BODY CENTRAL CORP
Form 10-K
March 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 28, 2013
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-34906
BODY CENTRAL CORP.
(Exact name of registrant as specified in its charter)

Delaware	14-1972231
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, par value $0.001 per share
(Title of Class)
The NASDAQ Stock Market LLC
(Name of each exchange where registered)

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes o 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. o
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of June 29, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate value of the registrant's common stock, par value $0.001 per share held by non-affiliates, was $218,658,136.

The number of shares outstanding of the registrant's common stock as of March 17, 2014 was 16,615,513.

Documents Incorporated by Reference

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Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 14, 2014 (hereinafter referred to as the 2014 Proxy Statement) are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

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

- expectations regarding our ability to continue as a going concern;
- our ability to obtain financing or to generate sufficient cash flows to support operations;
- our ability to identify and respond to new and changing fashion trends, customer preferences and other related factors;
- the dislocation of customers that may occur as a result of strategic changes to marketing or merchandise selections;
- failure to successfully execute marketing initiatives to drive core customers into our stores and to our website;
- failure to successfully execute our growth strategy;
- changes in consumer spending and general economic conditions;
- changes in Federal and state tax policy on our customers;
- changes in the competitive environment in our industry and the markets we serve, including increased competition from other retailers;
- failure of our stores to achieve sales and operating levels consistent with our expectations;
- failure to successfully execute our direct business segment initiatives;
- our dependence on a strong brand image;
- failure of our information technology systems to support our business;
- failure to successfully integrate new information technology systems to support our business;
- our dependence upon key executive management or our inability to hire or retain additional personnel;
- disruptions in our supply chain and distribution facility;
- disruptions in our operations due to the transition to our new distribution center and corporate office;

- our reliance upon independent third-party transportation providers for all of our product shipments;
- hurricanes, natural disasters, unusually adverse weather conditions, boycotts and unanticipated events;
- the seasonality of our business;
- increases in the costs of fuel, or other energy, transportation or utilities costs as well as in the costs of raw materials, labor and employment;

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- the impact of governmental laws and regulations, including tax policy, and the outcomes of legal proceedings;
- restrictions imposed by lease obligations on our current and future operations;
- our failure to maintain effective internal controls; and
- our inability to protect our trademarks or other intellectual property rights.

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

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PART 1.

ITEM 1. BUSINESS

Overview

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

Growth Strategy

Our growth strategy to increase revenues, capture market share and drive net income growth is as follows:

- Expand Operating Margin. As we grow, we believe we can improve our operating margin over the long term. We expect to leverage our infrastructure and buying power and streamline processes through recent upgrades of our point-of-sale system, payroll management system, direct business system, and warehouse management systems. In addition, we intend to continue to refine our inventory disciplines and upgrade information technology over time to enhance our productivity.
- Increase Comparable Store Sales and Enhance Brand Awareness. We plan to grow our comparable store sales by merchandising our stores with the latest fashion trends and maintaining focus on store level execution. We believe we will be able to enhance our brand awareness through our continued marketing efforts and in-store experience.
- Grow Our Direct Business. We continue to identify and deploy initiatives that we believe will contribute to the growth of our direct business. These efforts include improving our list management, actively growing our customer database, simplifying our online shopping experience and increasing relevant communication with our key customers.
- Expand Our Store Base Over the Long Term. We believe our concept has broad appeal and significant long-term expansion opportunity. With 294 stores in 28 states as of December 28, 2013, there is considerable opportunity to expand in existing and adjacent markets. We opened 22 stores and closed 4 stores in fiscal year 2013. Although we may not open any new stores during the 2014 fiscal year as a result of negative cash flows from operations in 2013, we have identified locations for expansion in 2015, or at such time as we are able to generate sufficient cash flows from operations.

Products

We offer a broad selection of apparel and accessories targeted to young women who seek the latest fashions and a flattering fit at value prices. The majority of our products are sold under our exclusive Body Central®, Sexy Stretch®, and Lipstick Lingerie® labels. We also sell a select assortment of branded merchandise, primarily denim, to complement our private label merchandise.

