

BODY CENTRAL CORP  
Form 10-Q  
August 06, 2013  
[Table of Contents](#)

**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 June 29, 2013**

**or**

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from      to**

**Commission file number 001-34906**

**BODY CENTRAL CORP.**

(Exact name of registrant as specified in its charter)

Edgar Filing: BODY CENTRAL CORP - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**14-1972231**  
(I.R.S. Employer  
Identification No.)

**6225 Powers Avenue**

**Jacksonville, FL 32217**

(Address, including zip code, of principal executive offices)

Registrant's telephone number, including area code: **(904) 737-0811**

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 ☐

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 ☐ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of August 1, 2013 was 16,654,844 shares.

Table of Contents

TABLE OF CONTENTS

<b><u>ITEM 1.</u></b>	<b><u>CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u></b>	<b>5</b>
	<u>CONSOLIDATED BALANCE SHEETS (UNAUDITED)</u>	5
	<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)</u>	6
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)</u>	7
	<u>NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u>	8
<b><u>ITEM 2.</u></b>	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	<b>17</b>
<b><u>ITEM 3.</u></b>	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b>27</b>
<b><u>ITEM 4.</u></b>	<b><u>CONTROLS AND PROCEDURES</u></b>	<b>27</b>
<b><u>PART II.</u></b>	<b><u>OTHER INFORMATION</u></b>	<b>28</b>
<b><u>ITEM 1.</u></b>	<b><u>LEGAL PROCEEDINGS</u></b>	<b>28</b>
<b><u>ITEM 1A.</u></b>	<b><u>RISK FACTORS</u></b>	<b>28</b>
<b><u>ITEM 2.</u></b>	<b><u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	<b>28</b>
<b><u>ITEM 3.</u></b>	<b><u>DEFAULTS UPON SENIOR SECURITIES</u></b>	<b>28</b>
<b><u>ITEM 4.</u></b>	<b><u>MINE SAFETY DISCLOSURES</u></b>	<b>28</b>
<b><u>ITEM 5.</u></b>	<b><u>OTHER INFORMATION</u></b>	<b>28</b>
<b><u>ITEM 6.</u></b>	<b><u>EXHIBITS</u></b>	<b>28</b>

Table of Contents

**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q are forward-looking statements. You can identify these statements by words such as aim, anticipate, assume, believe, could, due, estimate, goal, intend, may, objective, plan, potential, positioned, predict, should, target, will, would and other similar expressions or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- our ability to identify and respond to new and changing fashion trends, customer preferences and other related factors;
- the dislocation of customers that may occur as a result of strategic changes to marketing or merchandise selections;
- failure to successfully execute marketing initiatives to drive core customers into our stores and to our website;
- failure to successfully execute our growth strategy;
- changes in consumer spending and general economic conditions;
- changes in Federal and state tax policy on our customers;
- changes in the competitive environment in our industry and the markets we serve, including increased competition from other retailers;
- failure of our new stores or existing stores to achieve sales and operating levels consistent with our expectations;

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

- failure to successfully execute our direct business unit initiatives;
- our dependence on a strong brand image;
- failure of our information technology systems to support our business;
- failure to successfully integrate new information technology systems to support our business;
- our dependence upon key executive management or our inability to hire or retain additional personnel;
- disruptions in our supply chain and distribution facility;
- disruptions in our operations due to the transition to our new distribution center and corporate office;
- our reliance upon independent third-party transportation providers for all of our product shipments;
- hurricanes, natural disasters, unusually adverse weather conditions, boycotts and unanticipated events;
- the seasonality of our business;

Table of Contents

- increases in the costs of fuel, or other energy, transportation or utilities costs as well as in the costs of raw materials, labor and employment;
- the impact of governmental laws and regulations, including tax policy, and the outcomes of legal proceedings;
- restrictions imposed by lease obligations on our current and future operations;
- our failure to maintain effective internal controls; and
- our inability to protect our trademarks or other intellectual property rights.

Body Central Corp. (herein we, our, us, or the Company) derives many of its forward-looking statements from its operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, it is impossible for us to anticipate all factors that could affect our actual results. For the discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 filed with the Securities and Exchange Commission (SEC). The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Table of Contents**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****BODY CENTRAL CORP.****CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	June 29, 2013	December 29, 2012	June 30, 2012
(In thousands, except share data)			
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 31,543	\$ 41,136	\$ 26,447
Short-term investments	7,281		15,601
Accounts receivable	1,165	4,710	1,058
Inventories	25,208	22,971	18,103
Prepaid expenses and other current assets	10,061	6,966	6,518
Deferred tax asset	2,436	1,959	1,793
Total current assets	77,694	77,742	69,520
Property and equipment, net of accumulated depreciation of \$28,205, \$25,123 and \$22,284	36,634	33,515	26,182
Goodwill	11,150	21,508	21,508
Intangible assets, net of accumulated amortization of \$3,810, \$3,810 and \$3,810	16,574	16,574	16,395
Other assets	373	246	106
Total assets	\$ 142,425	\$ 149,585	\$ 133,711
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities			
Merchandise accounts payable	\$ 13,518	\$ 13,715	\$ 10,054
Accrued expenses and other current liabilities	21,783	19,732	15,465
Total current liabilities	35,301	33,447	25,519
Other liabilities	9,989	10,494	7,392
Deferred tax liability	5,442	5,298	4,001
Total liabilities	50,732	49,239	36,912
Commitments and contingencies			
Stockholders' equity			
Common stock, \$0.001 par value, 45,000,000 shares authorized, 16,655,023 shares issued and outstanding as of June 29, 2013, 16,302,007 shares issued and outstanding as of December 29, 2012 and 16,271,118 shares issued and outstanding as of June 30, 2012	17	16	16
Undesignated preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding			
Additional paid-in capital	97,446	96,032	95,215
Accumulated (deficit) earnings	(5,773)	4,298	1,575
Accumulated other comprehensive income (expense), net of tax	3		(7)
Total stockholders' equity	91,693	100,346	96,799
Total liabilities and stockholders' equity	\$ 142,425	\$ 149,585	\$ 133,711

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





Table of Contents**BODY CENTRAL CORP.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)**

	<b>Thirteen Weeks Ended</b>		<b>Twenty-Six Weeks Ended</b>	
	<b>June 29, 2013</b>	<b>June 30, 2012</b>	<b>June 29, 2013</b>	<b>June 30, 2012</b>
	<b>(in thousands, except share and per share data)</b>			
Net revenues	\$ 75,147	\$ 79,355	\$ 156,550	\$ 162,036
Cost of goods sold, including occupancy, buying, distribution center and catalog costs	54,525	54,622	108,285	108,041
Gross profit	20,622	24,733	48,265	53,995
Selling, general and administrative expenses	22,924	17,852	44,927	36,102
Depreciation	2,522	1,385	4,284	2,862
Impairment of long-lived assets	10,358		10,358	
(Loss) income from operations	(15,182)	5,496	(11,304)	15,031
Interest income, net	8		9	7
Other income, net	979	15	1,008	58
(Loss) income before income taxes	(14,195)	5,511	(10,287)	15,096
(Benefit) provision for income taxes	(1,427)	2,062	(216)	5,708
Net (loss) income	\$ (12,768)	\$ 3,449	\$ (10,071)	\$ 9,388
Net (loss) income per common share:				
Basic	\$ (0.78)	\$ 0.21	\$ (0.62)	\$ 0.58
Diluted	\$ (0.78)	\$ 0.21	\$ (0.62)	\$ 0.57
Weighted-average common shares outstanding:				
Basic	16,342,419	16,180,104	16,293,042	16,152,007
Diluted	16,342,419	16,364,447	16,293,042	16,361,514
Other comprehensive (income) loss				
Unrealized (gain) loss on short-term investments	(3)	7	(3)	7
(Benefit) provision for income taxes		(3)		(3)
Other comprehensive (income) loss, net of tax	(3)	4	(3)	4
Comprehensive (loss) income	\$ (12,765)	\$ 3,445	\$ (10,068)	\$ 9,384

