bebe stores, inc.

California
(State or Jurisdiction of
Incorporation or Organization)

350 Rhode Island Street
South Building Suite 240
San Francisco, CA 94103
(Address of principal executive offices)

Telephone: (415) 251-3355

www.bebe.com

SIC Code: 5999

Quarterly Report

For the quarter ending October 5, 2019
(the "Reporting Period")

Indicate by check mark whether the company is a shell company (as defined in Rule12b-2 of the Exchange Act of 1934):
Yes ☐ No ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:
Yes ☐ No ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:
Yes ☐ No ☒

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Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices.

Exact name of issuer:	bebe stores, inc.
Principal Executive Offices:	350 Rhode Island Street South Building Suite 240 San Francisco, CA 94103 Telephone: 415.251.3355 Website: www.bebe.com

Item 2. Shares Outstanding.

As of October 5, 2019					
Class	**Number of Shares Authorized**	**Number of Shares Outstanding**	**Freely Tradeable Shares (Public Float)(1)**	**Total Number of Beneficial Shareholders (2)**	**Total Number of Shareholders of Record**
Common Stock	**14,000,000**	**11,374,111**	**4,100,271**	**2629**	**33**
Preferred Stock	**1,000,000**	**0**	**0**	**0**	**0**
As of July 6, 2019					
Class	**Number of Shares Authorized**	**Number of Shares Outstanding**	**Freely Tradeable Shares (Public Float)(1)**	**Total Number of Beneficial Stockholders (3)**	**Total Number of Stockholders of Record**
Common Stock	**14,000,000**	**11,374,111**	**4,100,271**	**2694**	**34**
Preferred Stock	**1,000,000**	**0**	**0**	**0**	**0**
As of July 7, 2018					
Class	**Number of Shares Authorized**	**Number of Shares Outstanding**	**Freely Tradeable Shares (Public Float)(1)**	**Total Number of Beneficial Stockholders (4)**	**Total Number of Stockholders of Record**
Common Stock	**14,000,000**	**11,374,111**	**4,100,271**	**3,263**	**42**
Preferred Stock	**1,000,000**	**0**	**0**	**0**	**0**

Included in the 11,374,111 shares outstanding as of July 7, 2018 are 2,819,528 shares issued by the Company in connection with the conversion of the bridge loan to equity on January 12, 2018 (further described in Part D. Item 16 of the Annual Report for the fiscal year ending July 7, 2018) and the issuance of 100,000 shares by bebe related to a stock performance fee of $0.6 million earned by bebe's financial advisor during the quarter ended April 7, 2018.

(1) For purposes of this calculation only, shares of common stock held by (i) each of bebe's directors and officers on the given date and (ii) person(s) who bebe knows beneficially owned 5% or more of the outstanding common stock on that date have been excluded in that such persons may be deemed to be affiliates.
(2) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions and based on date October 4, 2019.
(3) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions and based on date July 8, 2019.
(4) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions and based on date July 9, 2018.

Item 3. Condensed Consolidated Financial Statements (unaudited).

bebe stores, inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	As of October 5, 2019 (unaudited)	As of July 6, 2019
Assets:		
Current assets:		
Cash and cash equivalents	$ 7,012	$ 8,706
Receivables (net of allowance of $150 and $150)	469	508
Prepaid and other current assets	350	185
Total current assets	7,831	9,399
Equity method investment	22,164	22,641
Other assets	455	510
Total assets	$ 30,450	$ 32,550
Liabilities and Shareholders' Equity:		
Current liabilities:		
Accounts payable	$ 37	$ 1,568
Accrued liabilities	4,431	4,508
Total current liabilities	4,468	6,076
Total liabilities	4,468	6,076
Commitments and contingencies		
Shareholders' equity:		
Preferred stock-authorized 1,000,000 shares at $0.001 par value per share; no shares issued and outstanding	-	-
Common stock-authorized 14,000,000 shares at $0.001 par value per share; issued and outstanding 11,374,111 and 11,374,111 shares	11	11
Additional paid-in capital	166,294	166,294
Accumulated other comprehensive income	538	495
Accumulated deficit	(140,861)	(140,326)
Total shareholders' equity	25,982	26,474
Total liabilities and shareholders' equity	30,450	32,550

