

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

Our distinctive product offering includes a full range of separates, tops, dresses, active wear and accessories to satisfy her every day wardrobe needs for a variety of occasions. We design and develop the majority of our merchandise in-house, which is manufactured to our specifications. The remainder is sourced directly from third-party manufacturers.

As of July 5, 2014, we marketed our products under the bebe, BEBE SPORT and bbsp brand names through our 207 retail stores, of which 174 are bebe stores, including an on-line store at www.bebe.com, and 33 are bebe outlet stores. Our 94 international licensees operated stores in 25 countries and, pursuant to our product licensing, through certain select domestic and international retailers.

bebe. We were founded by Manny Mashouf, our Chairman of the Board. We opened our first store in San Francisco, California in 1976, which was also the year we incorporated in California. As of July 5, 2014, we operated 174 bebe stores in 34 states, Puerto Rico, the U.S. Virgin Islands, Canada and on-line. www.bebe.com is our bebe on-line retail store and an extension of the bebe store experience that provides a complete assortment of bebe and BEBE SPORT merchandise and is used as a vehicle to communicate with our customers.

bebe outlet. Our bebe outlet stores are an extension of the full-price bebe store and provide everyday lifestyle offerings for our aspirational buyers. As of July 5, 2014, we operated a total of 33 bebe outlet stores.

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

Operating Strategy

Our objective is to satisfy the fashion needs of the confident, modern woman. The principal elements of our operating strategy to achieve this objective are as follows:

1. Provide distinctive fashion throughout a broad product line to fulfill every day wardrobe needs across a variety of occasions. Our designers and merchandisers are inspired by global fashion trends. They interpret contemporary

designs, colors and fabrications into our products to address the lifestyle needs of our customer. Our in-house design team allows us to quickly react to fashion trends, bringing newness into the merchandise mix to complement our core assortment.

2. Vertically integrate design, production, merchandising and retail functions. Our vertical integration enables us to respond quickly to changing fashion trends, reduce risk of excess inventory and produce distinctive quality merchandise.
3. Manage merchandise mix. Our approach to merchandising and proactive inventory management is critical to our success. By actively monitoring sell-through rates and the mix of categories and products in our stores, we are better able to respond to emerging trends in a timely manner thereby better maximizing sales opportunities.
4. Operate an omni-channel strategy to engage our customer wherever she shops. Our omni-channel strategy allows our customer to shop in stores, on-line and via mobile devices and enhances our ability to compete effectively against a variety of retail formats.
5. Control distribution of merchandise. We distribute our merchandise, other than licensed eyewear, footwear, outerwear, handbags, fragrance and cosmetics and international licensing, through company owned retail stores and on-line stores. This distribution strategy enables us to control pricing, flow of goods, visual presentation and customer experience. We seek to ensure brand equity through this exclusive distribution.
6. Enhance brand image. We attract customers through edgy, high-impact, visual advertising campaigns using print, outdoor, in-store, direct mail and e-mail communication vehicles. We also offer a line of merchandise branded with the distinctive bebe logo to increase brand awareness. Our marketing campaign is aligned across traditional and new media and is focused on messaging that speaks to the confident bebe woman.

Stores and Expansion Opportunities

Based on the current retail environment, we will continue to right size our domestic fleet, grow our omni-channel program, as well as develop international expansion opportunities for the bebe brand. Historically when selecting a specific site, we look for high traffic locations primarily in regional shopping centers and in freestanding street locations. We evaluate proposed sites based on the traffic pattern, co-tenancies, average sales per square foot achieved by neighboring stores, lease economics, demographic characteristics and other factors considered important regarding the specific location.

In fiscal 2015, we plan to open six new stores, including four bebe stores and two outlet stores. We also plan to close up to 12 bebe and outlet stores, resulting in approximately a 2% decrease in total square footage.

bebe stores. During fiscal 2014, we closed 16 bebe stores. Our bebe stores average 4,000 square feet and are primarily located in regional shopping malls and freestanding street locations. We also operate an on-line store at www.bebe.com; this website is a source of testing new concepts, building a community with our customers as well as providing a comprehensive product offering. In fiscal 2014, we continued initiatives to further enhance the shopping experience and integrate the web store with retail stores and mobile applications. We expect to continue these initiatives in fiscal 2015 and beyond. We believe these initiatives will support both our short-term improvement and long-term growth objectives across our omni-channel program.

bebe outlet stores. During fiscal 2014, we opened 2 bebe outlet stores and closed 21 2b bebe stores, including our on-line store at 2bstores.com. Our bebe outlet stores average 4,500 square feet and are located in outlet centers.

Store Closures. We monitor the financial performance of our stores and have closed and will continue to close stores that we do not consider to be viable. Many of our store leases contain early termination options that allow us to close the stores in specified years if minimum sales levels are not achieved. During fiscal 2014, we closed 37 stores, 21 of which related to the discontinuation of 2b bebe operations. In fiscal 2015, we plan to close up to 12 stores. In addition, we will be negotiating lease renewals on 20 stores during fiscal 2015. If we cannot renew these leases on favorable terms, we may be forced to close or relocate some of these stores.