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

Table of Contents**BODY CENTRAL CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (10,071)	\$ 9,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,284	2,862
Deferred income taxes	(333)	(64)
Excess tax benefits from stock-based compensation		(709)
Stock based compensation	1,098	1,288
Amortization of premiums and discounts on investments, net	93	152
Loss on disposal of property and equipment	47	58
Impairment of long-lived assets	10,358	
Changes in assets and liabilities:		
Accounts receivable	3,545	1,549
Inventories	(2,237)	3,038
Prepaid expenses and other current assets	(3,222)	(2,225)
Merchandise accounts payable	(197)	(6,444)
Accrued expenses and other current liabilities	1,496	(2,434)
Other liabilities	(505)	(492)
Net cash provided by operating activities	4,356	5,967
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(6,905)	(6,812)
Purchases of short-term investments	(9,384)	(16,885)
Proceeds from sales of short-term investments	290	100
Proceeds from maturities of short-term investments	1,723	1,025
Net cash used in investing activities	(14,276)	(22,572)
<b>Cash flows from financing activities</b>		
Proceeds from exercise of stock options	327	350
Excess tax benefits from stock-based compensation		709
Net cash provided by financing activities	327	1,059
Net decrease in cash and cash equivalents	(9,593)	(15,546)
<b>Cash and cash equivalents</b>		
Beginning of year	41,136	41,993
End of period	\$ 31,543	\$ 26,447
<b>Noncash investing activities:</b>		
Property and equipment acquired	\$ 555	\$ 0

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

Table of Contents

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Nature of Business and Summary of Significant Accounting Policies**

**Nature of Business and Organization**

Body Central Corp. (the Company), formerly known as Body Central Acquisition Corp., is a specialty retailer of young women's apparel and accessories operating retail stores in the South, Southwest, Mid-Atlantic and Midwest regions of the United States. The Company operates specialty apparel stores under the Body Central and Body Shop banners as well as a direct business comprised of Body Central's catalog and e-commerce website at [www.bodycentral.com](http://www.bodycentral.com).

**Principles of Consolidation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting primarily of normal and recurring adjustments, necessary for the fair presentation of consolidated financial position, results of operations, and cash flows for the interim periods presented. All intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures under GAAP. Accordingly, these unaudited condensed consolidated financial statements and related notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 29, 2012, included in the Company's Annual Report on Form 10-K, filed with the SEC.

**Fiscal Year**

The Company's fiscal year ends on the Saturday closest to December 31. As used herein, the interim periods presented are the thirteen week and twenty-six week periods ended June 29, 2013 and June 30, 2012.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management evaluates its estimates and judgments, including those related to inventory valuation, property and equipment, recoverability of

long-lived assets, including intangible assets, income taxes, and stock-based compensation.

### **Segment Reporting**

The Financial Accounting Standards Board ( FASB ) has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. The Company has aggregated its net revenues generated from its retail stores and its direct business unit into one reportable segment. The Company aggregates its operating segments because they have a similar class of customer, nature of products, and distribution methods as well as similar economic characteristics. The Company has no international sales. All of the Company's identifiable assets are in the United States.

Table of Contents

**Revenue Recognition**

The Company recognizes revenue, and the related cost of goods sold is expensed, at point-of-sale or upon delivery to customers. Historically, the Company recognized revenue from the direct business unit upon shipment of goods.

Inventory shipping and handling fees billed to customers for online and catalog sales are included in net revenues, and the related shipping and handling costs are included in cost of goods sold. Based on historical sales returns, an allowance for sales returns is recorded as a reduction of net revenues in the periods in which the sales are recognized. Sales tax collected from customers is excluded from net revenues and is included as part of accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets.

The Company sells gift cards in stores, which do not expire or lose value over periods of inactivity and accounts for gift cards by recognizing a liability at the time a gift card is sold. The Company recognizes income from gift cards and gift certificates when they are redeemed by the customer.

Revenue from unredeemed gift certificates and gift cards is recognized when it is determined that the likelihood of the gift certificate or gift card being redeemed is remote and that there is no legal obligation to remit unredeemed gift certificates and gift cards to relevant jurisdictions.

**Cash and Cash Equivalents**

The Company considers all short-term investments with an initial maturity of three months or less when purchased to be cash equivalents.

**Short-term Investments**

The Company classifies its investments as available-for-sale. Short-term investments which have a maturity of one year or less at acquisition are carried at fair market value. Unrealized gains or losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of Stockholders' Equity. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether the decline in fair value is other than temporary, the Company considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the decline in value, the severity and duration of the decline in value, changes in value subsequent to year-end and the forecasted performance of the investment. Interest income is recognized as earned. Income on investments includes the amortization of the premium and accretion of discount for debt securities acquired at other than par value. Realized investment gains and losses are determined on the basis of specific identification.

**Inventories**

Inventories are comprised principally of women's apparel and accessories and are stated at the lower of cost or market, on a first-in-first-out basis, using the retail inventory method. Included in the carrying value of merchandise inventory, and reflected in cost of goods sold, is a reserve for shrinkage which is accrued between physical inventory dates as a percentage of sales based on historical inventory results.

Table of Contents

The Company reviews its inventory levels to identify slow-moving merchandise and generally uses markdowns to clear this merchandise. The Company records a markdown reserve based on estimated future markdowns related to current inventory to clear slow-moving inventory. These markdowns may have an adverse impact on earnings, depending on the extent and amount of inventory affected. The markdown reserve is recorded as an increase to cost of goods sold in the Consolidated Statements of Comprehensive Income.

**Goodwill and Intangible Assets**

The Company conducts an annual impairment test of its recorded goodwill at least annually, on the balance sheet date of each fiscal year. Additionally, in the event of a change in circumstances that leads the Company to determine that a triggering event for impairment testing has occurred, a test is completed at that time. The annual process for evaluating goodwill begins with an assessment for each entity of qualitative factors to determine whether the two-step goodwill impairment test is necessary. Further testing is only performed if the Company determines that it is more likely than not that the reporting unit's fair value is less than its carrying value. The qualitative factors evaluated by the Company include: macro-economic conditions of the local business environment, overall financial performance, sensitivity analysis from the most recent step one fair value test, and other entity specific factors as deemed appropriate. When the Company determines the two-step goodwill impairment test is necessary, the first step involves comparing the fair value of a reporting unit to its carrying amount, including goodwill, after any long-lived asset impairment charges. If the carrying amount of the reporting unit exceeds its fair value, a second step is performed to determine whether there is a goodwill impairment, and if so, the amount of the loss. This step revalues all assets and liabilities of the reporting unit to their current fair value and then compares the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Although the Company has made significant investments in its direct reporting unit during the first two quarters of 2013, including a refined approach towards customer communication channels, a refined production offering, and other strategic omni-channel initiatives, the overall growth of the direct reporting unit was materially below year-to-date growth expectation. These variations were considered a triggering event by the Company to perform a step one analysis of the goodwill associated with the direct reporting unit. The Company performed the step one analysis for assessing whether an impairment of goodwill on its direct reporting unit existed using a discounted cash flow method and concluded that it was more-likely-than-not that the fair value of the direct reporting unit was less than its carrying value. As a result, the Company proceeded to step two of the goodwill impairment analysis which compares the implied fair value of the reporting unit's goodwill with its carrying value. The Company estimated the fair value of the direct reporting unit's identifiable assets and liabilities which was then compared to the overall fair value of the reporting unit using the income valuation approach and concluded that its implied fair value was less than its carrying value. As such, the Company recognized a goodwill impairment loss of \$10.4 million during the second quarter 2013.

