bebe stores, inc.
Form 10-K
September 13, 2012
Table of Contents

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 June 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 0-24395

bebe stores, inc.

(Exact name of registrant as specified in its charter)

California **(State or Jurisdiction of** **Incorporation or Organization)**	**94-2450490** **(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 ¨ 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 ¨ 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 ¨

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 ¨

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	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x

The aggregate market value of voting stock held by non-affiliates of the registrant was approximately $318,000,000 as of December 31, 2011, the last business day of the registrant s most recently completed second fiscal quarter, based upon the closing sale price per share of $8.27 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 31, 2012, 84,388,298 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 2012 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.

Table of Contents

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. While we attract a broad audience, our target customer is a 21 to 34-year-old woman who seeks current fashion trends to suit her lifestyle. The bebe look appeals to a hip, sexy, sophisticated, body-conscious woman who takes pride in her appearance. The bebe customer 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 in the following lifestyle categories: wear-to-work, weekend and party. 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 June 30, 2012, we marketed our products under the bebe, BEBE SPORT, bbsp and 2b bebe brand names through our 252 retail stores, of which 205 are bebe stores, including an on-line store at *www.bebe.com*, and 47 are 2b bebe stores, including an online store at www.2bstores.com. Our 114 international licensees operated stores in 19 countries and, pursuant to our product licensing, through certain select domestic and international retailers.

bebe. We were founded by Manny Mashouf, our Chief Executive Officer and Chairman of the Board. We opened our first store in San Francisco, California in 1976, which was also the year we incorporated in California. As of June 30, 2012, we operated 205 bebe stores in 36 states, Puerto Rico, the U.S. Virgin Islands, Canada, Japan 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.

PH8. In the fourth quarter of fiscal 2010, we decided to discontinue operations of our PH8 division, allowing us to focus our efforts on improving bebe sales and profitability, expanding internationally and continuing to develop our 2b bebe business. We closed all of our 49 PH8 stores during the first and second quarters of fiscal 2011, converting one store to a 2b bebe store. We recorded the net costs associated with the

Table of Contents

disposition of these stores during fiscal 2011 as the stores closed and the related assets were disposed of. We classified prior year results for these stores within discontinued operations on our consolidated statements of operations.

2b bebe. Our 2b bebe (2b) stores were originally structured as outlet fronts for bebe and were later expanded into the 2b concept stores. We focus on fun and flirty everyday lifestyle offerings for our aspirational buyers. As of June 30, 2012, we operated a total of 47 2b stores, including an on-line store at *www.2bstores.com*. Of these, 14 are mall based stores that sell 2b merchandise only, 14 are hybrid 2b stores that sell a combination of 2b merchandise and bebe logo merchandise and 18 are outlet concept 2b stores that sell a mix of 2b, bebe logo and bebe retail markdown merchandise. www.2bstores.com is our 2b bebe on-line retail store and an extension of the 2b bebe store experience that provides a complete assortment of 2b bebe merchandise and is also used as a vehicle to communicate with our customers.

Operating Strategy

Our objective is to satisfy the fashion needs of the modern, sexy and sophisticated 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 wear-to-work, weekend and party needs. 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, better maximizing sales opportunities and minimizing liabilities. For fiscal 2013, we anticipate an increase in our inventory per square foot driven by our strategies of expanding our wear-to-work collection, focused localization initiatives and higher average unit costs related to elevated product offerings.

4. 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.

5. 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.

Stores and Expansion Opportunities

Based on the current retail environment, we will continue to develop international expansion opportunities for the bebe brand and will continue to test 2b bebe stores in new and existing domestic markets. 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.

Table of Contents

In fiscal 2013, we plan to open 11 new stores, including 5 bebe stores and 6 2b stores. We also plan to close up to 12 bebe stores and one 2b bebe pop-up location, resulting in minimal net square footage reduction.

bebe stores. During fiscal 2012, we opened 5 bebe stores and closed 13 bebe stores, one of which was converted to a 2b bebe store. 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 2012 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 2013 and beyond. In the fourth quarter of fiscal 2012 we entered into a termination agreement with our bebe.com third-party service provider. We are migrating to a company-managed platform in the first quarter of fiscal 2013. In addition, as part of our long-term strategy to manage store distribution as well as direct to consumer fulfillment for both bebe.com and 2bstores.com, in the fourth quarter of fiscal 2012, we purchased our existing distribution facility in Benicia, California for $18 million. We believe both of these decisions will support our long term growth objectives across our multi-channel program.

2b bebe stores. During fiscal 2012, we opened 8 2b bebe stores, including an on-line store at www.2bstores.com. Our 2b bebe stores average 4,500 square feet and are located in outlet centers and regional malls. 2bstores.com is an on-line extension of the 2b bebe retail experience that provides a complete assortment of 2b bebe merchandise and is also used to communicate with our customers. In fiscal 2013, we will continue to test 2b bebe stores in outlet centers and regional malls to access future growth opportunities.

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 2012, we closed 13 stores. In fiscal 2013, we plan to close up to 12 stores and one 2b bebe pop-up location.

International Licensees. As of June 30, 2012, we had 114 international stores operated by licensees in 19 countries, including 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 include in their licensed bebe stores; we therefore exclude these stores from comparable store sales. As of June 30, 2012, wholesale revenue represented approximately 7.5% of total net sales. In fiscal 2013, we plan to open up to 25 licensee operated stores, which include both stand-alone stores and shop-in-shops.

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, bbsp and 2b bebe 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 in the following lifestyle categories: wear-to-work, weekend and party. 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 have accessories which include jewelry, sunglasses, fragrance, shoes and handbag assortment.

During fiscal 2012, we had license agreements in place for optical eyewear, fragrance and footwear; each of which represented approximately 1% of our total 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

Table of Contents

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. In August 2009, we signed an agreement with Titan Industries to design, manufacture and distribute women s non-casual footwear. We terminated our agreement with Titan Industries as of June 30, 2012.

Product Development. Our product development process enables our merchants to make informed and timely decisions prior to making fabric or merchandise purchase commitments. Our speed to market strategy 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 inventory and sales targets.

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 2012, 2011 and 2010, 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 2012, our marketing expenditures were $23.5 million compared to $22.9 million in fiscal 2011. In fiscal 2013, we expect to increase marketing expenses to $27.0 million in connection with our future growth initiatives.

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 websites, bebe.com and 2bstores.com, a strong presence in online 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 clientele.