International Licensees. As of July 5, 2014, we had 94 international stores operated by licensees in 25 countries, including the United Arab Emirates, Israel, Russia, Mexico, Turkey, South Korea, India and numerous countries throughout Southeast Asia and South America. Our international licensees purchase product from us to be sold in their licensed bebe stores; we exclude these stores from comparable store sales. As of July 5, 2014, wholesale revenue represented approximately 8.4% of total net sales. In fiscal 2015, the number of licensee operated stores, which include both stand-alone stores and shop-in-shops is expected to remain unchanged.

Merchandising

Our merchandising strategy is to provide current, timely fashions in a broad selection of categories to suit the lifestyle needs of our customers. We market all of our merchandise under the bebe, BEBE SPORT and bbsp brand names. In some cases, we select merchandise directly from third-party manufacturers. We do not have long-term contracts with any third-party manufacturers, and we purchase all of the merchandise from manufacturers by purchase order.

Product Categories. Our distinctive product offering includes a full range of fashion separates, tops, dresses, active wear, outerwear and accessories across a variety of wardrobe occasions. While each category's contribution as a percentage of total net sales varies seasonally, certain of the product classifications are represented throughout the year. We regularly evaluate existing categories for potential expansion opportunities. We currently offer accessories which include jewelry, sunglasses, fragrance, shoes and handbag assortment.

During fiscal 2014, we had license agreements in place for optical eyewear and fragrance, which represented approximately 1% of our total net sales. In August 2010, we signed an eyewear license agreement with Altair Eyewear, Inc., a subsidiary of Marchon, to manufacture and distribute products branded with the bebe logo to be sold at bebe stores and select retailers. Product under this agreement was featured in stores and other select retailers beginning in October 2010. In July 2008, we executed an agreement with Inter Parfums, Inc. to design, develop, manufacture, distribute, advertise and promote fragrance and cosmetics using the bebe name. Product was available in our stores and other select retailers beginning in August 2009.

Product Development. Our product development process enables our merchants to make informed and timely decisions prior to making fabric or merchandise purchase commitments. We believe our speed to market strategy better allows us to quickly react to emerging fashion trends and customer demand. An established timeline ensures an adequate flow of inventory into the stores. We make monthly commitments based on current sales and fashion trends. A detailed merchandising classification plan supports the product development process and includes sales, inventory and profitability targets. We regularly adjust the plan to meet customer demand.

Seasonality

Our business is seasonal in nature, with sales peaking during the second fiscal quarter, primarily during the holiday season in November and December. During each of fiscal 2014, 2013 and 2012, the second fiscal quarter accounted for approximately 30% of our annual net sales.

Marketing

We have developed our advertising and direct marketing initiatives to elevate brand awareness, increase customer acquisition and retention and support key growth strategies.

During fiscal 2014, our marketing expenditures were $27.4 million compared to $23.2 million in fiscal 2013. In fiscal 2015, we expect to decrease marketing expenses to $19.5 million by reallocating our investment in traditional media and catalogs to digital media.

We will continue to build brand awareness through national marketing campaigns that communicate to our core customers via traditional and new media. These campaigns will present the brand as fresh, fashion forward and exciting with a market position of attainable luxury.

Our marketing imagery will be featured in traditional media such as leading fashion and lifestyle magazines, outdoor advertising, direct mail and in-store visual presentation. Our new media marketing channels include our website, bebe.com a strong presence in on-line social media, mobile optimized websites and commerce enabled apps for smartphones and computer tablets.

We will continue to focus on our loyalty program, clubbebe, and reward our best customers for their business. Additionally, we will host several in-store events throughout the year to introduce collections and provide unique, engaging experiences for our customers and will also test grassroots initiatives to attract new clientèle.

Store Operations

As of July 5, 2014, our store operations are organized into three regions and twenty-four districts. Each region is managed by a regional manager, and each district is managed by a district manager. Each regional manager is typically responsible for seven to nine districts and each district manager is typically responsible for eight to eleven stores. Each store is typically staffed with three to five managers in addition to sales associates.

We seek to instill enthusiasm and dedication in our store management personnel and our sales associates through incentive programs and regular communication with the stores. Sales associates, excluding associates in outlet stores, receive commissions on sales with a guaranteed minimum hourly compensation. Store managers receive base compensation plus incentive compensation based on sales and inventory control. Our district managers receive base compensation plus incentive

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compensation based on sales and profitability benchmarks. Our regional managers participate in our management incentive program.

Sourcing, Quality Control and Distribution

All of our merchandise is marketed under the bebe, BEBE SPORT and bbsp brand names. We design and develop the majority of our merchandise in-house, which is manufactured to our specifications or is sourced directly from third-party manufacturers. When we contract for merchandise production, the contractors produce garments based on designs, patterns and detailed specifications provided by us.