The change in the carrying value of goodwill for the thirteen and twenty-six weeks ended June 29, 2013 is as follows:

	June 29, 2013	December 29, 2012
	(in thousands)	
Goodwill, gross	\$ 55,470	\$ 55,470
Accumulated impairment losses	(44,320)	(33,962)
<b>Goodwill, net of impairments</b>	<b>\$ 11,150</b>	<b>\$ 21,508</b>

**New Accounting Standards**





Table of Contents

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU No. 2013-02 requires presentation of reclassification adjustments from each component of accumulated other comprehensive income either in a single note or parenthetically on the face of the financial statements, for those amounts required to be reclassified into net income in their entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety in the same reporting period, cross-reference to other disclosures is required. The Company fully adopted the guidance during the first quarter 2013. There were no classification adjustments for the thirteen week or twenty-six week periods ended June 29, 2013. The adoption of this guidance did not have a material impact on the Company's financial statements or disclosures.

**Reclassification**

Reclassifications have been made for the twenty-six weeks ended June 30, 2012 to conform to presentation for the twenty-six weeks ended June 29, 2013.

**2. Financial Instruments**

The FASB-issued guidance establishes a framework for measuring fair value that is based on the inputs market participants use to determine fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. The guidance under this statement describes a hierarchy of three levels of input that may be used to measure fair value:

- Level 1 Inputs based on quoted prices in active markets for identical assets and liabilities.
- Level 2 Inputs other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 Unobservable inputs based on little market or no market activity and which are significant to the fair value of the assets and liabilities.

The Company's material financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. The fair values of cash, accounts receivable, accounts payable and accrued expenses are equal to their carrying values based on their liquidity.

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

Considerable judgment is required in interpreting market data to develop estimates of fair value. The fair value estimate presented herein is not necessarily indicative of the amount that the Company or the debt holders could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Certificates of deposit, money market securities and tax-free municipal bonds with an initial maturity date of three months or less when purchased are classified as cash and cash equivalents on the accompanying unaudited Consolidated Balance Sheets. Municipal bonds and certificates of deposit with an initial maturity

# Edgar Filing: BODY CENTRAL CORP - Form 10-Q

## Table of Contents

date greater than three months when purchased and a maturity of one year or less are classified as short-term investments on the accompanying unaudited Consolidated Balance Sheets. As of June 29, 2013, municipal bonds in the amount of \$5.5 million and money market securities in the amount of \$5.2 million were included in cash and cash equivalents.

Money market securities, which are short-term investments of excess cash, are classified as cash and cash equivalents on the accompanying unaudited Consolidated Balance Sheets.

The Company has determined the estimated fair value amounts of its financial instruments using available market information. The assets that are measured at fair value on a recurring basis as of June 29, 2013 and June 30, 2012, respectively, include the following:

Description	June 29, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Municipal Bonds	\$ 12,731	\$	\$ 12,731	\$
Money Market Funds	5,157	5,157		
Total	\$ 17,888	\$ 5,157	\$ 12,731	\$

Description	June 30, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Municipal Bonds	\$ 19,748	\$	\$ 19,748	\$
Money Market Funds	1,462	1,462		
Certificates of Deposit	1,960	1,960		
Total	\$ 23,170	\$ 3,422	\$ 19,748	\$

### 3. Income Taxes

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for discrete events occurring in a particular period. The effective income tax rate was 9.9% and 37.4% for the thirteen weeks ended June 29, 2013 and June 30, 2012, respectively, and 2.1% and 37.8% for the twenty-six weeks ended June 29, 2013 and June 30, 2012, respectively. The decrease for the thirteen and twenty-six weeks ended June 29, 2013 was primarily the result of the nondeductible goodwill impairment related to the direct reporting unit recorded in the second quarter 2013 as a discrete item. For the twenty-six weeks ended June 29, 2013, there was an additional decrease in the effective tax resulting from a discrete tax benefit in the 2012 Work Opportunity Tax Credit taken during the first quarter 2013.



Table of Contents

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Amount computed using statutory rates	35.0%	35.0%	35.00%	35.0%
State and local income taxes, net of federal benefit	2.5	2.2	2.5	3.0
Impairment of goodwill	(27.4)	0.0	(37.5)	0.0
Other	(0.2)	0.2	2.1	(0.2)
(Benefit) provision for income effective tax rate	9.9%	37.4%	2.1%	37.8%

The Company recognizes income tax liabilities related to unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*, guidance related to uncertain tax positions, and adjusts these liabilities when its judgment changes as the result of the evaluation of new information. The Company has no uncertain tax positions which would result in a related income tax liability as of June 29, 2013.

#### 4. Related Parties

The Company leases office and warehouse space under a lease agreement dated October 1, 2006 with a company that is owned by former members of management and of the Board of Directors. Included in that group is Beth Angelo, former Chief Merchandising Officer and Director, who formally separated from the Company in February 2013 but is providing limited consultation services through August 2013. The lease expires on October 1, 2016. The Company incurred rent expense of \$245,000 and \$240,000 for the twenty-six weeks ended June 29, 2013 and June 30, 2012, respectively, related to this lease.

#### 5. Leases

The Company's retail stores and corporate offices are in leased facilities. Lease terms for retail stores generally range up to ten years and provide for escalations in base rents. The Company does not have obligations to renew the leases. Certain leases provide for contingent rentals based upon sales. Most leases also require additional payments covering real estate taxes, common area costs and insurance.

Future minimum rental commitments, by year and in the aggregate, under non-cancelable operating leases as of June 29, 2013, are as follows:

Fiscal Year	(in thousands)
2013 Remaining	\$ 13,647
2014	25,486
2015	23,613
2016	20,704
2017	16,015
Thereafter	23,311
Total	\$ 122,776

**6. Debt**

On January 20, 2012, the Company entered into a Line of Credit Agreement with Branch Banking and Trust Company that provides for a revolving line of credit facility in the amount of \$5.0 million with an accordion feature that allows Branch Banking and Trust Company to increase the facility up to \$20 million at its sole discretion. The facility had an original maturity date of May 5, 2013. The facility bears interest at the one month LIBOR rate plus 1.35% per annum, as adjusted monthly on the first day of each month, with an all-in floor rate of 2.0%. The facility is secured by all the assets of the Company. The Line of Credit

Table of Contents

Agreement includes a financial covenant requiring the Company to have a Tangible Net Worth (as defined in the Line of Credit Agreement) of \$30.0 million quarterly, and other customary covenants.