Store Operations

As of June 2012, our store operations are organized into four regions and 30 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 three to nine districts and each district manager is typically responsible for six to thirteen 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

Table of Contents

managers receive base compensation plus incentive 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, bbsp and 2b bebe 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, 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 2012 continued to focus on our digital channels, stores, supply chain, central corporate systems and infrastructure. We are in the first 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. During fiscal 2012 we successfully launched the platform for 2bstores.com, our newest on-line store and laid the foundation to transition bebe.com from our third-party provider to in-house management and fulfillment. We continue to support our future growth through mobile, social media and in-store technologies expansions.

Employees

As of June 30, 2012, we had 3,294 employees, of whom 379 were employed at the corporate offices in Brisbane, the Los Angeles design studio and production facility and the Benicia distribution center. The

Table of Contents

remaining 2,915 employees were employed in store operations. There were 1,206 full-time employees and 2,088 employed on a part-time basis. Our total employees decreased by approximately 4% as compared to the prior fiscal year end. In addition, 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.

Table of Contents

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, 2012:

Name	Age	Position
Manny Mashouf(1)	74	Chairman of the Board and Chief Executive Officer
Barbara Bass(3)*(4)	61	Director
Cynthia Cohen(2)(3)(4)*	59	Director
Corrado Federico(2)(3)(4)	71	Director
Caden Wang(2)*(4)	60	Director
Walter Parks(1)	53	Chief Operating Officer and Chief Financial Officer
Susan Powers(1)	54	Senior Vice President of Stores
Lawrence Smith(1)	46	Senior Vice President, General Counsel
Liyuan Woo(1)	40	Principal Accounting Officer and Vice President Corporate Controller

(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 present. Mr. Mashouf is the uncle of Hamid Mashouf, Chief Information Officer.

Barbara Bass has served as a director since February 1997. From approximately 2004 through 2011, Ms. Bass served on the boards of directors of Starbucks Corporation and DFS Group Limited. Since 1993, Ms. Bass has served as the President of the Gerson Bakar Foundation and is the Chief Executive Officer of the Achieve Foundation. From 1989 to 1992, Ms. Bass served as President and Chief Executive Officer of the Emporium Weinstock Division of Carter Hawley Hale Stores, Inc., a department store chain.

Cynthia R. Cohen has served as a director since December 2003 and Lead Independent Director since January 2009. She also currently serves on the boards of directors of Steiner Leisure Ltd. and Equity One, Inc., as well as several privately held companies. Ms. Cohen serves on the Executive Advisory Board for the Center for Retailing Education and Research at the University of Florida and is founder and President of Strategic Mindshare, a strategy consulting firm. Prior to founding Strategic Mindshare in 1990, she was a Partner in Management Consulting with Deloitte & Touche LLP.

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 publicly traded 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.

Caden Wang has served as a director since October 2003. Since 2005, Mr. Wang has also served on the board of directors of Leapfrog Enterprises, Inc. From 1999 to 2001, Mr. Wang served as Executive Vice President and Chief Financial Officer of LVMH Selective Retailing Group, which included international retail holdings such as DFS, Sephora and Miami Cruiseline Services. Mr. Wang previously served on the board of directors of Fossil, Inc. and as Chief Financial Officer for travel retailer DFS and retail companies Gumps and Cost Plus.

Table of Contents

Walter Parks has served as Chief Operating Officer since September 2006 and Chief Financial Officer since December 2003. From 2001 to 2003, Mr. Parks served as Executive Vice President and Chief Administrative Officer of The Wet Seal, Inc. From 1999 to 2001, Mr. Parks served as the Executive Vice President and Chief Administrative Officer of Restoration Hardware, Inc. From 1997 to 1999, Mr. Parks served as Chief Financial Officer and Treasurer for Ann Taylor Stores Corporation, and in various other positions since joining that company in 1988.

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.

Liyuan Woo joined bebe in August 2010 and currently serves as Principal Accounting Officer and Vice President Corporate Controller. Prior to joining bebe, Ms. Woo held a Senior Manager position with the accounting firm Deloitte & Touche, LLP in its M&A Transaction Services Group from October 2004 through July 2010.

Table of Contents

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. Consequently, we depend in part upon the customer response to the creative efforts of our merchandising, design and marketing teams and their ability to anticipate trends and fashions that will appeal to our consumer base. If we miscalculate our customers product preferences or the demand for our products, we may be faced with excess inventory. Historically, this type of occurrence has resulted in excess fabric for some products and markdowns and/or write-offs, 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 sales. In addition, from time to time, we may pursue new concepts, and if the new concepts are not successful, our financial condition may be harmed.

2. We face increasing product costs from our manufacturing partners, which could result in significant margin erosion. Worldwide prices for raw materials have increased significantly year-over-year. We currently estimate that these increasing product costs could result in significant margin erosion. Additionally, a significant percentage of our apparel products are manufactured in China. Manufacturers in that country are currently experiencing increased costs due to shortages of labor and the fluctuation of the Chinese Yuan in relation to the U.S. dollar. In addition, our business and operating results may be affected by changes in the political, social or economic environment in China. If we are unable to successfully mitigate a significant portion of such product costs, our results of operations may be materially adversely affected.

3. If we are unable to obtain raw materials or unable to find manufacturing facilities or our manufacturers perform unacceptably, our sales may be negatively affected and our financial condition may be harmed. We do not own any manufacturing facilities and therefore depend on contractors and third parties to manufacture our products. We place all of our orders for production of merchandise and raw materials by purchase order and do not have any long-term contracts with any manufacturer or supplier. If we fail to maintain favorable relationships with our manufacturers and suppliers or are unable to obtain sufficient quantities of quality raw materials on commercially reasonable terms, it could harm our business and results of operations.

We cannot assure you that contractors and 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. 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 results of operations could be negatively impacted.

4. We face significant competition in the retail and apparel industry, which could harm our sales and profitability. 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, 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 adequately compete with them. If we fail to remain competitive in any way, it could harm our business, financial condition and results of operations.

5. General economic conditions, including increases in energy and commodity prices, that are largely out of our control may adversely affect our financial condition and results of operations. We are sensitive to changes in general economic conditions, both nationally and locally. 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 or other economic factors that may affect consumer spending or buying habits could adversely affect the demand for products we sell in our stores. In addition, the recent turmoil in the financial markets may have an adverse effect on the U.S. and world economy, which could negatively impact consumer spending patterns. We cannot assure you that government responses to the disruptions in the financial markets will restore consumer confidence.

Furthermore, we could experience reduced traffic in our stores or limitations on the prices we can charge for our products, either of which could reduce our sales and profit margins and have a material adverse effect on our financial condition and results of operations. Also, 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, and otherwise adversely affect our financial condition and results of operations.