We use computer aided design systems to develop patterns and production markers as part of our product development process. We fit test sample garments before production to ensure patterns are accurate. We adhere to a strict formalized quality control program. Garments that do not pass inspection are returned to the manufacturer for rework or accepted at reduced prices for sale in our outlet stores.

The majority of our merchandise is received, inspected, processed, warehoused and distributed through our distribution center located in Benicia, California. Details about each receipt are supplied to merchandise planners who determine how the product should be distributed among the stores, based on current inventory levels, sales trends and specific product characteristics. Advance shipping notices are electronically communicated to the stores and any goods not shipped are stored for replenishment purposes. Merchandise typically is shipped to the stores three times per week using common carriers.

Competition

The retail and apparel industries are highly competitive and are characterized by low barriers to entry. We expect competition in our markets to increase. The primary competitive factors in our markets are: brand name recognition and appeal, sourcing, product styling, product quality, product presentation, product pricing, timeliness of product delivery, store ambiance, customer service and convenience.

Intellectual Property and Proprietary Rights

We have registrations, or applications have been filed and are pending, with the United States Patent and Trademark Office and/or with certain foreign registries in many of our core classifications (including stores, clothing, jewelry, eyewear, fragrance and bags) for the following marks: bebe, BEBE SPORT, bbsp and 2b bebe.

Information Services and Technology

We are committed to utilizing technology to enhance our competitive position. Our information systems provide data to the entire enterprise to help improve efficiency, visibility and actionable decision making. The core business systems, which consist of both purchased and internally developed software, are accessed over a company-wide network providing employees with access to key business applications.

Our investments in information systems for fiscal 2014 continued to focus on our digital channels, stores, supply chain, central corporate systems and infrastructure. We are in the early stages of an omni-channel expansion that will enhance the experience of our customers as they engage with us across all of our virtual and brick and mortar channels. Our in-house management of our website continues to support our future growth through mobile, social media and in-store technologies expansions.

Employees

As of July 5, 2014, we had 3,254 employees, of whom 404 were employed at the corporate offices in Brisbane, the Los Angeles design studio and production facility, the New York office and the Benicia distribution center. The remaining 2,850 employees were employed in store operations. There were 1,222 full-time employees and 2,032 employed on a part-time basis. In fiscal 2014, we implemented a cost reduction program, which included plans to reduce corporate and field management positions to align with current business strategies. Our total employees increased by approximately 4.7% as compared to the prior fiscal year end. Our employees are not represented by any labor union, and we believe our relationship with our employees is good.

Available Information

We make available on our website,www.bebe.com, under “Investor Relations,” free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the U.S. Securities and Exchange Commission (“SEC”).

Our Code of Business Conduct and Ethics, Policy for Reporting Violations and Complaints, Corporate Governance Principles and Practices for the Board of Directors, and Board of Directors’ Committee Charters are also available on our website, under “Corporate Governance.” Any amendments to or waivers from our Code of Ethics will also be available on our website. Please note that information contained in our website is not incorporated by reference in, or considered to be, part of this report.

EXECUTIVE OFFICERS AND DIRECTORS OF THE REGISTRANT
Executive Officers and Directors
The following table sets forth certain information with respect to our executive officers and directors as of September 1, 2014:

Name	Age	Position
Manny Mashouf	76	Chairman of the Board
Brett Brewer(2)(4)*	42	Director
Corrado Federico(3)(4)	73	Director
Seth Johnson(3)*(4)(2)	60	Director
Blair Lambert(2)*(3)	56	Director
Jim Wiggett(1)	64	Chief Executive Officer
Liyuan Woo(1)	42	Chief Financial Officer
Susan Powers(1)	56	Senior Vice President of Stores
Lawrence Smith(1)	48	Senior Vice President, General Counsel

(1) Executive Officer.
(2) Member, Audit Committee.
(3) Member, Compensation and Management Development Committee.
(4) Member, Nominating and Corporate Governance Committee.
(*) Chairman of the Committee.

Manny Mashouf founded bebe stores, inc. and has served as Chairman of the Board since our incorporation in 1976. Mr. Mashouf served as our Chief Executive Officer from 1976 to February 2004 and again from January 2009 to January 2013. Mr. Mashouf is the uncle of Hamid Mashouf, our Chief Information Officer.

Brett Brewer has served as a director since July 2014. Mr. Brewer is an Internet entrepreneur who has built, operated and sold Internet media companies. In 1998, Mr. Brewer co-founded Intermix Media, which launched several on-line businesses including Myspace.com, Skilljam.com and Alena.com. He took Intermix public in 1999 and the company was sold to NewsCorp in October 2005. Mr. Brewer currently serves as the co-founder and Managing Director of CrossCut Ventures. Mr. Brewer also serves as Vice Chairman and a Director of Adknowledge.com, a behavioral-based advertising technology company. As well, he serves on the board of directors of Pacific Sunwear of California, Inc. In addition, Mr. Brewer is on the board of After School All-Stars, a non-profit organization that provides after school programs for kids. From 2007 to 2009, he served on the Board of Transworld Entertainment, a specialty music and video retailer with a national mall-based store portfolio. From 2004 to 2009, Mr. Brewer was a board member of Bizworld, a non-profit organization that teaches children about business, entrepreneurship and money management through project-based learning.