On March 8, 2013, the Company renewed the Line of Credit Agreement; the renewed facility has a maturity date of March 5, 2015. There were no significant changes to the terms or conditions from the original agreement dated January 20, 2012.

As of June 29, 2013, the Company was in compliance with all covenants. The Company had no direct borrowings from the revolving credit facility as of June 29, 2013.

**7. Stock-Based Compensation Plan**

On May 24, 2012, the Company's stockholders approved an amendment and restatement of the Company's Amended and Restated 2006 Equity Incentive Plan (the "Plan"). The Plan as amended and restated (i) increases the number of shares available under the Plan by 400,000 shares; (ii) eliminates the element of the Plan's definition of change of control that previously included a discretionary determination by the Board of Directors that a change of control had occurred; (iii) modifies treatment of awards upon a change of control of the Company to provide that, if a successor assumes or replaces awards granted under the Plan, 50% of the unvested portion of an award will vest and the remaining portion will not be accelerated upon the change of control unless the participant's employment is also terminated; (iv) enhances the Plan's flexibility with respect to award types and adds individual limits for each award type; and (v) makes future awards under the Plan subject to any clawback or recoupment policy that the Company maintains from time to time.

Stock-based compensation expense, net of forfeitures of \$1.4 million and \$1.0 million for the twenty-six weeks ended June 29, 2013 and June 30, 2012, respectively, is included in selling, general and administrative expenses and \$(282,000) and \$301,000 for the twenty-six weeks ended June 29, 2013 and June 30, 2012, respectively is included in cost of goods sold on the Company's Consolidated Statements of Comprehensive (Loss) Income. The Company did not capitalize any expense related to stock-based compensation.

*Option Awards*

The fair value of each option grant for the twenty-six weeks ended June 29, 2013 and June 30, 2012 was calculated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions, respectively:

	Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012
Expected option term (1)	6.25 years	6.25 years
Expected volatility factor (2)	64.71%	66.24%
Risk-free interest rate (3)	1.1%	1.1%

Edgar Filing: BODY CENTRAL CORP - Form 10-Q

Expected annual dividend yield

0%

0%

(1) Since there was not sufficient historical information for grants with similar terms, the simplified or plain-vanilla method of estimating option life was utilized.



# Table of Contents

(2) The stock volatility for each grant is measured using the weighted average of historical weekly price changes of certain peer companies common stock over the most recent period equal to the expected option life of the grant. The Company uses peer companies volatility because there is not sufficient historical data to calculate volatility since the Company has been public less than three years and the expected term is over six years. These peer companies represent other publicly traded retailers in the female fashion segment.

(3) The risk-free interest rate for periods equal to the expected term of the share option is based on the rate of U.S. Treasury securities with the same duration to maturity as the expected term of the option as of the grant date.

A summary of stock option activity for the twenty-six weeks ended June 29, 2013 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value in '000s
<b>Outstanding as of December 29, 2012</b>	505,297	\$ 13.21		
Granted	562,151	8.76		
Exercised (1)	(98,501)	3.32		
Expired	(8,759)	19.76		
Forfeited	(73,897)	16.82		
<b>Outstanding as of June 29, 2013</b>	886,291	\$ 11.12	9.1 years	\$ 2,958
<b>Exercisable as of June 29, 2013</b>	116,767	\$ 16.38	7.5 years	\$ 31

(1) The fair value of options exercised during the twenty-six weeks ended June 29, 2013 was \$927,000.

A summary of the status of nonvested options awards as of June 29, 2013 and changes during the twenty-six weeks ended June 29, 2013, are presented below:

	Shares	Weighted-Average Grant-Date Fair Value
<b>Nonvested as of December 29, 2012</b>	331,832	\$ 9.07
Granted	562,151	5.22
Vested	(50,562)	8.46
Forfeited	(73,897)	9.82
<b>Nonvested as of June 29, 2013</b>	769,524	\$ 6.23

Total compensation cost related to nonvested stock option awards not yet recognized was \$3.2 million as of June 29, 2013, and is expected to be recognized over a weighted-average remaining period of 3.4 years.

*Restricted Stock Awards*

A summary of the status of nonvested restricted stock awards as of June 29, 2013 and changes during the twenty-six weeks ended June 29, 2013, are presented below:

Table of Contents

	Shares	Weighted-Average Grant-Date Fair Value
<b>Restricted stock awards as of December 29, 2012</b>	61,075	\$ 21.43
Granted	277,095	9.39
Vested (1)	(26,484)	15.87
Forfeited	(19,397)	24.16
<b>Restricted stock awards as of June 29, 2013</b>	292,289	\$ 10.34

(1) The fair value of restricted stock awards vested during the twenty-six weeks ended June 29, 2013 was \$299,000.

As of June 29, 2013, unrecognized compensation expense of \$2.5 million related to non-vested restricted stock awards is expected to be recognized over a weighted-average remaining period of 3.4 years.

## 8. Earnings Per Share

Net (loss) income per common share-basic is calculated by dividing net (loss) income available to common stockholders by the weighted-average number of common shares outstanding for the period. Net (loss) income per common share-dilutive includes the determinants of basic income per common share plus the additional dilution for all potentially dilutive stock options and restricted stock utilizing the treasury stock method and if-converted method, respectively.

The following table shows the amounts used in computing (loss) earnings per share and the effect on net (loss) income and the weighted-average number of shares potentially dilutive to common stock:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
	(in thousands, except share and per share data)			
Net (loss) income as reported	\$ (12,768)	\$ 3,449	\$ (10,071)	\$ 9,388
Net (loss) income attributable to common shareholders	\$ (12,768)	\$ 3,449	\$ (10,071)	\$ 9,388
Weighted average basic common shares	16,342,419	16,180,104	16,293,042	16,152,007
Weighted average dilutive common shares	16,342,419	16,364,447	16,293,042	16,361,514
Per common share:				
Net (loss) income per common share - basic	\$ (0.78)	\$ 0.21	\$ (0.62)	\$ 0.58
Net (loss) income per common share - dilutive	\$ (0.78)	\$ 0.21	\$ (0.62)	\$ 0.57

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

For the thirteen weeks and twenty-six weeks ended June 29, 2013, diluted loss per common share is the same as basic loss per common share as all common share equivalents are excluded from the calculation, as their effect is antidilutive. Common Share equivalents of 69,000 and 73,000 shares were excluded from the computation of weighted-average diluted common share amounts for the thirteen weeks and twenty-six weeks ended June 29, 2013, respectively, that could potentially dilute basic earnings per share in the future.

Table of Contents

Equity awards to purchase 263,343 shares of common stock for the thirteen weeks and twenty-six weeks ended June 30, 2012 were outstanding, but were not included in the computation of weighted-average diluted common share amounts as the effect of doing so would have been anti-dilutive.

**9. Contingencies**

The Company is involved in various routine legal proceedings incidental to the conduct of its business. In the opinion of management, based on the advice of in-house and external legal counsel, the lawsuits and claims pending are not likely to have a material adverse effect on the Company's financial condition, results of operations or cash flows. Legal fees related to legal proceedings are included in selling, general, and administrative expenses in the Consolidated Statements of Comprehensive Income.