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

bebe stores, inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except per share data)

(unaudited)

	Three Months Ended	
	October 5, 2019	**October 6, 2018**
Net sales	$ -	$ -
Cost of sales, including production and occupancy	-	-
Gross margin	-	-
Selling, general and administrative expenses	404	684
Operating loss	(404)	(684)
Interest income and other, net	3	143
Loss from continuing operations, before income taxes	(401)	(541)
Provision for income taxes	8	(19)
Earnings in equity method investment	1,808	1,523
Income from continuing operations, net of tax	1,399	963
Income from discontinued operations, net of tax	-	239
Net income	$ 1,399	$ 1,202
Basic per share amounts:		
Net income from continuing operations, net of tax	$ 0.12	$ 0.09
Net income from discontinued operations, net of tax	-	0.02
Net income	$ 0.12	$ 0.11
Diluted per share amounts:		
Net income from continuing operations, net of tax	$ 0.12	$ 0.09
Net income from discontinued operations, net of tax	-	0.02
Net income	$ 0.12	$ 0.11
Basic weighted average shares outstanding	11,374	11,374
Diluted weighted average shares outstanding	11,374	11,374
Net income	$ 1,399	$ 1,202
Foreign currency translation adjustments	35	-
Comprehensive income	$ 1,434	$ 1,202

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

bebe stores, inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended	
	October 5, 2019	October 6, 2018
Cash flows from operating activities:		
Net income	$ 1,399	$ 1,202
Adjustments to reconcile net income to provided by (used in) operating activities:		
Earnings in equity method investment	(1,808)	(1,523)
Cash receipt from equity method investment	2,285	2,000
Changes in operating assets and liabilities:		
Receivables	39	2
Prepaid expenses and other	(110)	(253)
Accounts payable	(1,531)	4,201
Accrued liabilities	(77)	(83)
Net cash provided by operating activities	197	5,546
Cash flows from investing activities:		
Investment in JV	-	(3,171)
Net cash used in investing activities	-	(3,171)
Cash flows from financing activities:		
Dividends paid	(1,934)	-
Net cash used in financing activities	(1,934)	-
Net (decrease) increase in cash and equivalents	(1,737)	2,375
Effect of exchange rate changes on cash	43	-
Cash and equivalents:		
Beginning of period	8,706	31,580
End of period	$ 7,012	$ 33,955
Supplemental information:		
Cash paid on income taxes	$ 19	$ 69

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

INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated balance sheets of the Company as of October 5, 2019 and July 6, 2019, the condensed consolidated statements of income and comprehensive income for the three months ended October 5, 2019 and October 6, 2018 and the condensed consolidated statements of cash flows for the three months ended October 5, 2019 and October 6, 2018 have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the OTCQB Disclosure Guidelines for Alternative Reporting, without audit. Accordingly, they do not include all of the information required by accounting principles generally accepted in the United States for annual financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to present fairly the financial position at the balance sheet dates and the results of operations for the periods presented have been included. The condensed consolidated balance sheet at July 6, 2019, presented herein, was derived from the audited balance sheet included in the Company's Annual Report for the fiscal year ending July 6, 2019.

Strategic Partnership and Equity Investment

During fiscal 2016 bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including domain names, social media accounts and agreements with certain of its international distributors to its joint venture BB Brand Holdings LLC (the "Joint Venture"). The Company's partner in the Joint Venture, Bluestar Alliance, LLC ("Bluestar"), continues to leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for the Joint Venture and will manage its day-to-day operations. Going forward, the Joint Venture will pursue a licensing strategy designed to capitalize on the value of bebe's brand in all categories and channels on a global scale. The decision to exit its retail operations was the result of continued operating losses.

bebe's equity investment in BB Brand Holdings LLC generates the most significant amount of equity earnings and represented approximately 61% and 111% of the Company's total equity earnings for the three months ending October 6, 2019 and October 5, 2018.