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

Seth Johnson has served as director since July 2014. Mr. Johnson has served on the board of directors of Tilly's, Inc. since 2011. From 2010 to 2013, Mr. Johnson served on the board of directors of True Religion Apparel. Mr. Johnson has also served on the boards of Pacific Sunwear, DEI Holdings, Inc., and Abercrombie & Fitch. In addition, Mr. Johnson was an Instructor of Business at Chapman University from 2007 through 2009, has served as Chief Executive Officer of Pacific Sunwear of California, Inc. from 2005 through 2006, Chief Operating Officer of Abercrombie & Fitch from 1999 through 2004, and Chief Financial Officer of Abercrombie & Fitch from 1992 through 1998.

Blair Lambert has served as a director since July 2014. Mr. Lambert, owner of Napa-based Lambert Family Vineyard, currently serves as a Board Member/Investor/Advisor at Three Twins Organic Ice Cream, a nationally distributed organic ice cream brand, and Klymit, a company utilizing science and technology for outdoor products. Mr. Lambert also serves as an advisor at Chubbies Shorts, an internet based men's apparel retailer, Watershed Materials, a company that designs and manufactures a green, low carbon, sustainable building products, and Silverado Farming, a full-service vineyard management

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company. Mr. Lambert's additional executive retail experience includes Chief Operating Officer/Chief Financial Officer at The Gymboree Corporation from 2005 through 2010, Chief Financial Officer of Illumination from 2003 through 2004, and Chief Financial Officer of bebe stores, inc. from 1996 through 2001.

Jim Wiggett has served as Chief Executive Officer since June 2014. Mr. Wiggett brings nearly 40 years of retail, merchandising and business experience to the Company. Mr. Wiggett has served as the Chief Executive Officer and founder of Jackson Hole Group, a strategic consulting group, since 2002. Prior to founding Jackson Hole Group, Mr. Wiggett served as Executive Vice President of the Selective Distribution Group (SDG), one of 5 operating divisions of Moet Hennesy Louis Vuitton (LVMH) from 1999 through 2002. Mr. Wiggett also served as the President and Chief Executive Officer of Sephora.com, one of LVMH's operating companies/brands. Prior to that, Mr. Wiggett held senior positions with Duty Free Stores (DFS), Charles Schwab Corporation, the ITEL Corp., Cambridge Plan International and R.H. Macy Corp.

Liyuan Woo has served as Chief Financial Officer since April 2013. Ms. Woo was also Principal Accounting Officer and Vice President Corporate Controller from August 2010 to June 2014. Prior to joining bebe stores, inc, Ms. Woo held a Senior Manager position with Deloitte & Touche LLP in its M&A Transaction Services Group from October 2004 through July 2010.

Susan Powers has served as Senior Vice President of Stores since April 2007. From 2005 to 2007, Ms. Powers served as Vice President of Store Operations for Chico's FAS, Inc. From 2002 to 2005, Ms. Powers served as Vice President of Stores for The Wet Seal, Inc. From 1999 to 2002, Ms. Powers served as Vice President of Stores for BCBG Max Azria.

Lawrence Smith has served as Senior Vice President, General Counsel since August 2009 and as Vice President, General Counsel since October 2004. Prior to joining bebe stores, inc., Mr. Smith served as Vice President, General Counsel for The Wet Seal, Inc. from January 2002 to October 2004. From January 1996 to January 2002, Mr. Smith served as Vice President, General Counsel for BCBG Max Azria.

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:

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

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

3. We face increasing product costs from our manufacturing partners, which could result in margin erosion. Increases in our product costs, such as raw materials and labor, may result in margin erosion. Recently, worldwide prices for raw materials that we use in our products have increased. Additionally, clothing manufacturers in China, where a significant percentage of our apparel products are manufactured, are experiencing increased costs due to labor shortages and the fluctuation of the Chinese Yuan in relation to the U.S. dollar, and these increased costs are often passed on to us. If we are unable to successfully mitigate a significant portion of such product cost increases, our business may be harmed.

4. We rely on third-party manufacturers to manufacture all of our products. Our future success depends, in part, on our ability to find manufacturing facilities that perform acceptably. We do not own any manufacturing facilities and therefore depend on third parties to manufacture our products. In addition, we place all of our orders for production by purchase order and do not have long-term contracts with any manufacturers. If we fail to maintain favorable relationships with our manufacturers, our business could be materially and adversely affected.