On August 27, 2012, a securities class action, *Mogensen v. Body Central Corp. et al.*, 3:12-cv-00954, was filed in the United States District Court for the Middle District of Florida against the Company and certain of the Company's current and former officers and directors. The amended complaint, filed on February 22, 2013, on behalf of persons who acquired the Company's stock between November 10, 2011 and June 18, 2012, alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 by making false or misleading statements about the business and operations, thereby causing the stock price to be artificially inflated during that period. The complaint seeks monetary damages in an unspecified amount, equitable relief, costs and attorney's fees. The Company believes that the complaint lacks merit and intends to defend the position rigorously. The Company does not believe the outcome of the class action will have a material adverse effect on the business, financial statements or disclosures. The defendants have moved to dismiss the complaint.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 29, 2012, filed with the SEC, and our unaudited condensed consolidated financial statements and the related notes included herein. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors.*

**Overview**

Founded in 1972, Body Central Corp., a Delaware company, is a multi-channel specialty retailer offering on-trend, quality apparel and accessories at value prices. We operate specialty apparel stores under the Body Central and Body Shop banners, as well as a direct business comprised of our Body Central catalog and our e-commerce website at [www.bodycentral.com](http://www.bodycentral.com). We target women in their late teens and twenties from diverse cultural backgrounds, who seek the latest fashions and a flattering fit. Our stores feature an assortment of tops, dresses, bottoms, jewelry, accessories and shoes sold primarily under our exclusive Body Central®, Sexy Stretch® and Lipstick® labels. We continually update our merchandise and floor sets with an emphasis on coordinated outfits presented by lifestyle to give our customers a reason to shop our stores frequently. We believe our multi-channel strategy supports our brand building efforts and provides us with synergistic growth opportunities

across all of our

Table of Contents

sales channels. Our Annual Report on Form 10-K for the fiscal year ended December 29, 2012 provides additional information about our business, operations and financial condition.

As of June 29, 2013, the Company had 286 stores with an average size of approximately 4,250 square feet. Our stores are located in fashion retail venues in the South, Southwest, Mid-Atlantic and Midwest. In the twenty-six weeks ended June 29, 2013, the Company opened 14 stores and closed four.

**How the Company Assesses the Performance of Our Business**

In assessing the performance of our business, we consider a variety of operational and financial measures. The key measures for determining how our business is performing are net revenues, comparable store and non-comparable store sales, sales per square foot, direct sales through our catalog and e-commerce channels, gross profit margin, store contribution, selling, general and administrative expenses, earnings before interest, taxes, depreciation and amortization, net income, and earnings per share.

***Net Revenues***

Net revenues consist of sales of our merchandise from comparable stores and non-comparable stores, and direct sales through our catalog and e-commerce channels, including shipping and handling fees charged to our customers. Net revenues from our stores and direct business reflect sales of our merchandise less estimated returns and merchandise discounts.

***Store Sales***

There may be variations between our methodology and the way in which other retailers calculate comparable or same store sales. We include a store in comparable store sales on the first day of the fourteenth month after a store opens. Non-comparable store sales include sales not included in comparable store sales (for example, the first two months of a new store's sales) and sales from closed stores. Measuring the change in year-over-year comparable store sales allows us to evaluate how our store base is performing. Various factors affect comparable store sales, including:

- consumer preferences, buying trends and overall economic trends;
- our ability to identify and respond effectively to fashion trends and customer preferences;

- changes in competition;
- changes in our merchandise mix;
- changes in pricing levels and average unit price;
- the timing of our releases of new merchandise;
- the level of customer service that we provide in our stores;
- our ability to source and distribute products efficiently; and
- the number of stores we open and close in any period.

Opening new stores is an important part of our growth strategy. We expect a significant percentage of our net revenues to come from non-comparable store sales. Accordingly, comparable store sales is only one element we use to assess the success of our growth strategy. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence. Our business is seasonal



Table of Contents

and as a result, our revenues fluctuate. In addition, our revenues in any given quarter can be affected by the timing of holidays, the weather and other factors beyond our control.

*Direct Business Unit Sales*

We offer direct sales through our catalogs and through our e-commerce website, [www.bodycentral.com](http://www.bodycentral.com), which accepts orders directly from our customers. We believe the circulation of our catalogs and access to our website increases our reputation and brand recognition with our target customers and helps support the strength of our store operations. Direct sales are not included in our comparable store sales.

***Gross Profit***

Gross profit is equal to our net revenues minus our cost of goods sold. Gross profit margin measures gross profit as a percentage of our net revenues. Cost of goods sold includes the direct cost of purchased merchandise, distribution costs, all freight costs incurred to ship merchandise to our stores and our direct customers, costs incurred to produce and distribute our catalogs, store occupancy costs, buying costs and inventory shrinkage. The components of our cost of goods sold may not be comparable to those of other retailers.

Our cost of goods sold is greater in higher volume periods because cost of goods sold generally increases as net revenues increase. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and take appropriate markdowns to clear these goods. The timing and level of markdowns are not seasonal in nature, but are driven by customer acceptance of our merchandise. If we misjudge sales levels and/or trends, we may be faced with excess inventories and be required to mark down our prices for those products in order to sell them. Significant markdowns have reduced the gross profit margin in some prior periods and may do so in the future. As such, we record a markdown reserve based on estimates of future markdowns related to current inventory.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses include all operating costs not included in cost of goods sold. These expenses include payroll and other expenses related to operations at our corporate headquarters and store operations. These expenses do not generally vary proportionally with net revenues. As a result, selling, general and administrative expenses as a percentage of net revenues are usually higher in lower volume periods and usually lower in higher volume periods. The components of our selling, general and administrative expenses may not be comparable to those of other retailers.

**Results of Operations**

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

The following tables summarize key components of our results of operations for the periods indicated as a percentage of net revenues as well as selected non-financial operating data:

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

Table of Contents

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
<b>Percentage of Net Revenues:</b>				
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	72.6	68.8	69.2	66.7
<b>Gross profit</b>	27.4	31.2	30.8	33.3
Selling, general and administrative expenses	30.5	22.5	28.7	22.3
Depreciation	3.4	1.8	2.7	1.7
Impairment of long-lived assets	13.8		6.6	
<b>(Loss) income from operations</b>	(20.3)	6.9	(7.2)	9.3
Interest income, net				
Other income, net	1.3		0.6	
<b>(Loss) income before income taxes</b>	(19.0)	6.9	(6.6)	9.3
(Benefit) provision for income taxes	(1.9)	2.6	(0.1)	3.5
<b>Net (loss) income</b>	(17.1)%	4.3%	(6.5)%	5.8%
<b>Operating Data (unaudited):</b>				
Stores:				
Comparable store sales change	(13.2)%	(7.6)%	(11.7)%	(4.5)%
Number of stores open at end of period	286	257	286	257
Sales per gross square foot (in whole dollars)	\$ 55	\$ 62	\$ 115	\$ 126
Average square feet per store	4,241	4,274	4,241	4,274
Total gross square feet at end of period (in thousands)	1,213	1,098	1,213	1,098
Direct:				
Number of catalogs circulated (in thousands)	5,472	7,500	12,587	15,625

We have determined our operating segments on the same basis that we use internally to evaluate performance. Our operating segments are our stores and our direct business, which have been aggregated into one reportable segment. We aggregate our operating segments because they have a similar class of customer, nature of products, and distribution methods, as well as similar economic characteristics.