Our products are presented to emphasize coordinated outfits. Our assortment of tops, dresses, bottoms, jewelry, accessories and shoes fits the many lifestyles of our customers - casual, club, dressy and active. The majority of our products are priced under $20 and we believe represent significant value. We strategically price some of our best-selling tops and our jewelry to drive customer traffic. The table below indicates our product mix as a percentage of store net sales as of the fiscal year end.

	Fiscal Year Ended					
	December 28, 2013		December 29, 2012		December 31, 2011	
Apparel	74.7	%	75.6	%	75.7	%
Accessories	25.3		24.4		24.3	
Total	100.0	%	100.0	%	100.0	%

Merchandising Organization

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Our merchandising team seeks to identify current fashion trends and merchandise consistent with our brand image. Rather we focus on quickly adapting to the latest trends to provide the right merchandise at value prices every day. Our merchandising team consists of our general merchandising manager, buyers, assistant buyers, and our planning and allocation team organized by product category as well as a team focused on our direct business. Our merchandising team is responsible for selecting and sourcing our product assortments, managing inventory levels and allocating merchandise to stores. We build our product assortments after careful review and consideration and select products that can be displayed in our stores in a coordinated manner to encourage our customers to purchase complete outfits.

Sourcing

We do not own or operate any manufacturing facilities and we buy our merchandise from third-party vendors on an order-by-order basis. We have relationships with approximately 225 U.S. vendors. Our top 10 vendors sourced approximately 41.5% of our merchandise in fiscal year 2013, with our two largest vendors collectively representing approximately 19.1%. We maintain a large vendor network, which gives us access to a broad variety of merchandise from a multitude of designers and vendors at competitive prices. We believe our vendors view us as an important retail partner given our scale and market position.

Every vendor that supplies our merchandise is required to adhere to our vendor manual, which is designed to ensure that our vendor’s business is conducted in a legal, ethical and responsible manner. Our vendor manual requires that each of our suppliers operates in compliance with applicable local wage, benefit, working hours and other local laws, and forbids the use of practices such as child labor or forced labor.

Sales Channels

We conduct business through two primary sales channels: retail stores and direct, which consists of the Body Central catalog and our website, www.bodycentral.com. We do not incorporate the information contained on, or accessible through, our website into this Annual Report on Form 10-K, and you should not consider it part of this Annual Report on Form 10-K.

Stores

For fiscal year 2013, our stores generated net sales of $254.7 million, which represented 89.8% of our total net revenues.

As of December 28, 2013, we had 294 retail stores operating under the names Body Central and Body Shop in 28 states, located primarily in the South, Southwest, Mid-Atlantic and Midwest. The majority of our stores range in size from 3,300 to 5,200 square feet, with an average of approximately 4,248 square feet. Our stores have historically been located in regional malls and lifestyle centers in small, medium and large markets. The nature of our fashion merchandise enables us to be successful in markets across hot, warm and cold climates.

The following store list shows the number of stores we operated in each state as of December 28, 2013:

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State	Number of Stores	State	Number of Stores
Alabama	11	Mississippi	7
Arkansas	5	Missouri	8
Delaware	3	New Jersey	3
Florida	32	New Mexico	2
Georgia	23	North Carolina	14
Illinois	12	Ohio	15
Indiana	12	Oklahoma	4
Iowa	1	Pennsylvania	20
Kansas	5	South Carolina	9
Kentucky	8	Tennessee	10
Louisiana	12	Texas	39
Maryland	10	Virginia	13
Michigan	7	West Virginia	1
Minnesota	2	Wisconsin	6
		Total	294

Store Design and Environment

Our stores are designed to effectively present our merchandise and create an exciting atmosphere to draw customers into our stores, similar to fashion boutiques. The stores feature a vibrant look with colorful displays, popular music and aspirational lifestyle photos. Our stores are constructed to allow us to efficiently shift merchandise displays for each season. Our open floor design enables customers to easily view most of our merchandise. We use a large number of body forms to provide customers with full outfit ideas. We believe that by changing products and floor sets with new merchandise, we give our customers a reason to shop our stores frequently.