We cannot assure you that third-party manufacturers (1) will not supply similar products to our competitors, (2) will not stop supplying products to us completely or (3) will supply products in a timely manner. Untimely receipt of products may result in lower than anticipated sales and markdowns which would have a negative impact on earnings. Furthermore, we have received in the past, and may receive in the future, shipments of products from manufacturers that fail to conform to our quality control standards. In such event, unless we are able to obtain replacement products in a timely manner, we may lose sales.

5. If an independent manufacturer violates labor or other laws, or is accused of violating any such laws, or if their labor practices diverge from those generally accepted as ethical, it could harm our business and brand image. Our success depends, in part, on our ability to find and contract with independent manufactures which conduct their businesses using ethical or legal labor practices. While we maintain a policy to monitor the operations of our independent manufacturers by having an independent firm inspect these manufacturing sites, and all manufacturers are contractually required to comply with such labor practices, we cannot assure the compliance of these manufacturers.

In addition, we cannot control the public's perceptions of such manufacturers or their practices, even if they are compliant with law but are viewed in a negative light by the public. Because manufacturers act in their own interests, they may act in a manner that results in negative public perceptions of us. Moreover, in certain circumstances, we may be subject to liability or negative publicity that could adversely affect our brand and our business as a result of actions taken by these manufacturers.

6. If we are unable to obtain raw materials for our products, our business could be materially adversely affected. We place all of our orders for raw materials by purchase order and do not have any long-term contracts with any supplier. If we fail to maintain favorable relationships with our suppliers or are unable to obtain sufficient quantities of quality raw materials on commercially reasonable terms, it could harm our business.
In addition, certain of our third-party manufacturers store our raw materials. In the event our inventory was damaged or destroyed and we were unable to obtain replacement raw materials, our earnings and our business could be materially and adversely impacted.
7. We face significant competition in the retail and apparel industry, which could harm our business. The retail and apparel industries are highly competitive and are characterized by low barriers to entry. We expect competition in our markets to increase. The primary competitive factors in our markets are: brand name recognition and appeal, sourcing, product styling, quality, presentation and pricing, timeliness of product development and delivery, store ambiance, customer service and convenience. We compete with traditional department stores, specialty store retailers, lower price point retailers, business to consumer websites, off-price retailers and direct marketers for, among other things, raw materials, market share, retail space, finished goods, sourcing and personnel. Because many of these competitors are larger and have substantially greater financial, distribution and marketing resources than we do or maintain comparatively lower cost of operations, we may lack the resources to effectively compete with them. If we fail to remain competitive in any way, it could harm our business, financial condition and results of operations. In addition, if we are unable to address the challenges of declining store traffic in a highly promotional, low growth environment, our business will be negatively affected.
8. General economic conditions, including increases in energy and commodity prices, that are largely out of our control may adversely affect our financial condition and results of operations. The demand for our products is influenced by national and local economic factors that may affect consumer spending or buying habits. Factors that could adversely affect the demand for our products include recessionary economic cycles, higher interest rates, higher fuel and other energy costs, inflation, deflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other changes in tax laws. A decline in economic conditions could also result in reduced traffic in our stores or limitations on the prices we can charge for our products, either of which could adversely affect our business. We can provide no assurance that demand for our products will not be adversely affected by national or local economic conditions, thereby harming our business.
In addition, economic factors such as those listed above and increased transportation costs, inflation, higher costs of labor, insurance and healthcare, and changes in other laws and regulations may increase our cost of sales and our operating, selling, general and administrative expenses. Any such increase would also negatively impact our business, including our financial results.
9. Because Manny Mashouf beneficially owns a substantial portion of the outstanding shares, other shareholders may not be able to influence the direction the company takes. As of August 30, 2014, Manny Mashouf, our Chairman of the Board, beneficially owned approximately 55% of the outstanding shares of our common stock. As a result, he can control the election of directors and the outcome of all issues submitted to the shareholders. This may make it more difficult for a third party to acquire shares, may discourage acquisition bids, and could limit the price that certain investors might be willing to pay for shares of common stock. This concentration of stock ownership may have the effect of delaying, deferring or preventing a change in control of our company.
10. We cannot assure that future store openings will be successful and new store openings may impact existing stores. We expect to open approximately 4 stores for bebe and 2 bebe outlet stores in fiscal 2015, while our international licensee operated point-of-sale locations are expected to remain unchanged. We cannot provide assurance that the stores we plan to open in fiscal 2015, or any other stores that we might open in the future, will be successful or that our overall results will improve as a result of opening these stores.
The success of a future store depends on our ability to effectively obtain real estate that meets our criteria, including traffic, square footage, co-tenancies, average sales per square foot, lease economics, demographics and other factors. In addition, continued consolidation in the commercial retail real estate market could affect our ability to successfully negotiate favorable rental terms for our stores in the future. Should significant consolidation continue, a large proportion of our store base could be concentrated with one or a few entities that could then be in a position to dictate unfavorable terms to us due to their significant negotiating leverage. If we are unable to negotiate favorable lease

terms with these entities, this could affect our ability to profitably operate our stores, which would adversely impact our business.