6. We cannot assure that future store openings will be successful and new store openings may impact existing stores. We expect to open approximately 11 stores for bebe and 2b bebe in fiscal 2013 as well as up to 25 international licensee operated stores. In the past, we have closed stores as a result of poor performance, and we cannot assure that the stores that we plan to open in fiscal 2013, or any other stores that we might open in the future, will be successful or that our overall operating profit will increase as a result of opening these stores. During fiscal 2012, we closed 13 stores, and during fiscal 2013, we anticipate closing up to 12 bebe stores and one 2b bebe pop-up location. Most of our domestic new store openings in fiscal 2013 will be in existing markets. These openings may affect the existing stores net sales and profitability. Our failure to predict accurately the demographic or retail environment at any future store location could have a material adverse effect on our business, financial condition and results of operations.

Our ability to effectively obtain real estate to open new stores depends upon the availability of real estate that meets our criteria, including traffic, square footage, co-tenancies, average sales per square foot, lease economics, demographics, and other factors, and our ability to negotiate terms that meet our financial targets. In addition, we must be able to effectively renew our existing store leases. Failure to secure real estate locations adequate to meet annual targets as well as effectively managing the profitability of our existing fleet of stores could have a material adverse effect on our business, financial condition and results of operations.

7. 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 the second quarter of our fiscal year (which includes the holiday selling season) compared to other quarters.

In addition, our 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

Table of Contents

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.

8. 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 from within our company. There is substantial competition for experienced personnel, which we expect will continue. We compete for experienced personnel with companies who have greater financial resources than we do. In the past, we have experienced significant turnover of our executive management team and retail store personnel. 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.

In addition, we depend upon the expertise and execution of our key employees, particularly: Manny Mashouf, our founder, Chief Executive Officer and Chairman of the Board of Directors. If we lose the services of Mr. Mashouf or any key officers or employees, it could harm our business and results of operations.

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 31, 2012, Manny Mashouf, our Chief Executive Officer and Chairman of the Board, beneficially owned approximately 54% 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 rely on information technology, the disruption of which could adversely impact our business. We rely on various information systems to 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 do not have adequate systems in place, or should we experience any delays or difficulties in transitioning to these or other new systems, or in integrating these systems with our current systems, or we experience any other disruptions affecting our information systems, we could experience a material adverse impact on our business. Should we experience unauthorized access, disclosure or use of any of our systems, or if our security controls, computer assets and sensitive data, including client data, are breached, this could also damage our reputation with our clients. Further, with increased technology and other patent litigation hitting the industry, and especially given our reliance on our vendor s purported ownership of third party software we license, we face the potential of receiving claims that the technology we use or license infringes on another s proprietary rights. Should this occur, and while we may secure indemnification rights in certain transactions, 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.

11. We are subject to risks associated with our on-line sales. We operate on-line stores at *www.bebe.com* and *www.2bstores.com* to sell our merchandise. Although our on-line sales encompass a relatively small percentage of our total sales, our on-line operations are subject to numerous risks, including unanticipated operating problems, reliance on third-party computer hardware and software providers and system failures. The on-line operations also involve other risks that could have an 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. In addition, with our recent migration from a third-party platform for our bebe.com store, we may be faced with unforeseen transition challenges. We cannot assure that our on-line stores will continue to achieve sales and profitability growth or even remain at their current level.

Table of Contents

12. 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. There is an increased dependence on digital technologies by public companies and an increasing frequency and severity of 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 online activities to connect with our customers. While we have implemented measures to prevent security breaches and cyber incidents, given the ever increasing abilities of those intent on breaching cyber-security measures and given our reliance on the security and other efforts of third-party vendors, the total security effort at any point in time may not be completely effective and any such security breaches and cyber incidents could adversely affect our business.

13. Any serious disruption at our major facilities could have a harmful effect on our business. We currently operate a corporate office in Brisbane, California, a distribution facility in Benicia, California, and a design studio and production facility in Los Angeles, California. Any serious disruption at these facilities whether due to construction, relocation, fire, earthquake, terrorist acts or otherwise could harm our operations and could negatively affect our business and results of operations. Furthermore, we have little experience operating essential functions away from our main corporate offices and are uncertain what effect operating such satellite facilities might have on business, personnel and results of operations.

14. Our business could be adversely impacted by unfavorable international political conditions. Due to our current and continued growth of international operations, 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. 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 financial condition and results of operations. 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.

15. If we are not able to protect our intellectual property our ability to capitalize on the value of our brand name may be impaired. Even though we take actions to establish, register and protect our trademarks and other proprietary rights, we cannot assure you that we will be successful or that others will not imitate our products or infringe upon our intellectual property rights. In addition, we cannot assure that others will not resist or seek to block the sale of our products as infringements of their trademark and proprietary rights.

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, bbsp and 2b bebe 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. 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.

16. If an independent manufacturer or vendor 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. 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 and vendors are contractually required to comply with such labor practices, we cannot control the actions or the public s perceptions of such manufacturers or vendors, nor can we assure that these manufacturers and vendors will conduct their businesses using ethical or legal labor practices. Apparel companies, in certain conditions, may

Table of Contents

be held jointly liable for the wrongdoings of the manufacturers of their products. While we do not control our manufacturers employment conditions or business practices, and the manufacturers act in their own interest, they may act in a manner that results in negative public perceptions of us and/or employee allegations or court determinations that we are jointly liable.

17. We may be required to record losses in future quarters as a result of the 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. We hold a variety of interest bearing 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 recent 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 failed to settle on their respective settlement dates. Consequently, $60.0 million of our ARS are not currently liquid and we will not be able to access these funds until a future auction of these investments is successful or securities are purchased or redeemed outside of the auction process. Maturity dates for these ARS investments range from 2016 to 2044, 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 June 30, 2012, our 252 stores, all of which are leased, encompassed approximately 1,008,000 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 currently 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 2014. 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.

ITEM 3. LEGAL PROCEEDINGS

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

A former employee sued the Company 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, failure to pay overtime wages, failure to pay minimum wages, failure to provide meal periods, violation of Labor Code §450, violation

Table of Contents

of Labor Code §2802 and California Code of Regulations §11040(9)(A), statutory wage violations (late payment of wages), unlawful business practices under Business and Professions Code §16720 and §17200, conversion of wages and violation of Civil Code §52.1. The plaintiff purports to bring the action also on behalf of current and former California bebe employees who are similarly situated. The lawsuit seeks compensatory, statutory, punitive, restitution and injunctive relief. In September 2011, the Court certified a class of store managers who allege they were required to buy and wear our product as a condition of employment and denied certification relating to claims of missed meal periods and rest breaks. The Court has directed for a trial on only the claim that the employees were required to buy and wear our product. Subsequent to the date of the Consolidated Balance Sheets, June 30, 2012, the parties reached a settlement agreement in which neither party makes any admission but all of the plaintiff s claims are to be resolved. At the time of this filing, this agreement is being documented, will be presented to the Court and will only be effective if and when approved by the Court.