We maintain a consistent look in our stores, including blue lighted storefront signs, blue mosaic tiles on the storefront columns and a well-lit selling area. High ceilings and slat walls allow us to stock and display our merchandise effectively. We seek site locations that have a store front of approximately 30 feet wide to create an inviting open floor feel, complete with visually appealing glass line presentations.

Site Selection and Store Growth

In selecting a location for a new store, we target malls as well as lifestyle, power and outlet centers in areas with suitable demographics and where similar fashion retailers have performed well. We have a real estate committee that follows a disciplined approach to analyze factors that include mall productivity, mall-specific competitive environment, average sales of fast fashion retailers and the configuration of available space for potential new store locations. We seek prominent locations in high-traffic areas of the mall in close proximity to other retailers targeting young women. We have found that when we have locations in malls with certain key competitors our net sales in those stores typically exceed the net sales of stores that are not located in proximity to those key competitors. Our flexible store format allows us to utilize both new and second-generation retail locations. We also evaluate new store locations based on projected sales, anticipated capital investment and estimated store level contribution which satisfies our targeted return threshold. We negotiate leases with a variety of term lengths, most of which have early termination rights held by us if certain sales goals are not achieved.

Although we may not open any new stores in fiscal 2014, opening new stores is an important part of our long-term growth strategy. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence. Our business is somewhat seasonal and as a result, our revenues fluctuate. Net revenues generated during the first quarter and the holiday selling season generally contribute to the relatively higher first quarter and fourth quarter net income. However, our revenues in any given quarter can be affected by timing of holidays, the weather and other external factors beyond our control.

We seek to optimize our existing store base by relocating or closing stores that are underperforming, as well as remodeling our older stores. In fiscal year 2013, we closed 4 stores and relocated 4 stores. As of March 17, 2014, we have closed twelve

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underperforming stores during 2014 and have plans to close an additional five stores during the remainder of fiscal 2014. Although we may not open any new stores in 2014, we have identified locations for expansion in 2015.

The table below highlights certain information regarding our new store openings, store closings, relocations and remodels as of the fiscal year end for each of the years indicated below:

	Fiscal Year Ended		
	December 28, 2013	December 29, 2012	December 31, 2011
Stores at beginning of period	276	241	209
Stores opened during period	22	39	33
Stores closed during period	(4)	(4)	(1)
Stores at end of period	294	276	241
Relocated Stores	4	3	3

Direct

We offer direct sales through our catalogs and through our e-commerce website, www.bodycentral.com, which accepts orders directly from our customers. Direct sales are not included in our comparable store sales.
For fiscal year 2013, our direct business generated revenues of $28.9 million, or 10.2% of our net revenues.

We obtain customer information from both catalog and Internet customers as well as mail and email customer lists that we purchase. We currently have a database containing approximately 2.4 million mailing addresses and approximately 3.7 million email addresses. Additionally, during 2013, we implemented a text messaging campaign; we currently have a database containing approximately 325,000 text recipients.

Catalog

Since many of our competitors do not offer a catalog, we believe our Body Central catalog differentiates us from them. All creative work on the Body Central catalog is developed in-house, which we believe allows us to consistently reinforce our brand image. Photography is shot both on location and in studio. Page layout and copywriting are executed by us. Digital images are transmitted directly to outside printers, thereby reducing lead times and improving reproduction quality.

Internet

Our customers are able to purchase merchandise through our website as well as obtain current information on our store locations. Most of our direct business purchases are made online, although often are tied to the distribution of our latest catalog. As with our catalog, we believe our website reinforces our Body Central brand.