In addition, many of our stores are located in shopping malls and other retail centers that benefit from the ability of “anchor” retail tenants, generally large department stores, and other attractions, to generate sufficient levels of consumer traffic in the vicinity of our stores. Any decline in the volume of consumer traffic at shopping centers, whether because of the economic slowdown, a decline in the popularity of shopping centers, the closing of anchor stores or otherwise, could result in reduced sales at our stores and excess inventory. We may have to respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which could have a material adverse effect on our business. In addition, new store openings have the potential to cannibalize the net sales and profitability of other existing stores.

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

In addition, in the past, we have had to close stores as a result of poor performance. For example, in the fiscal year 2014, we closed 37 stores, including 2b stores which are part of discontinued operations, and during fiscal 2015, we anticipate closing up to 10 bebe stores and 2 bebe outlet stores. Closure of the 2b stores resulted in charges of approximately $1.9 million. We also estimate that we will incur approximately $6.4 million in lease obligation costs related to the closure of 2b stores. During fiscal year 2014, we have recorded impairment charges of approximately $7.0 million relating to under-performing stores. Closing stores because of poor performance could have a material adverse effect on our business, and such impairment and other charges have an adverse impact on our financial results.

12. Our sales, margins and operating results are subject to seasonal and quarterly fluctuations. Our business varies with general seasonal trends that are characteristic of the retail and apparel industries, such as the timing of seasonal wholesale shipments and other events affecting retail sales. As a result, our stores typically generate a higher percentage of our annual net sales and profitability in our second fiscal quarter which includes the holiday selling season, compared to other quarters.

In addition, our quarterly comparable store sales have fluctuated significantly in the past, and we expect that they will continue to fluctuate in the future. A variety of factors affect comparable store sales, including fashion trends, competition, current economic conditions, the timing of release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs and weather conditions. Our ability to deliver strong comparable store sales results and margins depends in large part on accurately forecasting demand and fashion trends, selecting effective marketing techniques, providing an appropriate mix of merchandise for our customer base, managing inventory effectively, and optimizing store performance by closing under-performing stores. Such fluctuations may adversely affect the market price of our common stock.

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

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

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

15. We are subject to cyber-security risks and may incur increasing costs in an effort to minimize those risks and to respond to cyber incidents. Our business involves the storage and transmission of customers' personal information, consumer preferences and credit card information. We also use mobile devices, social networking and other on-line activities to connect with our customers. If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to government enforcement actions and private litigation, and our business could be adversely affected. For example, if the portion of our network that handles payment card data is breached, it is possible that payment card and client information could be stolen. Such a breach might cause our customers to lose

confidence in our ability to protect their personal information, which could cause them to discontinue usage of our club bebe loyalty program, or stop shopping with us altogether and potential significant cost.
The loss of confidence from a significant data security breach involving team members could hurt our reputation, cause team member recruiting and retention challenges, increase our labor costs and adversely affect our business and financial results.
16. 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 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. In addition, we 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.
17. Our ability to conduct business could be negatively impacted by the effects of natural disasters, war, terrorism, public health concerns or other catastrophes. We currently operate a corporate office in Brisbane, California, a distribution facility in Benicia, California, a design studio in Los Angeles, California, and a satellite office in New York, New York. 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 impact on our business. For example, our sales results were negatively impacted by extreme weather throughout the third quarter of the current fiscal year. 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, there can be no assurance that our insurance coverage will be sufficient, or that insurance proceeds will be timely paid to us.
18. If we are not able to protect our intellectual property our business may be harmed. Although we take actions to protect our trademarks and other proprietary rights we cannot assure you that we will be successful or that others will not imitate our products or infringe upon our intellectual property rights we cannot assure you that we will be successful. In addition, we cannot assure that others will not resist or seek to block the sale of our products as infringements of their trademark and proprietary rights.
We are seeking to register our trademarks domestically and internationally. Obstacles may exist that may prevent us from obtaining a trademark for the bebe, BEBE SPORT and bbsp names or related names. We may not be able to register certain trademarks, purchase the right or obtain a license to use these names or related names on commercially reasonable terms. If we fail to obtain trademark, ownership or license the requisite rights, it would limit our ability to expand our business under the bebe brand.
In some jurisdictions, despite successful registration of our trademarks, third parties may allege infringement and bring actions against us. In addition, if our licensees fail to use our intellectual property correctly, the reputation and value associated with our trademarks may be diluted. Furthermore, if we do not demonstrate use of our trademarks, our trademark rights may lapse over time.