The summarized financial statements for the three-month periods ended September 30, 2019 and September 30, 2018 for the Joint Venture is as follows:

BB Brand Holdings LLC
Three Months Ended
(in thousands)

	September 30, 2019	**September 30, 2018**
Revenue	$ 3,286	$ 4,073
Net Income	$ 2,194	$ 3,367

BB Brand Holdings LLC

	As of September 30, 2019 (in thousands)	**As of June 30, 2019** (in thousands)
Total Assets	$ 9,191	$ 4,458
Total Liabilities	$ 1,050	$ 1,115

Other Equity Investments

Other equity investments accounted for pursuant to the equity method of accounting include a 28.5% investment in BKST Brand Management LLC and a 50% investment in GAEBB Group B.V. On October 19, 2018, bebe partnered with Bluestar to acquire the Brookstone brand and certain related assets. On September 12, 2018, the Company and GA Retail Int'l, Inc., a California corporation, formed GAEBB Group B.V., a private company with limited liability according to the laws of the Netherlands ("GAEBB"). Both GA Retail Int'l, Inc. and the Company each have a 50% ownership interest in GAEBB. On September 25, 2018, GAEBB agreed to purchase certain assets and shares of the Charles Vogele businesses operating in Austria, Hungary and Slovenia from parent Sempione Fashion AG for total proceeds of $1.4 million (CHF 1,363,425). During the second quarter of calendar year 2019, GAEBB management entered into a plan to wind down the operations of Charles Vogele and close all of the retail stores since the original buyer for the operations was unable to finance the purchase of the operations. In October 2019, GAEBB completed the closure of all of their retail stores. The business activity of GAEBB currently consists of the winding up of its business activities and final liquidation of property to the Company. The carrying value in these entities was $20.9 million as of October 5, 2019 and $3.0 as of October 6, 2018.

FISCAL YEAR

The Company's fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30.

The three-month periods ended October 5, 2019 and October 6, 2018 each include 13 weeks.

RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued, but not effective, accounting pronouncement, if currently adopted, would have a material effect on the Company's financial statements.

DISCONTINUED OPERATIONS

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

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

	Three Months Ended (in thousands)	
	October 5, 2019	October 6, 2018
Net sales	$ -	$ -
Cost of sales, including production and occupancy	-	-
Gross margin	-	-
Selling, general and administrative expenses	-	(239)
Gain on sale of assets	-	-
Income from discontinued operations, before income tax provision	-	239
Tax provision	-	-
Income from discontinued operations, net of tax provision	$ -	$ 239

Costs associated with these exit activities are as follows:

Fiscal 2020 (in thousands)	Severance	Other Expenses	Total
Balance at beginning of Fiscal 2019	$ -	$ 160	$ 160
Costs incurred	-	-	-
Cash payments made	-	(40)	(40)
Balance at end of Fiscal 2019	-	120	120

Fiscal 2019 (in thousands)	Severance	Other Expenses	Total
Balance at beginning of Fiscal 2018	$ 825	$ -	$ 825
Costs incurred		2,864	2,864
Cash payments made	(825)	(2,704)	(3,529)
Balance at end of Fiscal 2018	-	160	160

The Company anticipates completing all other payments related to discontinued operation before June 30, 2020.