Marketing and Advertising

While our products appeal to women of varying ages and diverse backgrounds, our core customer is a young woman in her late teens to mid-thirties who enjoys shopping for the latest fashions. According to the U.S. Census Bureau, there were estimated to be approximately 37.8 million women as of July 2012 between the ages of 18 to 34. Our target customer represents a growing segment of the U.S. population and we believe that she spends a higher proportion of her income on fashion than the general population.

Our marketing approach aims to increase customer traffic and build brand image. We use catalog distribution, email and text message communications, in-store graphics, our website and social networking platforms, such as Facebook and Twitter, to achieve our marketing goals. We believe that in order to serve the customer better, we have to communicate our brand clearly through our merchandise assortment, marketing programs, and across our retail catalog and e-commerce channels. We often coordinate marketing efforts with the malls and shopping centers in which our stores are located.

We believe that the look and feel of our stores, our in-store graphics, product labeling, customer service and overall shopping experience are critical to building our brand image. Merchandise is presented with a cohesive marketing theme, often around

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seasons and holidays, which unifies the store presentation and emphasizes both on-trend fashions and fashion basics. For example, we display large posters throughout each store that feature aspirational photos of our models wearing complete Body Central outfits, as well as a large number of body forms featuring current merchandise.

Distribution

We distribute all of our merchandise from our corporate headquarters in Jacksonville, Florida, which occupies approximately 179,000 square feet, consisting of approximately 146,000 square feet of warehouse space and approximately 33,000 square feet of office space. All of our merchandise is received, inspected, managed, stored and distributed through our warehouse. Most of our merchandise is currently pre-ticketed and pre-assorted by our vendors, which allows us to distribute the merchandise quickly and reduce labor costs. Merchandise is shipped up to five times per week to our stores to ensure a steady flow of new inventory.

In January 2013, we signed a lease to occupy a larger, more modern distribution facility. The facility will provide greater functionality to support enhanced inventory management capabilities and sales growth. We intend to transition to the new distribution center and corporate headquarters over the next 24 months, or at such time as we are able to generate sufficient cash flows from operations, or obtain additional equity or debt financing at satisfactory terms.

Information Technology Systems

Our information technology systems provide support and information to our management team. We use a combination of customized and industry-standard software systems to support the following functions:

- store point-of-sale;
- e-commerce and catalog;
- inventory management; and
- financial reporting.

In fiscal year 2013, we installed several new systems to enhance our store labor scheduling and loss prevention systems. Our new loss prevention system broadens the scope of our loss prevention capabilities. We also have begun implementation to replace our existing inventory management system, our warehouse management system, and our accounting and reporting system and we expect these systems to be placed into production as we move to our new distribution center and corporate headquarters. We believe the implementation of these systems will allow us to better streamline our operations and reporting and better position ourselves to support our long-term growth and earnings objectives. We believe the e-commerce component of our direct business is a key component to our overall brand proposition, the consumer experience and our corporate strategy to unify our sales channels through more integrated systems, content consistency and cross-channel marketing. We intend to transition to the new distribution center and corporate headquarters over the next 24 months, or at such time as we are able to generate sufficient cash flows from operations, or obtain additional equity or debt financing on satisfactory terms in excess of our working capital requirements.

Competition

The specialty apparel retail market is highly competitive. We compete primarily with other specialty retailers and e-commerce and catalog businesses that specialize in women’s apparel and accessories targeting customers in their late teens to mid-thirties. We believe the principal basis upon which we compete is by offering quality, current fashions at value prices. We believe that our success is also dependent on our in-store experience, our Body Central brand, our current fashions and desirable store locations.

Our success depends in part on our ability to respond quickly to fashion trends so that we can meet the changing demands of our customers. We believe our competitors include other specialty retailers such as Forever 21, Wet Seal, rue21 and Charlotte Russe. Our market is highly competitive and many of these retailers have substantially greater name recognition, as well as financial, marketing, and other resources, and devote greater resources to the sale of their products than we do. We may face new competitors and increased competition in existing markets which could have a negative impact on our ability to execute our long-term growth strategy.