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

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

20. A decline in value of our investments in auction rate securities or as a result of a change in our ability to hold our investments in auction rate securities may impact our financial condition . We hold a variety of interest bearing auction rate securities, or ARS, comprised of federally insured student loan backed securities and insured municipal authority bonds. These ARS investments are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, allowing investors to either roll over their holdings or gain immediate liquidity by selling such interests at par. The uncertainties in the credit markets that began in February 2008 have affected our holdings in ARS investments and the majority of auctions for our investments in these securities have continued to fail to settle on their respective settlement dates. Consequently, \$15.6 million of our ARS are not currently liquid and do not mature before 2031. Of this \$15.6 million, \$3.6 million is subject to a temporary impairment charge. We will not be able to access these funds until a future auction of these investments is successful or the securities are purchased or redeemed outside of the auction process, or repayment at maturity. Maturity dates for these ARS investments range from 2031 to 2033, with principal distributions occurring on certain securities prior to maturity.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact its valuation include changes to credit ratings of the securities as well as to the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral value, discount rates and ongoing strength and quality of market credit and liquidity. If the current market conditions deteriorate further, or the anticipated recovery in market values does not occur, we may be required to record additional losses in other comprehensive income or losses in net income in future quarters.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of July 5, 2014, our 206 stores, all of which are leased, encompassed approximately 820,000 total square feet. The typical store lease is for a 10-year term and requires us to pay a base rent and a percentage rent if certain minimum sales levels are achieved. Many of the leases provide a lease termination option in specified years of the lease if certain minimum sales levels are not achieved. In addition, leases for store locations typically require us to pay property taxes, utilities, repairs and common area maintenance fees.

Our main corporate headquarters are located in a facility in Brisbane, California. The Brisbane facility is approximately 35,000 square feet and houses administrative offices, planning operations and store support services. The lease expires in April 2017. We also purchased our 144,000 square foot distribution center in Benicia, California in May 2012. In fiscal 2004, we acquired a 50,000 square foot design studio and production facility in Los Angeles, California that houses our design, merchandising and production activities. In December 2008, we acquired two condominium units in Los Angeles, California for use as short-term executive accommodations with approximately 3,400 total square footage. In September 2013, we began leasing an approximately 3,000 square foot satellite office in New York, New York. The lease expires in August 2017.

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ITEM 3. LEGAL PROCEEDINGS

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

As previously reported, a former employee sued us in a complaint filed July 27, 2006 in the Superior Court of California, San Mateo County (Case No. CIV 456550) alleging a failure to pay all wages, overtime wages, minimum wages and a failure to provide meal and rest periods, among other claims. The plaintiff purports to bring the action also on behalf of current and former California bebe managers who are similarly situated. On or about September 2, 2014, the parties entered a settlement agreement which is conditioned upon court approval and a certain class participation rate and is consistent with amounts we had previously accrued. The parties now seek court approval and once received, and assuming the requisite class participation, will pursue administration of the settlement terms with class members.

A former employee filed a lawsuit against us on November 2, 2010 in the Superior Court of California, San Bernardino County (Case No. CIVRS1011823) alleging a failure to pay all wages, overtime wages, minimum wages, failure to pay/provide meal and rest periods, various other violations of the California Labor Code and a violation of California Business & Professions Code §17200 et seq. The plaintiff purports to bring the action also on behalf of current and former California bebe stylists and sales associates who are similarly situated. Both parties have conducted some discovery and depositions, and we continue to prepare our defense. A hearing regarding class certification is scheduled to take place on January 13, 2015.

A customer served us 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 negligent violations of the Telephone Consumer Protection Act (47 U.S.C. §§227 et seq.), knowing and/or willful violations of the Telephone Consumer Protection Act (47U.S.C. §§227 et seq.) and violations of California's unfair competition law (California Business and Professions Code §§ 17200, et seq.), each stemming from an alleged failure to obtain customer consent prior to sending text messages. The plaintiff purports to bring the action also on behalf of others similarly situated. The lawsuit seeks statutory and injunctive relief and other remedies. We completed our initial investigation into the claims, filed our initial response with the court, commenced discovery practice and are vigorously pursuing our defense. We filed a motion to dismiss on September 9, 2014.

A customer served us with a complaint on May 20, 2014 in the United States District Court for the Northern District of California (Civil Action No. 3:14-CV-01968) alleging negligent and willful violations of the Telephone Consumer Protection Act (47 U.S.C. §§227 et seq.) stemming from an alleged failure to obtain customer consent prior to sending text messages. The plaintiff purports to bring the action also on behalf of others similarly situated. The lawsuit seeks statutory and injunctive relief and other remedies. We completed our initial investigation into the claim, filed our response with the court and are vigorously pursuing our defense.

We are also involved in various other legal proceedings arising in the normal course of business.