A former employee sued the Company in a complaint filed a second amended complaint on or about September 7, 2010 in the Superior Court of California, Los Angeles County (Case No. BC429140) alleging the Company failed to provide adequate disclosure of its commission policy and wrongfully reduced and delayed commission payments. The plaintiff purports to bring the action also on behalf of current and former California bebe employees who are similarly situation. The lawsuit seeks compensatory, statutory, punitive, restitution and injunctive relief. Due to reassignment of the case to another department within the Los Angeles Superior Court, the Company s pending summary judgment motion and the trial date have been postponed.

We are also involved in various other legal proceedings arising in the normal course of business. For such legal proceedings, and including the matters discussed in the paragraphs above, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material, individually or in the aggregate, to have a material adverse effect on our business, financial condition or results of operations. Because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the inconsistent treatment of claims made in many of these proceedings and the difficulty of predicting the settlement value of many of these proceedings, we are unable to estimate an amount or range of any reasonably possible additional losses. However, based on our historical experience, the resolution of these proceedings is not expected to have a material effect on our business, financial condition or results of operations.

bebe intends to defend itself vigorously against each of these claims. However, the results of any litigation are inherently uncertain. bebe cannot assure you that it will be able to successfully defend itself in these lawsuits. Where required, and/or otherwise appropriate and determinable, we have recorded an estimate of potential liabilities that we believe is reasonable. Any estimates are revised as further information becomes available.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

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 June 30, 2012, as reported by Nasdaq:

	High	Low
Fiscal 2011		
First Quarter	$ 7.32	$ 5.36
Second Quarter	7.16	5.91
Third Quarter	6.14	5.41
Fourth Quarter	7.10	5.77
Fiscal 2012		
First Quarter	$ 8.25	$ 5.66
Second Quarter	8.58	6.29
Third Quarter	9.58	8.16
Fourth Quarter	9.50	5.35

In October 2008, 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 2011 we repurchased approximately 2.1 million shares at an average price per share of $5.84. As of August 31, 2010 we have completed the maximum amount of repurchases approved under the plan.

As of August 31, 2012, the number of holders of record of our common stock was 70 and the number of beneficial holders of our common stock was approximately 5,900.

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 2012 and the last three quarters of fiscal 2011, we declared quarterly dividends of $0.025 each per common share.

Table of Contents

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, 2012, 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.

Table of Contents

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)				
	June 30, 2012 (52)	July 2, 2011 (52)	July 3, 2010 (52)	July 4, 2009 (52)	July 5, 2008 (52)
	(Dollars in thousands, except per share data)				
Operating Results:					
Net sales	$ 530,831	$ 493,274	$ 479,911	$ 551,592	$ 628,737
Cost of sales, including production and occupancy	319,758	301,464	286,014	325,882	348,873
Gross margin	211,073	191,810	193,897	225,710	279,864
Selling, general and administrative expenses	191,666	185,921	183,217	206,225	198,258
Operating income	19,407	5,889	10,680	19,485	81,606
Interest and other income, net	931	852	3,159	6,674	16,396
Income from continuing operations before income taxes	20,338	6,741	13,839	26,159	98,002
Provision for income taxes	8,617	2,685	5,803	7,711	33,557
Income from continuing operations, net of tax	11,721	4,056	8,036	18,448	64,445
Loss from discontinued operations, net of tax		(5,835)	(13,201)	(5,813)	(1,365)
Net income (loss)	$ 11,721	$ (1,779)	$ (5,165)	$ 12,635	$ 63,080
Basic per share amounts:					
Income from continuing operations, net of tax	$ 0.14	$ 0.05	$ 0.09	$ 0.21	$ 0.72
Loss from discontinued operations, net of tax		(0.07)	(0.15)	(0.07)	(0.02)
Net income (loss)	$ 0.14	$ (0.02)	$ (0.06)	$ 0.14	$ 0.70
Diluted per share amounts:					
Income from continuing operations, net of tax	$ 0.14	$ 0.05	$ 0.09	$ 0.21	$ 0.71
Loss from discontinued operations, net of tax		(0.07)	(0.15)	(0.07)	(0.02)
Net income (loss)	$ 0.14	$ (0.02)	$ (0.06)	$ 0.14	$ 0.69
Basic weighted average shares outstanding	84,235	84,225	86,408	87,949	89,783
Diluted weighted average shares outstanding	84,402	84,322	86,550	88,179	91,089
Statistics:					
Number of stores:					
Opened during period	13	10	8	13	35
Closed during the period	13	55	19	8	5
Open at end of period	252	252	297	308	303
Net sales per average store(1)	$ 1,909	$ 1,777	$ 1,580	$ 1,880	$ 2,344
Comparable store sales increase (decrease)(2)	5.3%	0.4%	(17.1)%	(20.9)%	(7.6)%

	As of				
	June 30, 2012	**July 2, 2011**	**July 3, 2010**	**July 4, 2009**	**July 5, 2008**
	(Dollars in thousands, except per share data)				
Balance Sheet Data:					
Working capital	$ 197,448	$ 204,697	$ 178,479	$ 234,184	$ 137,381
Total assets	450,420	441,122	551,893	571,455	597,763
Shareholders equity	362,120	356,253	369,055	459,495	485,885
Dividends declared per common share	$ 0.10	$ 0.08	$ 1.08	$ 0.20	$ 0.20

Table of Contents

(1) Based on the sum of average monthly sales for the period.

(2) Comparable store sales are calculated by including the net sales of stores that have been open at least one year. Therefore, a store is included in the comparable store sales base beginning with its thirteenth month. Stores that have been expanded or remodeled by 15 percent or more or have been permanently relocated are excluded from the comparable store sales base. In addition, comparable store sales are calculated using a same day sales comparison. International licensee store sales are not included in the comparable store sales calculation. Beginning in fiscal 2012, we are reporting comparable store sales results inclusive of our on-line stores. We believe that given the similar nature and process of inventory planning, allocation and return policy for the on-line stores and all other retail stores, the inclusion of the on-line stores is a more meaningful way of reporting our comparable store sales results. In addition, we have been implementing cross-channel marketing initiatives, which benefit all retail sales, including our on-line stores. The inclusion of the on-line stores increased the comparable store percentage by 3.2% for the fiscal year ended June 30, 2012. For fiscal 2011 and 2010, the impact of including the on-line stores in comparable store sales would have been an increase of 0.2% and 0.6%, respectively.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We design, develop and produce a distinctive line of contemporary women s apparel and accessories under the bebe, BEBE SPORT, bbsp and 2b bebe brand names. We operate stores in the United States, Puerto Rico, Virgin Islands, Japan and Canada. In addition we have on-line stores at www.bebe.com and www.2bstores.com that ship to customers in the United States, Canada, Puerto Rico, the U.S. Protectorates and, for www.bebe.com, internationally via our third-party provider, International Checkout. We also have international stores operated by licensees in South East Asia, United Arab Emirates, Israel, Russia, South America and Turkey. Our distinctive product offering includes a full range of separates, tops, dresses, active wear and accessories in the following lifestyle categories: wear-to-work, weekend and party. 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.