Intellectual Property

We have registered trademarks with the U.S. Patent and Trademark Office, including Body Central®, Sexy Stretch®, and Lipstick Lingerie®. In addition, we own domain names, including www.bodycentral.com and www.bodyc.com, and registered copyright rights in our website content. We believe our material trademarks have value, and we protect them against infringement. We will continue to file new applications as appropriate to protect our intellectual property rights.

In some regions of the U.S., our stores are located in the same malls and shopping centers as stores operated by a company doing business under the name The Body Shop®, which is a cosmetics and beauty store. We are not affiliated with this company. In 1991, we granted this company a license to use our Body Shop trademark which is held by us in connection with retail store services for the sale of women's apparel and apparel accessories. Under the terms of this license agreement, we granted an exclusive, royalty-free license to the cosmetics and beauty store company to use our ''Body Shop'' mark for its business as follows: as a service mark for mail order retail sales of t-shirts and sweatshirts in 49 states and territories and of other apparel in 38 states and territories; as a service mark for retail store sales of apparel in 38 states and territories; and as a trademark for apparel in 38 states and territories. This license was non-exclusive as to certain uses and our agreements with this company permit us to continue to use our ''Body Shop'' mark in our stores located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. We currently operate under the Body Central banner and, in a minority of stores in certain states, we operate under the Body Shop banner. Our current business is focused on developing the Body Central®, Sexy Stretch®, and Lipstick Lingerie® brands and we are moving away from the use of the Body Shop name in our stores. We currently operate five stores under the Body Shop banner, and expect that this number will decline as we remodel or update older stores and transition to Body Central signs and banners.

Regulation and Legislation

We are subject to labor and employment laws, laws governing advertising and promotions, privacy laws, safety regulations, consumer protection regulations and other laws that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Employees

As of March 17, 2014, we had approximately 3,901 total employees. Out of our total employees, approximately 203 were based at our corporate headquarters in Jacksonville, Florida, and approximately 3,698 were store employees. We had approximately 977 full-time employees and approximately 2,924 part-time employees, the latter of whom are primarily store employees. None of our employees are represented by a labor union, and we have had no labor-related work stoppages as of March 17, 2014. Our relationship with our employees is a key to our success, and we believe that relationship is in good standing.

Seasonality

Due to the seasonal nature of the retail industry, we have historically experienced and expect to continue to experience some fluctuations in our revenues and net income reflecting increased demand during the year-end holiday season, other holidays, such as Easter, the beginning of spring and peak shopping periods, such as the back-to-school season. If for any reason our revenues were below seasonal norms or expectations during these quarters, our annual results of operations could be adversely affected. The level of our working capital reflects the seasonality of our business. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in anticipation of the increased revenues during these periods.

Privacy Policy

In the course of our business, we collect information about our customers, including customer data submitted to us in connection with purchases of our product at stores as well as from our direct business. We respect the privacy of our customers and take steps to safeguard the confidentiality of the information that they provide to us.

Available Information

We make available free of charge on our Internet website, www.bodycentral.com, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the Securities and Exchange Commission (the “SEC”). These materials may also be obtained free of charge at the web site maintained by the SEC at www.sec.gov.

The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

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ITEM 1A. RISK FACTORS

Investors should be aware that our business is subject to various risks, including the risks described below. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks, and investors may lose all or part of any investment. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including the risks faced by us described below and included elsewhere.

Risks Related to Our Liquidity and Indebtedness

Due to our recent results of operations, we may not be able to continue as a going concern.