INCOME TAXES

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expenses. The need for a valuation allowance requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction-by-jurisdiction basis. In making such assessment, significant weight is given to evidence that can be objectively verified. After considering both positive and negative evidence to assess the recoverability of our net deferred tax assets, we determined that it was more likely than not that we would not realize certain federal, state and foreign deferred tax assets given the substantial amount of tax attributes that will remain unutilized to offset forecasted future tax liabilities. In the future, the Company may release valuation allowance and recognize certain deferred federal tax assets, deferred state tax assets or deferred tax assets of other foreign subsidiaries depending on achievement of future profitability in relevant jurisdictions, or implementing tax planning strategies, that enable us to utilize deferred tax assets that would otherwise be unused. Any release of valuation allowance could have the effect of decreasing the income tax provision in the period the valuation allowance is released. The Company continues to monitor the likelihood that it will be able to recover our deferred tax assets, including those for which a valuation allowance is recorded. There can be no assurance that we will generate profits or implement tax strategies in future periods enabling the Company to fully realize our deferred tax assets. The timing of recording a valuation allowance or the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. Adjustments could be required in the future if the Company concludes that it is more likely than not that deferred tax assets are not recoverable. A provision for a valuation allowance could have the effect of increasing the income tax provision in the period the valuation allowance is provided.

INVESTOR AGREEMENT AND MATERIAL MODIFICATION TO RIGHTS OF SECURITY HOLDERS

On January 12, 2018, GACP Finance Co., LLC and B. Riley Financial, Inc. entered into an agreement with our principal shareholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal shareholder to avoid an “ownership change” of the Company within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”). This agreement was entered into in order to preserve certain net operating losses of the Company for U.S. federal income tax purposes.

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

On January 8, 2019, the board approved an amendment to the NOL Plan which updates the process by which Acquiring Persons (as defined in the NOL Plan) can seek exemptions prior to the occurrence of a Trigger Event (as defined in the NOL Plan). This description is qualified in its entirety by reference to the full text of the amendment, which is filed as Exhibit 10.5 hereto.

EARNINGS (LOSS) PER SHARE

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

There is no difference between the number of shares used in the basic and diluted earnings per share computations.

LEGAL PROCEEDINGS

We are involved or may become involved in lawsuits, claims and/or proceedings incident to the ordinary course of our business. We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole.

SUBSEQUENT EVENTS

On November 11, 2019, the Company’s board declared a special cash dividend of $0.17 per share of our common stock. The dividend is payable on December 16, 2019 to shareholders of record at the close of business on December 2, 2019.

Item 4. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "thinks" and similar expressions are forward-looking statements. Forward-looking statements include statements about our expected results of operations, capital expenditures and equity method investments. Although we believe that these statements are based upon reasonable assumptions, we cannot assure you that our goals will be achieved. These forward-looking statements are made as of the date of this Quarterly Report, 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, competitive pressures in the apparel industry, adverse economic conditions and the Joint Venture's ability to protect our intellectual property, changes in the level of consumer spending or preferences in apparel and/or other factors discussed elsewhere in this Quarterly Report.

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements and related notes included elsewhere in this report. The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" under Item 9 of bebe's annual report for the fiscal year ending July 6, 2019.

During fiscal 2017 as a result of continued operating losses, we shut down our retail operations and transferred the remainder of our licenses and intellectual property to our equity method investment – BB Brand Holdings LLC. We entered into an agreement to provide transition services to a third party, Global Brands Group ("GBG"), that has taken over bebe's online and international licensee businesses. The transition services ended in April 2019 and we have been paid fees to cover substantially all of the costs of the services provided. We are currently transitioning our resources toward managing our equity investments and the distribution proceeds from these investments. In addition, we expect our operating costs to reduce to an insignificant amount once we have completed the transition.

Strategic Partnership and Equity Investment

During the fourth quarter of fiscal 2017, we entered into a strategic joint venture arrangement with Bluestar Alliance, LLC ("Bluestar"). Under this partnership, bebe contributed all of its trademarks, trademark license arrangements and related intellectual property, including certain domain names, to BB Brand Holdings LLC (the "Joint Venture") and received just over 50% ownership interest in the joint venture. Bluestar contributed $35 million to the Joint Venture that was then paid to bebe and received just under 50% ownership interest in the joint venture. Bluestar will leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international lifestyle licensing business for the joint venture and will manage its day-to-day operations. The Joint Venture continues to pursue a licensing strategy designed to capitalize on the value of our brand in all categories and channels on a global scale. We expect the Joint Venture to continue to generate long-term, committed royalties from prospective licensees of the bebe brand name.