Fiscal 2012 financial highlights include the following:

- Net sales from continuing operations for fiscal 2012 were $530.8 million, up 7.6% from $493.3 million for fiscal 2011. Comparable store sales for fiscal 2012 increased 5.3% compared to an increase of 0.4% in the previous fiscal year. The inclusion of the on-line stores increased the comparable store percentage by 3.2% for the fiscal year ended June 30, 2012.

- Gross margin from continuing operations for fiscal 2012 was 39.8% compared to 38.9% for fiscal 2011.

- Selling, general and administrative expenses from continuing operations for the 2012 fiscal year were $191.7 million, up 3.1% from $185.9 million for fiscal 2011.

- Net income from continuing operations for the fiscal year ended June 30, 2012 was $11.7 million, or $0.14 per share on a diluted basis, compared to net income of $4.1 million, or $0.05 per share on a diluted basis, in the prior year.

Table of Contents

In fiscal 2012, cash increased by $9.8 million, up from a decrease of $99.5 million for fiscal 2011, primarily as a result of settlements of our auction rate securities in the current fiscal year and a $1 per share dividend payment made in the prior fiscal year.

Critical Accounting Policies

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

The preparation of these financial statements requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements. We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Our accounting policies are more fully described in Note 1 to our consolidated financial statements included in this report.

We have identified certain critical accounting policies, which are described below.

Revenue recognition. We recognize revenue at the time the products are received by the customers. We recognize revenue for store sales at the point at which the customer receives and pays for the merchandise at the register. For on-line sales, we recognize revenue at the time we estimate the customer receives the product. We estimate and defer revenue and the related product costs for shipments that are in transit to the customer. Customers typically receive goods within one week of shipment. We reflect amounts related to shipping billed to customers in net sales and the related costs in cost of goods sold. We record retail sales net of sales tax collected from customers at the time of the transaction.

We record a reserve for estimated product returns based on historical return trends. If actual returns are greater than those projected, we may record additional sales returns in the future. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our sales return reserve. However, if the actual rate of sales returns increases significantly, our operating results could be adversely affected.

Discounts offered to customers consist primarily of point of sale markdowns and are recorded at the time of the related sale as a reduction of revenue.

We include the value of points and rewards earned by our loyalty program members as a liability and a reduction of revenue at the time the points and rewards are earned based on historical conversion and redemption rates. We recognize the associated revenue when the rewards are redeemed or expire.

Gift certificates sold are recorded as a liability and we recognize sales revenue when the gift certificate is redeemed. Similarly, customers may receive a store credit in exchange for returned goods.

We carry store credits as a liability until redeemed. We recognize unredeemed store credits and gift certificates as other income three and four years, respectively, after issuance, which is when management deems redemptions to be remote. In addition, we sell gift cards with no expiration dates to customers in our retail store locations, through our online stores, and through third parties. We recognize sales revenue from gift cards when they are redeemed by the customer. In addition, we recognize income on unredeemed gift cards when we can determine that the likelihood of the gift card being redeemed is remote and there is no legal obligation to remit the unredeemed gift cards to relevant jurisdictions (gift card breakage). We determine gift card breakage income based on historical redemption patterns. We accumulated sufficient historical data to determine elapsed time for recording breakage income during the second quarter of fiscal 2010, which we estimate is four years. Gift card breakage is included as other income within selling, general and administrative expenses. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our breakage income. However, if the actual rate of redemption for gift certificates, store credits, and gift cards increases significantly, our operating results could be adversely affected.

We record royalty revenue from product licensees as the greater of the minimum amount guaranteed in the contract or amount sold.

We recognize wholesale licensee revenue from sale of product to international licensee operated bebe stores at the time we estimate the licensee receives shipment. We exclude these stores from comparable store sales.

Stock Based Compensation. We recognize stock-based awards to employees as compensation expense, based on the calculated fair value on the date of grant. We determine the fair value using the Black-Scholes option pricing model. This model requires subjective assumptions, which are affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee exercise behaviors, risk-free interest rate and expected dividends. As the stock-based compensation expense recognized on the consolidated statements of operations for fiscal 2012, 2011 and 2010 is based on awards ultimately expected to vest, such amount has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We estimate forfeitures based on our historical experience.

Inventories. We state inventories at the lower of weighted average cost or market. We determine market based on the estimated net realizable value, which is generally the merchandise selling price. To ensure that our raw material is properly valued, we age the fabric inventory and record a reserve in accordance with our established policy, which is based on historical experience. To ensure that our finished goods inventory is properly valued, we review the age and turnover of our inventory and record an adjustment if the selling price is estimated to be marked down below cost. These assumptions can have an impact on current and future operating results and financial position. We estimate and record shrinkage for the period between the last physical count and balance sheet date based on historic shrinkage trends.

Investments. We hold a variety of interest bearing auction rate securities (ARS) consisting of federally insured student loan backed securities and insured municipal authority bonds. As of June 30, 2012, our ARS portfolio totaled approximately $60.0 million, net of a temporary impairment charge of $7.9 million, classified as available for sale securities. 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 auctions for our investments in these securities have failed to settle on their respective settlement dates. Historically the fair value of ARS investments had approximated par value due to the frequent resets through the auction process. While we continue to earn interest on our ARS investments at the maximum contractual rate, these investments are not currently trading and therefore do not currently have a readily determinable market value. Accordingly, the estimated fair value of ARS no longer approximates par value. Consequently, the investments are not currently liquid, and we will not be able to access these funds until a future auction of these investments is successful, the issuer redeems the securities or at maturity. Maturity dates for these ARS range from 2016 to 2044 with principal distributions occurring on certain securities prior to maturity.

We also hold short-term available for sale securities totaling $76.4 million at June 30, 2012 that consist of treasury bills and certificates of deposit.

We review our investments for impairment in accordance with guidance issued by the FASB and SEC in order to determine the classification of the impairment as temporary or other-than-temporary . A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income component of shareholders equity. Such an unrealized loss does not affect net income for the applicable accounting period. An other-than-temporary impairment charge is recorded as a loss in the consolidated statements of operations and reduces net income for the applicable accounting period. When evaluating the investments for other-than-temporary impairment, we estimate the expected cash flows of the underlying collateral by reviewing factors such as the length of time and extent to which the fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s unamortized cost basis.