Regarding all matters referenced herein, we intend to defend ourself vigorously and have, 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 bebe cannot assure that it will be able to successfully defend itself in these lawsuits nor that any amounts accrued are sufficient. We believe that the legal proceedings referenced herein, as well as the amounts accrued as of this filing, either individually or in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq National Market under the symbol "BEBE." The following table sets forth the high and low sales prices of our common stock for each quarterly period within the two years ended July 5, 2014, as reported by Nasdaq:

	High	Low
Fiscal 2013		
First Quarter	$6.29	$4.78
Second Quarter	4.86	3.48
Third Quarter	4.70	3.59
Fourth Quarter	6.01	4.24
Fiscal 2014		
First Quarter	$6.22	$5.20
Second Quarter	6.16	4.72
Third Quarter	7.03	4.65
Fourth Quarter	6.88	3.01

In November 2012, our board of directors authorized a program to repurchase up to $30 million of our common stock. We intend, from time to time, as business conditions warrant, to purchase stock in the open market or through private transactions. Purchases may be increased, decreased or discontinued at any time without prior notice. The plan does not obligate us to purchase any specific number of shares and may be suspended at any time at management's discretion. In fiscal 2013, we repurchased approximately 5.5 million shares at a weighted average price per share of $3.88. No shares were repurchased during the 2014 fiscal year.

As of September 10, 2014, the number of holders of record of our common stock was 59 and the number of beneficial holders of our common stock was approximately 5,533.

Declaration and payment of dividends is within the sole discretion of our board of directors, subject to limitations imposed by California law and compliance with our credit agreement and will depend on our earnings, capital requirements, financial condition and such other factors as the board of directors deems relevant. During fiscal 2014 and fiscal 2013, we declared quarterly dividends of $0.025 each per common share.

Stock Performance Graph
The graph below compares the percentage changes in our cumulative total shareholder return on our common stock for the five-year period ended June 30, 2014, with (i) the cumulative total return of the S & P 500 Index (“S & P 500”) and (ii) the S & P Apparel, Accessories & Luxury Goods Index. The total shareholder return for our common stock assumes quarterly reinvestment of dividends.

ITEM 6. SELECTED FINANCIAL DATA
Selected Financial and Operating Data
The following selected financial data is qualified by reference to, and should be read in conjunction with, our Consolidated Financial Statements and related Notes thereto and the other financial information appearing elsewhere in this report. These historical results are not necessarily indicative of results to be expected in the future.

	Fiscal Year Ended (number of weeks)				
	July 5, 2014 (52)	July 6, 2013 (53)(1)	June 30, 2012 (52)	July 2, 2011 (52)	July 3, 2010 (52)
	(Dollars in thousands, except per share data)				
Operating Results:					
Net sales	$425,117	$463,169	$519,845	$490,120	$478,480
Cost of sales, including production and occupancy	286,990	308,974	311,094	299,107	285,075
Gross margin	138,127	154,195	208,751	191,013	193,405
Selling, general and administrative expenses	197,796	197,170	186,920	184,212	181,987
Operating income (loss)	(59,669)	(42,975)	21,831	6,801	11,418
Interest and other income, net	257	815	931	852	3,159
Income (loss) from continuing operations before income taxes	(59,412)	(42,160)	22,762	7,653	14,577
Provision (benefit) for income taxes(2)	(163)	26,985	9,561	3,044	6,094
Income (loss) from continuing operations, net of tax	(59,249)	(69,145)	13,201	4,609	8,483
Loss from discontinued operations, net of tax	(14,133)	(8,275)	(1,480)	(6,388)	(13,648)
Net income (loss)	$(73,382)	$(77,420)	$11,721	$(1,779)	$(5,165)
Basic per share amounts:					
Income (loss) from continuing operations, net of tax	$(0.75)	$(0.84)	$0.16	$0.05	$0.10
Loss from discontinued operations, net of tax	(0.18)	(0.10)	(0.02)	(0.07)	(0.16)
Net income (loss)	$(0.93)	$(0.94)	$0.14	$(0.02)	$(0.06)
Diluted per share amounts:					
Income (loss) from continuing operations, net of tax	$(0.75)	$(0.84)	$0.16	$0.05	$0.10
Loss from discontinued operations, net of tax	(0.18)	(0.10)	(0.02)	(0.07)	(0.16)
Net income (loss)	$(0.93)	$(0.94)	$0.14	$(0.02)	$(0.06)
Basic weighted average shares outstanding	79,234	81,847	84,235	84,225	86,408
Diluted weighted average shares outstanding	79,234	81,847	84,402	84,322	86,550
Statistics:					
Number of stores:					
Opened during period	2	10	13	10	8
Closed during the period	37	20	13	55	19
Open at end of period	207	242	252	252	297
Net sales per average store(3)	$1,829	$1,854	$1,956	$1,845	$1,831
	(3.2)%	(9.6)%	4.8%	0.6%	(15.9)%

Comparable store sales increase (decrease)(4)

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	As of July 5, 2014	July 6, 2013	June 30, 2012	July 2, 2011	July 3, 2010
	(Dollars in thousands, except per share data)				
Balance Sheet Data:					
Working capital	$101,000	$131,957	$197,448	$204,697	