Other Equity Investments

GAEBB Group B.V. – Charles Vogele

On September 12, 2018, the Company and GA Retail Int'l, Inc., a California corporation, formed GAEBB Group B.V., a private company with limited liability according to the laws of the Netherlands ("GAEBB") for the purpose of buying Charles Vogele, a retailer with operations in Austria, Hungary and Slovenia. The original business plan was to restructure the operations by closing under-performing stores and market the business to a buyer. Both GA Retail Int'l, Inc. and the Company each have a 50% ownership interest in GAEBB. On September 25, 2018, GAEBB agreed to purchase certain assets and shares of the Charles Vogele from parent Sempione Fashion AG for total proceeds of $1.4 million (CHF 1,363,425). During the second quarter of calendar year 2019, GAEBB management entered into a plan to wind down the operations of Charles Vogele and close all of the retail stores since the original buyer for the operations was unable to finance the purchase of the operations. In October 2019, GAEBB completed the closure of all of their retail stores. The business activity of GAEBB currently consists of the winding up of its business activities and final liquidation of property to the Company.

On October 19, 2018, bebe partnered with Bluestar to acquire the Brookstone brand and certain related assets. bebe invested $20.6 million for a 28.5% interest in BKST BRAND MANAGEMENT LLC ("BKST"), which beneficially owns such assets. Bluestar will leverage its existing brand management organization and infrastructure to develop a wholesale domestic and international licensing business for the BKST and will manage its day-to-day operations.

Investor Agreement and Material Modification to Rights of Security Holders

On January 12, 2018, GACP Finance Co., LLC and B. Riley Financial, Inc. entered into an agreement with our principal shareholder. This agreement imposes certain acquisition and transfer restrictions on the shares of common stock held directly or controlled by the principal shareholder to avoid an "ownership change" of bebe within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). This agreement was entered into in order to preserve certain of our net operating losses for U.S. federal income tax purposes.

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

CRITICAL ACCOUNTING POLICIES

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

The preparation of these financial statements requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the financial statements. We believe our application of accounting policies, and the estimates inherently required therein, are reasonable. Our most critical accounting policies are those related to income taxes. We continually evaluate these accounting policies and estimates, and we make adjustments when facts and circumstances dictate a change. Our accounting policies are described in Note 1 to the consolidated financial statements in our annual report for the fiscal year ending July 6, 2019. This discussion and analysis should be read in conjunction with such discussion and with our condensed consolidated financial statements and related notes included in Item 3 of this Quarterly Report.

RESULTS OF OPERATIONS

Our fiscal year is a 52 or 53 week period, each period ending on the first Saturday on or after June 30. The three months ended October 5, 2019 and October 6, 2018 include 13 weeks.

Selling, General and Administrative Expenses.

For the three months ended October 5, 2019, selling, general and administrative expenses decreased to $0.4 million from $0.7 million for the comparable period of the prior year, a decrease of $0.3 million, or 41%. The decrease was primarily driven by the continued reduction in corporate overhead after discontinuing retail operations at the end of fiscal 2017.

Interest and Other (Loss) Income, net.

Interest income was insignificant for the three months ended October 5, 2019 and $0.1 million for the three months ended October 6, 2018.

Provision for Income Taxes.

Tax provisions for the three-month periods ended October 5, 2019 was 0%, compared to 0% for the comparable period of the prior year. The current quarter effective tax rate reflects state income tax expense and the continuing impact of maintaining a valuation allowance against net deferred tax assets.

Earnings in Equity Method Investments.

Earnings in our equity method investments increased to $1.8 million for the three months ended October 5, 2019, from income of $1.5 million in the comparable prior year quarter.

Distributions received from our investments for the three-month periods ended October 5, 2019 and October 6, 2018 are as follows:

	Investment Distributions Received			
	Three Months Ended (in thousands)			
	October 5, 2019		October 6, 2018	
BB Brand Holdings LLC	$	2,000	$	2,000
BKST Brand Management LLC		285		-
Total	$	2,285	$	2,000

Income from Discontinued Operations, net of tax.