The valuation of our investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact our valuation include changes to credit ratings of the issuers 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.

Impairment of long-lived assets. We review long-lived assets for impairment whenever events or changes in circumstances, such as planned or actual store closures or poor performing stores, indicate that the carrying value of an asset may not be recoverable. Assets are grouped and evaluated for impairment at the lowest level of which there are identifiable cash flows, which is generally at a store level. Store assets are reviewed using factors including, but not limited to, the Company s future operating plans and projected cash flows. The determination of whether impairment has occurred is based on an estimate of undiscounted future cash flows directly related to that store, compared to the carrying value of the assets. If the sum of the undiscounted future cash flows of a store does not exceed the carrying value of the assets, full or partial impairment may exist. For impaired assets, we recognize a loss equal to the difference between the net book value of the asset and its estimated fair value. Fair value is based upon discounted future cash flows of the asset using a discount rate commensurate with the risk. In addition, at the time a decision is made to close a store, we record an impairment charge, if appropriate, or accelerate depreciation over the revised useful life of the asset. During fiscal 2012, we recorded a $0.5 million charge for the impairment of store assets. We believe at this time that the long-lived assets carrying values and useful lives continue to be appropriate; however significant changes from our current future forecasts could result in additional impairment charges.

Income Taxes. We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. We are subject to periodic audits by the Internal Revenue Service and other foreign, state and local taxing authorities. These audits may challenge certain of our tax positions such as the timing and amount of income and deductions and the allocation of taxable income to various tax jurisdictions. We evaluate our tax positions and establish liabilities in accordance with applicable accounting guidance on uncertainty in income taxes. To the extent that our estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. Our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings, changes in the expected outcome of audits or changes in the deferred tax valuation allowance.

Recent Accounting Pronouncements

Fair Value

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured on a net basis and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance

Table of Contents

expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for us beginning in fiscal 2013, which is July 1, 2012. We do not anticipate a material impact on our financial statements upon adoption.

Other Comprehensive Income

In June 2011, the FASB issued ASU 2011-05, which requires that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income and the total of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the consolidated statements of shareholders equity. For public entities, the amendments in ASU 2011-05 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are to be applied retrospectively, with early adoption permitted. We will adopt ASU 2011-05 in our first quarter of fiscal 2013 ending September 29, 2012.

Results of Operations

Our fiscal year ends on the first Saturday on or after June 30. Fiscal 2012, 2011 and 2010 each included 52 weeks.

The following table sets forth certain financial data as a percentage of net sales for the periods indicated:

	Fiscal Year Ended		
	June 30, 2012	**July 2, 2011**	**July 3, 2010**
Statement of Operating Data:			
Net sales	100.0%	100.0%	100.0%
Cost of sales, including production and occupancy(1)	60.2	61.1	59.6
Gross margin	39.8	38.9	40.4
Selling, general and administrative expenses(2)	36.1	37.7	38.2
Operating income	3.7	1.2	2.2
Interest and other income, net	0.2	0.2	0.7
Income from continuing operations before income taxes	3.9	1.4	2.9
Income tax provision	1.6	0.6	1.2
Income from continuing operations, net of tax	2.3	0.8	1.7
Loss from discontinued operations, net of tax		(1.2)	(2.8)
Net income (loss)	2.3%	(0.4)%	(1.1)%

(1) Cost of sales includes the cost of merchandise, occupancy costs and production costs.
(2) Selling, general and administrative expenses primarily consist of non-occupancy store costs, corporate overhead and advertising costs.

Fiscal Years Ended June 30, 2012 and July 2, 2011

Net Sales. Net sales from continuing operations increased to $530.8 million during the fiscal year ended June 30, 2012 from $493.3 million in fiscal 2011, an increase of $37.5 million, or 7.6%. The increase in net sales was primarily attributable to a 5.3% increase in comparable store sales as well as an increase in wholesale sales of $9.3 million, or 30.5%.

Table of Contents

Gross Margin. Gross margin from continuing operations increased to $211.1 million for the fiscal year ended June 30, 2012 from $191.8 million in fiscal 2011, an increase of $19.3 million, or 10.1%. As a percentage of net sales, gross margin of 39.8% was higher than the prior year at 38.9% primarily due to positive occupancy leverage.

Selling, General and Administrative Expenses. Selling, general and administrative expenses from continuing operations, which primarily consist of non-occupancy store costs, corporate overhead and advertising costs, increased to $191.7 million during fiscal 2012 from $185.9 million in fiscal 2011, an increase of $5.8 million, or 3.1%. This increase in dollars was primarily a result of increases in compensation expenses including incentive compensation.

Interest and Other Income, Net. We generated $0.9 million of interest and other income, net of other expenses, during fiscal 2012 as compared to $0.9 million in fiscal 2011. The year over year consistency reflected our continued investment in lower-yielding tax-exempt investments and money market funds.

Provision for Income Taxes. Our effective tax rate from continuing operations was 42.4% for fiscal 2012 as compared to 39.8% for fiscal 2011. The higher tax rate in the current year was due to various discrete items, including elective changes to state apportionment factors and the cumulative impact of those changes on the related deferred balances.

Fiscal Years Ended July 2, 2011 and July 3, 2010

Net Sales. Net sales from continuing operations increased to $493.3 million during the fiscal year ended July 2, 2011 from $480.0 million in fiscal 2010, an increase of $13.3 million, or 2.8%. The increase in net sales was primarily attributable to a 0.4% increase in comparable store sales resulting primarily from increased conversion in stores as well as an increase in wholesale sales of $6.2 million, or 25.5%.

Gross Margin. Gross margin from continuing operations decreased to $191.8 million for the fiscal year ended July 2, 2011 from $193.9 million in fiscal 2010, a decrease of $2.1 million, or 1.1%. As a percentage of net sales, gross margin of 38.9% was lower than the prior year at 40.4% primarily due to a decrease in initial markup, caused by change in product mix and higher production costs, partially offset by lower markdown activity.

Selling, General and Administrative Expenses. Selling, general and administrative expenses from continuing operations, which primarily consist of non-occupancy store costs, corporate overhead and advertising costs, increased to $185.9 million during fiscal 2011 from $183.2 million in fiscal 2010, an increase of $2.7 million, or 1.5%. This increase in dollars was primarily a result of $2.1 million of settlement costs recorded during the year. Prior year adjustments included $3.0 million related to stock-based compensation offset by other credits, including the initial recognition of gift card breakage income. As a percentage of net sales, these expenses decreased to 37.7% during fiscal 2011 from 38.2% in fiscal 2010. This decrease as a percentage of net sales was primarily due to leveraging of store depreciation expense and other fixed costs.