The following table summarizes the number of stores open at the beginning of the period and at the end of the period:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Stores at beginning of period	279	243	276	241
Stores opened during period	9	15	14	19
Stores closed during period	(2)	(1)	(4)	(3)
Stores at end of period	286	257	286	257

Table of Contents
**Thirteen Weeks Ended June 29, 2013 Compared to the Thirteen Weeks Ended June 30, 2012**

	Thirteen Weeks Ended					
	June 29, 2013			June 30, 2012		
	Amount	Percentage of Net Revenues (Unaudited) (Dollars in thousands)	Amount	Percentage of Net Revenues	Variance	
					Dollars	Percentages
Net revenues	\$ 75,147	100.0%	\$ 79,355	100.0%	\$ (4,208)	(5.3)%
Cost of goods sold	54,525	72.6	54,622	68.8	(97)	(0.2)
<b>Gross profit</b>	<b>20,622</b>	<b>27.4</b>	<b>24,733</b>	<b>31.2</b>	<b>(4,111)</b>	<b>(16.6)</b>
Selling, general and administrative expenses	22,924	30.5	17,852	22.5	5,072	28.4
Depreciation	2,522	3.4	1,385	1.8	1,137	82.1
Impairment of long-lived assets	10,358	13.8				100.0
<b>(Loss) income from operations</b>	<b>(15,182)</b>	<b>(20.3)</b>	<b>5,496</b>	<b>6.9</b>	<b>(10,320)</b>	<b>(187.8)</b>
Interest income, net	8				8	
Other income, net	979	1.3	15		964	6,426.7
<b>(Loss) income before income taxes</b>	<b>(14,195)</b>	<b>(19.0)</b>	<b>5,511</b>	<b>6.9</b>	<b>(9,348)</b>	<b>(169.6)</b>
(Benefit) provision for income taxes	(1,427)	(1.9)	2,062	2.6	(3,489)	(169.2)
<b>Net (loss) income</b>	<b>\$ (12,768)</b>	<b>(17.1)%</b>	<b>\$ 3,449</b>	<b>4.3%</b>	<b>\$ (5,859)</b>	<b>(169.9)%</b>
<b>Operating Data:</b>						
<b>Revenues:</b>						
Stores	\$ 66,885	89.0%	\$ 68,337	86.0%	\$ (1,452)	(2.1)%
Direct	8,262	11.0	11,018	14.0	(2,756)	(25.0)
<b>Net revenues</b>	<b>\$ 75,147</b>	<b>100.0%</b>	<b>\$ 79,355</b>	<b>100.0%</b>	<b>\$ (4,208)</b>	<b>(5.3)%</b>

**Net Revenues**

Net revenues decreased by \$4.2 million or 5.3% for the thirteen weeks ended June 29, 2013, as compared to the thirteen weeks ended June 30, 2012.

Store sales decreased \$1.5 million, or 2.1%, for the thirteen weeks ended June 29, 2013, as compared to the thirteen weeks ended June 30, 2012. The decrease in store sales resulted primarily from a decrease in comparable store sales. Comparable store sales decreased \$8.5 million, or 13.2%, for the thirteen weeks ended June 29, 2013, compared to a decrease of 7.6% for the thirteen weeks ended June 30, 2012. The decrease in our comparable store sales was primarily the result of fewer transactions on a per store basis when compared to the same period last year. Non-comparable store sales increased \$7.0 million for the thirteen weeks ended June 29, 2013, compared to the thirteen weeks ended June 30, 2012 as a result of the increase in the number of non-comparable stores from the prior period.

Direct business unit sales, including shipping and handling fees, decreased \$2.8 million, or 25.0%, for the thirteen weeks ended June 29, 2013, from the thirteen weeks ended June 30, 2012. The decrease in direct sales was primarily a result of the product assortment transition in the catalog and the website to target a younger, more trend-driven demographic customer that aligns more directly with our current store customer.

***Gross Profit***

Gross profit decreased \$4.1 million, or 16.6%, for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. As a percentage of net revenues, gross profit margin decreased by 380 basis points for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. This decrease was attributable to a 220 basis point decrease in merchandise margin from markdowns taken to clear slow-moving inventory and a 160 basis point increase in freight costs, store occupancy, distribution and buying costs as a percentage of net revenues.

Table of Contents

***Selling, General and Administrative Expense***

Selling, general and administrative expenses increased by \$5.1 million, or 28.4%, for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. This increase resulted in part from a \$1.9 million, or 15.4% increase related to store operating expenses due primarily to the addition of 29 net stores, or an 11.3% store unit increase since June 30, 2012. As a percentage of net revenues, store operating expenses increased to 18.8% for the thirteen weeks ended June 29, 2013 as compared to 15.4% for the thirteen weeks ended June 30, 2012.

The general and administrative expense component of selling, general and administrative expense increased \$3.2 million for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. As a percentage of net revenues, general and administrative expenses increased to 11.7% for the thirteen weeks ended June 29, 2013 from 7.1% for the thirteen weeks ended June 30, 2012. In the thirteen week period ended June 30, 2012, a \$1.2 million reduction of the management bonus accrual was recorded. General and administrative expenses increased \$2.0 million for the thirteen week period ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012 before the \$1.2 million reduction of the management bonus accrual. Of the \$2.0 million increase, \$700,000 was primarily driven by corporate staffing additions necessary to support strategic initiatives and future growth. The remaining \$1.3 million increase was primarily a result of marketing initiatives, severance benefits, and relocation and recruiting expenses incurred in the process of filling key roles and building out the Company's leadership team.

As a percentage of net revenues, selling, general and administrative expenses were 30.5% for the thirteen weeks ended June 29, 2013 and 22.5% for the thirteen weeks ended June 30, 2012 due to the reasons discussed above.

***Depreciation Expense***

Depreciation expense increased \$1.1 million, or 82.1%, for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. This increase was primarily due to capital expenditures related to new store construction and significant upgrades to our information technology systems, as well as the acceleration of depreciation for changes in the estimated useful lives of certain technology information systems, leasehold improvements, and furniture and fixtures in anticipation of our relocation to the new corporate headquarters and distribution center. As a percentage of net revenues, depreciation increased 160 basis points to 3.4% for the thirteen week period ended June 29, 2013 from 1.8% for the thirteen week period ended June 30, 2012.

***Impairment of Long-Lived Assets***

Impairment of long-lived assets was \$10.4 million for the thirteen weeks ended June 29, 2013 as described in footnote 1 in the Notes to the Condensed Consolidated Financial Statements (Unaudited).

***Interest Income, net***

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

Interest income, net was \$8,000 for the thirteen weeks ended June 29, 2013 and \$0 for the thirteen weeks ended June 30, 2012.

### ***Other Income, net***

Other income, net increased \$964,000 for the thirteen-weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012. The Company recognized store merchandise credit breakage in the amount of \$972,000 and \$0 for the thirteen week periods ended June 29, 2013 and June 30, 2012, respectively, related to aged unredeemed store merchandise credits. The merchandise credit breakage was the result of a review of both the statutory escheatment regulations and historical redemption patterns in our legacy merchandise credit program. These merchandise credits breakage amounts are expected to be immaterial in future quarters.

Table of Contents***Provision for Income Taxes***

Provision for income taxes decreased \$3.5 million for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012, which was attributable to a \$9.3 million decrease in income before income taxes, and a decrease in the effective tax rate to 9.9% in the thirteen weeks ended June 29, 2013 from 37.4% in the thirteen weeks ended June 30, 2012. The decrease for the thirteen weeks ended June 30, 2013 was primarily the result of the nondeductible goodwill impairment related to the direct reporting unit recorded in the second quarter 2013 as a discrete item.