Income from discontinued operations was $0 and $0.2 million for the three months ended October 5, 2019 and October 6, 2018, respectively.

SEASONALITY OF BUSINESS AND QUARTERLY RESULTS

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

LIQUIDITY AND CAPITAL RESOURCES

As of October 5, 2019, we have working capital of approximately $3.4 million. We expect our operating costs to reduce to an insignificant amount now that we have completed our obligations under the transition services agreement. We also expect our equity investments with Bluestar Alliance, LLC and GA Retail Int'l, Inc., to provide sufficient distributions of earnings to fund our anticipated operating costs. As a result of our improved liquidity position, we have concluded that cash and cash equivalents, cash flows from operating activities, will be sufficient to fund operations and meet our financial obligations through the next twelve months from the issuance of these condensed consolidated financial statements.

As of October 5, 2019, all cash and equivalents were held in accounts managed by third-party financial institutions consisting of invested cash and cash in our operating accounts. The invested cash is invested in interest bearing funds managed by third-party financial institutions. These funds invest in direct obligations of the government of the United States. To date, we have experienced no loss or lack of access to our invested cash or equivalents; however, we can provide no assurances that access to our invested cash and equivalents will not be impacted by adverse conditions in the financial markets.

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

During the three-month period ended October 5, 2019, the Company paid dividends of $1.9 million.

Net cash provided by operating activities for the three months ended October 5, 2019 and October 6, 2018 was $0.2 million and $5.5 million, respectively.

Net cash used by investing activities for the three months ended October 5, 2019 and October 6, 2018 was $0 and $3.2 million, respectively. The net cash used by investing activities of $3.2 million in the first three months of fiscal 2018 is due to the investment in GAEBB.

Net cash used by financing activities for the three months ended October 5, 2019 and October 6, 2018 was $1.9 million and $0 million, respectively. The cash usage in the current year of $1.9 million was for dividends paid.

Item 5. Legal Proceedings

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

Item 6. Default upon Senior Securities

None.

Item 7. Other Information

None.

Item 8. Exhibits

3.1 Certificate of Determination of Series A Junior Participating Preferred Stock of bebe stores, inc., submitted for filing with the Secretary of State of the State of California on January 12, 2018, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

4.1 Termination Agreement, dated as of January 12, 2018, among bebe stores, inc., bebe management, inc., bebe stores (Canada), inc., bebe studio, inc., bebe studio realty, LLC, GACP Finance Co., LLC and B. Riley Financial, Inc., incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

10.1 Debt Conversion, Purchase and Sale Agreement, dated as of January 12, 2018, among bebe stores, inc., B. Riley Financial, Inc. and The Manny Mashouf Living Trust, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

10.2 Investor Agreement, dated as of January 12, 2018, among bebe stores, inc. and the investors listed on Schedule A thereto, incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

10.3 Termination Agreement, dated as of January 12, 2018, among bebe stores, inc., bebe management, inc., bebe stores (Canada), inc., bebe studio, inc., bebe studio realty, LLC, GACP Finance Co., LLC and B. Riley Financial, Inc., incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

10.4 Tax Benefit Preservation Plan, dated as of January 12, 2018, by and between bebe stores, inc. and Computershare Trust Company, N.A., incorporated by reference to the Report on Form 8-K filed by bebe stores, inc. with the United States Securities and Exchange Commission on January 16, 2018.

10.5 Amendment No. 1 to Tax Benefit Preservation Plan, dated as of January 8, 2019, by and between bebe stores, inc. and Computershare Trust Company, N.A.

Item 9. Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Manny Mashouf, certify that:

1. I have reviewed this quarterly disclosure statement of bebe stores, inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 15, 2019

BY: /s/ Manny Mashouf
Manny Mashouf
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Marc So, certify that:

1. I have reviewed this quarterly disclosure statement of bebe stores, inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 15, 2019

BY: /s/ Marc So
Marc So
Interim Principal Financial Officer