Interest and Other Income, Net. We generated $0.9 million of interest and other income, net of other expenses, during fiscal 2011 as compared to $3.2 million in fiscal 2010. The decrease in interest and other income resulted from a one-time settlement of our UBS auction rate securities in the prior year as well as investments in lower-yielding tax-exempt investments and money market funds.

Provision for Income Taxes. Our effective tax rate from continuing operations was 39.8% for fiscal 2011 as compared to 41.9% for fiscal 2010. The overall decrease in the effective tax rate was attributable to the release of tax reserves and reduction in foreign income tax.

Discontinued Operations. In the fourth quarter of fiscal 2010, we decided to discontinue operations of the PH8 division, allowing us to focus our efforts on improving bebe sales and profitability, expanding internationally and continuing to develop our 2b bebe business. We closed 24 PH8 stores in the first fiscal quarter of 2011 and during the second fiscal quarter of 2011, closed the remaining 25 PH8 stores, converting one store to a 2b bebe. The results of the PH8 stores closed to date, net of income tax benefit, which consists of 49 and 62 stores for the fiscal years ended July 2, 2011 and July 3, 2010, respectively, have been presented as a discontinued operation in the accompanying consolidated statements of operations for all periods presented and are as follows:

	Fiscal Year Ended	
	July 2, 2011	July 3, 2010
	(In thousands)	
Net sales	$ 7,850	$ 29,056
Cost of sales, including production and occupancy	13,368	25,046
Gross margin	(5,518)	4,010
Selling, general and administrative expenses	4,116	25,796
Loss from discontinued operations, before income tax benefit	(9,634)	(21,786)
Add: tax benefit	(3,799)	(8,585)
Loss from discontinued operations, net of tax benefit	$ (5,835)	$ (13,201)

Seasonality of Business and Quarterly Results

Our business varies with general seasonal trends that are characteristic of the retail and apparel industries. As a result, our typical store generates a higher percentage of its annual net sales and profitability in the second quarter of our fiscal year, which includes the holiday selling season, compared to other quarters of our fiscal year. If for any reason our sales were below seasonal norms during the second quarter of our fiscal year, our annual operating results would be negatively impacted. Because of the seasonality of our business, results for any quarter are not necessarily indicative of results that may be achieved for a full fiscal year.

Liquidity and Capital Resources

Our working capital requirements vary widely throughout the year and generally peak during the first and second fiscal quarters. At June 30, 2012, we had approximately $241.4 million of cash, cash equivalents and investments on hand of which $105.0 were cash and equivalents, approximately $60.0 million, net of impairment charges of $7.9 million, were auction rate securities (ARS), approximately $50.0 million were treasury bills and approximately $26.5 million were certificates of deposit. We do not anticipate the lack of liquidity in the ARS to impact our ability to fund our operations in the foreseeable future and believe we have sufficient cash and equivalents to fund ongoing operations. In addition, we have a revolving line of credit under which we may borrow or issue letters of credit up to a combined total of $25 million. As of June 30, 2012, there were no cash borrowings or trade letters of credit outstanding under the line of credit, and a stand-by letter of credit outstanding that totaled $3.0 million. To date, no beneficiary has drawn upon the stand-by letter of credit. This credit facility requires us to comply with certain covenants, including amounts for minimum tangible net worth, unencumbered liquid assets and profitability, and certain restrictions on making loans and investments. As of June 30, 2012, we were in compliance with all covenants.

At June 30, 2012, we had cash and cash equivalents of $105.0 million held in accounts managed by third-party financial institutions consisting of invested cash and cash in our operating accounts. The invested cash is invested in interest bearing funds managed by third-party financial institutions. These funds invest in direct obligations of the government of the United States. To date, we have experienced no loss or lack of access to our invested cash or equivalents; however, we can provide no assurances that access to our invested cash and equivalents will not be impacted by adverse conditions in the financial markets.

Table of Contents

We hold our operating and invested cash in accounts that are with third-party financial institutions. The balances in these accounts exceed the Federal Deposit Insurance Corporation insurance limits. While we monitor daily the cash balances in our operating accounts and adjust the cash balances as appropriate, these cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to invested cash or cash in our operating accounts.

Net cash provided by operating activities in fiscal 2012, 2011 and 2010 was $32.7 million, $21.9 million and $37.6 million, respectively. The increase of $10.8 million from 2011 to 2012 was primarily as result of higher overall net income partially offset by decreased changes in working capital of $4.1 million from fiscal 2011 to fiscal 2012. These changes in working capital are primarily related to higher prepaid income tax and higher construction allowances receivable related to timing of store construction as well as increased wholesale receivables as a result of our growth internationally. The change from fiscal 2010 to 2011 was a result of decreased changes in working capital of $12.3 million primarily related to an income tax refund received in the prior fiscal year, settlement of our income tax payable as well as our ability to maintain the lower inventory levels that were implemented in the prior fiscal year.

Net cash used by investing activities was $15.2 million versus net cash used by investing activities of $17.9 million and net cash provided by investing activities of $77.1 million in fiscal 2012, 2011 and 2010, respectively. The decrease in net cash used by investing activities in fiscal 2012 from fiscal 2011 was a result of increased net proceeds from sales and maturities of investments related to the increased settlement of our ARS investments at par offset by the purchase of our distribution center for $18.0 million in the fourth quarter of the fiscal year. The change from fiscal 2010 to 2011 was primarily a result of a decrease in net proceeds of marketable equity securities of $91.6 million primarily as a result of our UBS settlement at par in the prior fiscal year partially offset by increased purchases of marketable securities of $2.9 million and the purchase of the bebe trademark in China for $0.9 million in fiscal 2011.

Capital expenditures of $44.9 million, which consists of $42.1 million cash plus a net change in the accrual of $2.8 million, in fiscal 2012 primarily included $18.8 million related to the purchase of our distribution center in Benicia, CA andt; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; TEXT-ALIGN: left">

(h) o

A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);

(i) o A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

(j) x A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);

(k) o Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Bank

MUTB: (a) o Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);

(b) o Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);

(c) o Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);

Page 15 of 35

CUSIP NO. 69832A205

	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Bank

MUS:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Broker-dealer

MUAM:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);

CUSIP NO. 69832A205

	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Investment adviser

MUAMUK:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

CUSIP NO. 69832A205

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Investment adviser

MUI:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Investment adviser

KC:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);

CUSIP NO. 69832A205

	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Broker-dealer

KAM:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) o	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);
	(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
	(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
	(j) x	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
	(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Investment adviser

HCM:	(a) o	Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o);
	(b) o	Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c);
	(c) o	Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c);
	(d) o	Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8);
	(e) x	An investment adviser in accordance with § 240.13d-1(b)(1)(ii)(E);
	(f) o	An employee benefit plan or endowment fund in accordance with § 240.13d-1(b)(1)(ii)(F);
	(g) o	A parent holding company or control person in accordance with § 240.13d-1(b)(1)(ii)(G);

CUSIP NO. 69832A205

(h) o	A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813);
(i) o	A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3);
(j) o	A non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J);
(k) o	Group, in accordance with § 240.13d-1(b)(1)(ii)(K).