***Net (Loss) Income***

Net (loss) income decreased \$5.9 million for the thirteen weeks ended June 29, 2013 as compared to the thirteen weeks ended June 30, 2012 due to the factors discussed above.

**Twenty-six Weeks Ended June 29, 2013 Compared to the Twenty-six Weeks Ended June 30, 2012**

	Twenty-six Weeks Ended					
	June 29, 2013			June 30, 2012		
	Amount		Percentage of Net Revenues	Amount		Percentage of Net Revenues
			(Unaudited)			
			(Dollars in thousands)			
Net revenues	\$	156,550	100.0%	\$	162,036	100.0%
Cost of goods sold		108,285	69.2		108,041	66.7
<b>Gross profit</b>		48,265	30.8		53,995	33.3
Selling, general and administrative expenses		44,927	28.7		36,102	22.3
Depreciation		4,284	2.7		2,862	1.7
Impairment of long-lived assets		10,358	6.6			
					10,358	100.0
<b>(Loss) income from operations</b>		(11,304)	(7.2)		15,031	9.3
Interest income, net		9			7	
Other income, net		1,008	0.6		58	
<b>(Loss) income before income taxes</b>		(10,287)	(6.6)		15,096	9.3
Provision for income taxes		(216)	(0.1)		5,708	3.5
<b>Net (loss) income</b>	\$	(10,071)	(6.5)%	\$	9,388	5.8%
<b>Operating Data:</b>						
<b>Revenues:</b>						
Stores	\$	139,527	89.1%	\$	139,284	86.0%
Direct		17,023	10.9		22,752	14.0



# Edgar Filing: BODY CENTRAL CORP - Form 10-Q

<b>Net revenues</b>	\$	156,550	100.0%	\$	162,036	100.0%	\$	(5,486)	(3.4)%
---------------------	----	---------	--------	----	---------	--------	----	---------	--------

## *Net Revenues*

Net revenues decreased by \$5.5 million or 3.4% for the twenty-six weeks ended June 29, 2013, as compared to the twenty-six weeks ended June 30, 2012.

Store sales increased \$243,000, or 0.2%, for the twenty-six weeks ended June 29, 2013, as compared to the twenty-six weeks ended June 30, 2012. The increase in store sales resulted from the 29 net store additions since June 30, 2012, partially offset by a decrease in comparable store sales. Comparable store sales decreased \$15.6 million, or 11.7%, for the twenty-six weeks ended June 29, 2013, compared to a decrease of 4.5% for the twenty-six weeks ended June 30, 2012. The decrease in our comparable store sales was primarily the result of fewer transactions on a per store basis when compared to the same period last year. Non-comparable store sales increased by \$15.8 million for the twenty-six weeks ended June 29, 2013, compared to the twenty-six weeks ended June 30, 2012 as a result of the increase in the number of non-comparable stores from the prior period.

Direct business unit sales, including shipping and handling fees, decreased \$5.7 million, or 25.2%, for the twenty-six weeks ended June 29, 2013, from the twenty-six weeks ended June 30, 2012. The decrease in direct sales was

Table of Contents

primarily a result of the product assortment transition in the catalog and the website to target a younger, more trend-driven demographic customer that aligns more directly with our current store customer. The Company recognized an impairment of the goodwill associated with the direct business of \$10.4 million for the thirteen weeks ended June 29, 2013.

***Gross Profit***

Gross profit decreased \$5.7 million, or 10.6%, for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012. As a percentage of net revenues, gross profit margin decreased by 250 basis points for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012. This decrease was attributable to a 150 basis point decrease in merchandise margin from markdowns taken to clear slow-moving inventory and a 100 basis point increase in freight costs, store occupancy, distribution and buying costs as a percentage of net revenues.

***Selling, General and Administrative Expense***

Selling, general and administrative expenses increased by \$8.8 million, or 24.4%, for the twenty-six weeks ended June 29, 2013, as compared to the twenty-six weeks ended June 30, 2012. This increase resulted in part from a \$3.7 million, or 15.4%, increase related to store operating expenses due primarily to the addition of 29 net stores, or an 11.3% store unit increase since June 30, 2012. As a percentage of net revenues, store operating expenses increased to 17.9% for the twenty-six weeks ended June 29, 2013 as compared to 15.0% for the twenty-six weeks ended June 30, 2012.

The general and administrative expense component of selling, general and administrative expense increased \$5.1 million for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012. As a percentage of net revenues, general and administrative expenses increased to 10.8% for the twenty-six weeks ended June 29, 2013 from 7.3% for the twenty-six weeks ended June 30, 2012. Of the \$5.1 million increase, \$1.5 million was primarily driven by corporate staffing additions necessary to support strategic initiatives and future growth. The remaining \$3.6 million expense increase primarily relates to marketing initiatives, relocation and recruiting incurred in the process of filling key roles and building out the Company's leadership team, severance benefits and legal expenses.

As a percentage of net revenues, selling, general and administrative expenses were 28.7% for the twenty-six weeks ended June 29, 2013 and 22.3% for the twenty-six weeks ended June 30, 2012 due to the reasons discussed above.

***Depreciation Expense***

Depreciation expense increased \$1.4 million, or 49.7%, for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012. This increase was primarily due to capital expenditures related to new store construction and significant upgrades to our information technology systems, as well as the acceleration of depreciation for changes in the estimated useful lives of certain technology information systems, leasehold improvements, and furniture and fixtures in anticipation of our relocation to the new corporate headquarters and distribution center. As a percentage of net revenues, depreciation increased 100 basis points to 2.7% for the twenty-six week period ended June

29, 2013 from 1.7% for the twenty-six week period ended June 30, 2012.

***Impairment of Long-Lived Assets***

Impairment of long-lived assets was \$10.4 million for the twenty-six weeks ended June 29, 2013 as described in footnote 1 in the Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

***Interest Income, net***

Interest income, net was \$9,000 for the twenty-six weeks ended June 29, 2013 and \$7,000 for the twenty-six weeks ended June 30, 2012.

***Other Income, net***

Other income, net increased \$950,000 for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012. The Company recognized store merchandise credit breakage in the amount of \$972,000 and \$0 for the twenty-six week periods ended June 29, 2013 and June 30, 2012, respectively, related to aged unredeemed store merchandise credits. The merchandise credit breakage was the result of a review of the statutory escheatment regulations for gift certificates and gift cards conducted during the period based on historical redemption patterns in the two years since termination of the program.

***Provision for Income Taxes***

Provision for income taxes decreased \$5.9 million for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012, which was attributable to a \$25.4 million decrease in income before income taxes, and a decrease in the effective tax rate to 2.1% in the twenty-six weeks ended June 29, 2013 from 37.8% in the twenty-six weeks ended June 30, 2012. The decrease for the twenty-six weeks ended June 30, 2013 was primarily the result of the nondeductible goodwill impairment related to the direct reporting unit recorded in the second quarter 2013 as a discrete item and a discrete tax benefit in the 2012 Work Opportunity Tax Credit taken during the first quarter 2013.

***Net (Loss) Income***

Net (loss) income decreased \$19.5 million for the twenty-six weeks ended June 29, 2013 as compared to the twenty-six weeks ended June 30, 2012 due to the factors discussed above.

**Liquidity and Capital Resources**

Our primary source of liquidity is currently cash flows from operations. Our primary needs are for capital expenditures in connection with opening new stores, remodeling or relocating existing stores, distributing our catalogs, operating our website and the additional working capital required for running our operations. Cash is also required for investment in our information technology systems, maintenance of existing facilities and distribution facility enhancements, when required. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, trade payables and other current liabilities. Our working capital position benefits from the fact that we generally collect cash from sales to customers the same day or, in the case of credit or debit card transactions, within several days of the related sale, and we typically have up to 30 days to pay our merchandise vendors, depending on the applicable vendor terms.

Our ability to fund our cash flow needs depends largely on our future operating performance. In assessing the performance of our business, we consider a variety of operational and financial measures. The key measures for determining how our business is performing are net revenues, comparable store and non-comparable store sales, direct sales through our catalog and e-commerce channels, gross profit margin, store contribution, and selling, general and administrative expenses.

Our cash and cash equivalents increased \$5.1 million to \$31.5 million as of June 29, 2013 from \$26.4 million as of June 30, 2012. The increase in cash and cash equivalents is primarily the offset of a decrease in short-term investments of \$8.3 million to \$7.3 million as of June 29, 2013 from \$15.6 million as of June 30, 2012. Components of the change in cash and cash equivalents for the twenty-six weeks ended June 29, 2013, as well as the change for the thirteen weeks ended June 30, 2012, are shown in the following table:

Table of Contents

	Twenty-Six Weeks Ended				Variance	
	June 29, 2013	June 30, 2012		Dollars		Percentages
	(in thousands)					
	(unaudited)					
Provided by operating activities	\$ 4,356	\$ 5,967	\$	(1,611)		(27.0)%
Used in investing activities	(14,276)	(22,572)		8,296		(36.8)
Provided by financing activities	327	1,059		(732)		(69.1)
Decrease in cash / cash equivalents	\$ (9,593)	\$ (15,546)	\$	5,953		(38.3)%

***Operating Activities***

Operating activities consist of net income adjusted for non-cash items, including depreciation and amortization and the effect of other working capital requirements.

Net cash provided by operating activities decreased by \$1.6 million to \$4.4 million during the twenty-six weeks ended June 29, 2013 as compared to \$6.0 million for the twenty-six weeks ended June 30, 2012. This decrease was primarily attributable to a \$19.5 million decrease in net income, a \$10.4 million impairment of long-lived assets, a \$5.4 million favorable change in other working capital components, a \$1.4 million increase in depreciation, a \$972,000 favorable change in inventory, net of merchandise payables, and a \$269,000 unfavorable change in deferred taxes.

***Investing Activities***

Investing activities consist primarily of purchases of short-term investments and capital expenditures for new and existing stores, as well as our investment in information technology.

For the twenty-six weeks ended June 29, 2013, net cash used in investing activities decreased \$8.3 million as compared to the twenty-six weeks ended June 30, 2012. This decrease was primarily attributable to a \$7.5 million reduction in purchases of short-term investments, \$698,000 increase in proceeds from maturities of short-term investments, a \$190,000 increase in proceeds from sales of short-term investments, and a \$93,000 increase in new store construction and other capital expenditures.

***Financing Activities***

Financing activities consist primarily of proceeds from the issuance of stock options and tax benefits from stock-based award activities. For the twenty-six week period ended June 30, 2013, net cash provided by financing activities decreased \$732,000 as compared to the twenty-six week period ended June 30, 2012, primarily attributable to a \$709,000 decrease in tax benefits from stock-based compensation.

## Edgar Filing: BODY CENTRAL CORP - Form 10-Q

On January 20, 2012, we entered into a Line of Credit Agreement with Branch Banking and Trust Company that provides for a revolving line of credit facility in the amount of \$5.0 million with an accordion feature that allows Branch Banking and Trust Company to increase the facility up to \$20 million at its sole discretion. The facility had a maturity date of May 5, 2013 and bears interest at the one month LIBOR rate plus 1.35% per annum, as adjusted monthly on the first day of each month, with an all-in floor rate of 2.0%. The facility is secured by all the assets of the Company. The Line of Credit Agreement includes a financial covenant requiring the Company to have a Tangible Net Worth (as defined in the Line of Credit Agreement) of \$30.0 million quarterly, and other customary covenants.

Table of Contents

On March 8, 2013, we renewed the Line of Credit Agreement and extended the maturity date to March 5, 2015. There were no significant changes to the terms or conditions from the original agreement dated January 20, 2012. As of June 29, 2013, we were in compliance with all covenants and had no outstanding borrowings under this line of credit facility.

***Outlook***

Our short-term and long-term liquidity needs arise primarily from capital expenditures associated with our growth strategy and working capital requirements. We believe that our cash position, net cash provided by operating activities and availability under the Line of Credit Agreement will be adequate to finance our working capital needs and planned capital expenditures for at least the next twelve months. Planned capital expenditures for fiscal year 2013 include the relocation of our distribution center and corporate offices in late 2013, expenditures for approximately 22 new stores, relocation of and maintenance of existing stores, maintenance of corporate facilities, and investments in information technology systems, which include investing in and upgrading several of our systems to provide improved support of our current operations and position us for future growth. Most notably, we plan to spend approximately \$10.0 million to \$12.0 million related to the relocation of our distribution center and corporate headquarters over the next twelve months.

**Critical Accounting Estimates**

Management has determined that our most critical accounting policies are those related to revenue recognition, inventory valuation, property and equipment, impairment of long-lived assets, goodwill, income taxes and stock-based compensation. We continue to monitor our accounting policies to ensure proper application of current rules and regulations. There have been no significant changes to these policies discussed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

**New Accounting Standards**

Refer to Note 1 of the Condensed Consolidated Financial Statements (Unaudited).

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes from the quantitative and qualitative disclosures about market risk disclosed in Item 7A. of Part II of our Form 10-K for the year ended December 29, 2012.

**ITEM 4. CONTROLS AND PROCEDURES**



**Evaluation of Disclosure Controls and Procedure**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report and has concluded that, as of the end of such period, our disclosure controls and procedures were effective.

Table of Contents

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarter ended June 29, 2013 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Refer to Note 9 of the Condensed Consolidated Financial Statements (Unaudited).

**ITEM 1A. RISK FACTORS**

Our risk factors have not changed materially from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 29, 2012.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

*In reviewing any agreements included as exhibits to this report, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company, its subsidiaries or other parties to the agreements. Such agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:*

- *should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;*

Table of Contents

- *have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;*
- *may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and*
- *were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.*

*Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading. Additional information about the Company may be found elsewhere in this report and the Company's other public files, which are available without charge through the SEC's website at <http://www.sec.gov>.*

The following is an index of the exhibits included in this Quarterly Report on Form 10-Q:

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive Data Files*
	101.INS* XBRL Instance Document
	101.SCH* XBRL Taxonomy Extension Schema Document
	101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
	101.DEF* XBRL Taxonomy Definition Linkbase Document
	101.LAB* XBRL Taxonomy Extension Label Linkbase Document
	101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934.

Table of Contents

**SIGNATURES**

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.

Date: August 6, 2013

BODY CENTRAL CORP.

By: /s/ Brian Woolf  
Brian Woolf  
Chief Executive Officer and Director  
  
(Principal Executive Officer)

By: /s/ Thomas W. Stoltz  
Thomas W. Stoltz  
Chief Operating Officer and Chief Financial Officer  
  
(Principal Financial Officer)