If filing as a non-U.S. institution in accordance with § 240.13d-1(b)(1)(ii)(J), please specify the type of institution: Not applicable

NICOS: NICOS is a subsidiary of MUFG, which is a parent holding company in accordance with § 240.13d-1(b)(1)(ii)(G), and holds less than 1% of the total outstanding securities of the issuer.

ITEM 4 Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

For MUFG

(a)	Amount beneficially owned:	118,047,183
(b)	Percent of class:	5.70%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	118,047,183
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	118,047,183
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For BTMU

(a)	Amount beneficially owned:	13,947,498
(b)	Percent of class:	0.67%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	13,947,498
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	13,947,498
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For MUTB

(a)	Amount beneficially owned:	89,166,400
(b)	Percent of class:	4.31%

CUSIP NO. 69832A205

(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	89,166,400
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	89,166,400
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For MUS

(a)	Amount beneficially owned:	4,084,979
(b)	Percent of class:	0.20%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	4,084,979
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	4,084,979
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For MUAM

(a)	Amount beneficially owned:	7,608,200
(b)	Percent of class:	0.37%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	7,608,200
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	7,608,200
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For MUAMUK

(a)	Amount beneficially owned:	251,400
(b)	Percent of class:	0.01%

(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	251,400
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	251,400
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For MUI

(a)	Amount beneficially owned:	2,360,000
(b)	Percent of class:	0.11%

Page 21 of 35

CUSIP NO. 69832A205

(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	2,360,000
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	2,360,000
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For KC

(a)	Amount beneficially owned:	642,001
(b)	Percent of class:	0.03%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	642,001
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	642,001
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For KAM

(a)	Amount beneficially owned:	236,400
(b)	Percent of class:	0.01%
(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	236,400
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	236,400
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For HCM

(a)	Amount beneficially owned:	1,600
(b)	Percent of class:	0.00%

(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	1,600
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	1,600
	(iv) Shared power to dispose or to direct the disposition of:	-0-

For NICOS

(a)	Amount beneficially owned:	105
(b)	Percent of class:	0.00%

Page 22 of 35

CUSIP NO. 69832A205

(c)	Number of shares as to which the person has:	
	(i) Sole power to vote or to direct the vote:	105
	(ii) Shared power to vote or to direct the vote:	-0-
	(iii) Sole power to dispose or to direct the disposition of:	105
	(iv) Shared power to dispose or to direct the disposition of:	-0-

ITEM 5 Ownership of Five Percent or Less of a Class

Not applicable.

ITEM 6 Ownership of More than Five Percent on Behalf of Another Person

Not applicable.

ITEM 7 Identification and Classification of the Subsidiary which Acquired the Security Being Reported on by the Parent Holding Company or Control Person

As of December 31, 2009, MUFG beneficially owns 118,047,183 shares of the issuer indirectly through its subsidiaries as follows: BTMU holds 13,947,498 shares; MUTB holds 89,166,400 shares; MUS holds 4,084,979 shares; MUAM holds 7,608,200 shares (including 251,400 shares indirectly held through MUAM's subsidiary, MUAMUK); MUI holds 2,360,000 shares; KC holds 642,001 shares; KAM holds 236,400 shares; HCM holds 1,600 shares; and NICOS holds 105 shares.

ITEM 8 Identification and Classification of Members of the Group

Not applicable.

ITEM 9 Notice of Dissolution of Group

Not applicable.

ITEM 10 Certifications

By signing below MUFG, BTMU, MUTB, MUS, MUAM, MUAMUK, MUI, KC and KAM certify that, to the best of their knowledge and belief, (i) the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect, and (ii) the foreign regulatory schemes applicable to parent holding companies, banks, broker-dealers and investment advisers, respectively, are substantially comparable to the regulatory schemes applicable to the functionally equivalent U.S. institutions. These filers also undertake to furnish to the Commission staff, upon request, information that would otherwise be disclosed in a Schedule 13D.

By signing below HCM certifies that, to the best of its knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are

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CUSIP NO. 69832A205

not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

By signing below NICOS certifies that, to the best of its knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect. NICOS also undertakes to furnish to the Commission staff, upon request, information that would otherwise be disclosed in a Schedule 13D.

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ FINANCIAL GROUP, INC.

By: /s/ Takami Onodera

Name: Takami Onodera

Title: General Manager, Credit & Investment Management Division

Page 25 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

By: /s/ Takami Onodera

Name: Takami Onodera

Title: General Manager, Credit Policy & Planning Division

Page 26 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ TRUST AND BANKING CORPORATION

By: /s/ Koji Kawakami

Name: Koji Kawakami

Title: Deputy General Manager of Trust Assets Planning Division

Page 27 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ SECURITIES CO., LTD.

By: /s/ Hirofumi Noda

Name: Hirofumi Noda

Title: General Manager, Corporate Planning Division

Page 28 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ ASSET MANAGEMENT CO., LTD.

By: /s/ Katsutoshi Edamura

Name: Katsutoshi Edamura

Title: General Manager of Risk Management Division

Page 29 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ ASSET MANAGEMENT (UK) LTD.

By: /s/ Shojiro Ueda

Name: Shojiro Ueda

Title: Managing Director & CE

Page 30 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MU INVESTMENTS CO., LTD.

By: /s/ Nishichi Omori

Name: Nishichi Omori

Title: Director

Page 31 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

KABU.COM SECURITIES CO., LTD.

By: /s/ Takeshi Amemiya

Name: Takeshi Amemiya

Title: General Manager of Corporate Administration

Page 32 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

KOKUSAI ASSET MANAGEMENT CO., LTD.

By: /s/ Takeshi Dohi

Name: Takeshi Dohi

Title: General Manager, Investment Management Planning Dept.

Page 33 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

HIGHMARK CAPITAL MANAGEMENT, INC.

By: /s/ Earle A. Malm II

Name: Earle A. Malm II

Title: Chairman, President and CEO

Page 34 of 35

CUSIP NO. 69832A205

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 10, 2010

MITSUBISHI UFJ NICOS CO., LTD.

By: /s/ Tomoo Sawada

Name: Tomoo Sawada

Title: General Manager, General Administration Dept.

Page 35 of 35