We incurred a loss from operations of $53.4 million in the fiscal year ended December 28, 2013 and had negative cash flow from operations of $13.6 million as of December 28, 2013. Our results of operations, including operating revenues and operating cash flows, have been negatively impacted by a number of factors including material merchandise markdowns taken during the second half of fiscal 2013 to clear slow moving inventory resulting from our failure to anticipate our target customers' preferences and demand level, competitive industry conditions, and the state of the macro economy and more specifically, the fashion retail sector. We believe that these factors may continue to have a negative impact on our business. These conditions, and their continued negative impact on our liquidity, raise substantial doubt about our ability to continue as a going concern under applicable authoritative literature. For this purpose, we assume that a business is generally considered to be a going concern if there is neither the intention nor the need to liquidate or materially curtail the scope of its business plans. Refer to Note 1, Basis of Consolidation included in the consolidated financial statements for additional disclosures.

We may not be able to execute our business plans or meet our obligations.

We have historically relied on cash flows from operations to meet our cash flow requirements for continued operations and capital projects. We had cash available of $16.5 million and total net working capital of $24.0 million as of December 28, 2013. We believe that our current sources of funding and cash provided by operations, combined with actions discussed in more detail below, will be sufficient to fund our current business plan and meet our obligations through fiscal 2014 if we are successful in executing our business plan; however, our ability to continue to fund operations and meet our obligations is largely dependent on our ability to gauge the fashion tastes of our customers and to provide merchandise that satisfies customer demand.

Our future viability is dependent on our ability to execute these plans successfully. We plan to use our available funding, together with cash provided by our operations, to finance our current business plan; however, if we cannot meet our capital needs using cash on hand and cash from operations, in addition to the actions described in further detail below, we will have to take actions such as modifying our business plan to reduce capital investments, pursuing additional external liquidity generating events, and seeking additional financing to the extent available, and further delaying non-essential capital expenditures.

Our current business plan assumes that our operating cash in-flows will improve in the second half of 2014 as a result of changes to our merchandising strategy which focuses on the allocation of product assortment and better managing inventory levels to sales trends. We do not anticipate opening any new stores in fiscal 2014, so if our future comparable store sales continue to decline or do not improve consistent with our forecasts and/or our direct business does not improve from the prior year, our cash flows could be materially adversely affected. The success of these initiatives is largely dependent on a variety of factors, one of which is fashion trends. It is critical for us to gauge the fashion tastes of our customers and to provide merchandise that satisfies customer demand. Our failure to anticipate, identify, or react to changes in customer taste and demand could adversely affect the results of operations, including our ability to generate positive cash flows from operations, and consequently, our ability to fund operations, to obtain additional financing, and to repay our financing obligations.

In addition to our sales and inventory planning and management initiatives, we have taken several other actions to increase our liquidity which we believe should be adequate to finance our working capital needs through 2014, if we are successful in executing our business plan. Actions have included cost reductions such as closing underperforming stores, headcount reductions, and delaying non-essential capital projects until such time as we are able to generate sufficient cash flows from operations to fund these capital expenditures. Subsequent to the fiscal year ended

December 28, 2013, our actions have included the following:

- We closed twelve underperforming stores between December 29, 2013 and March 17, 2014, and we intend to close another five stores during the remainder of fiscal year 2014.

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- We filed a refund request for Federal income taxes paid in 2013 and filed amended returns to carryback net operating losses and recovered a portion of taxes paid in 2012 and 2011. Total income tax refunds received as of March 17, 2014 were $13.9 million.
- On February 6, 2014, we entered into a new asset based credit facility agreement (the "Credit Facility Agreement") with Crystal Financial LLC, as administrative and collateral agent which provides for a $17.0 million senior secured credit facility, which includes a term loan facility of $12.0 million drawn on the closing date, drawn against eligible account receivables and inventory, and a revolving credit facility of up to $5.0 million, subject to borrowing base availability and other conditions, that was not drawn upon on the closing date. Additionally, the Credit Facility Agreement provides for an uncommitted term loan facility of up to $7.0 million. The Credit Facility Agreement will mature on February 6, 2017 and is secured by substantially all of our assets. The proceeds of the term loan facility were used to pay all amounts owed under and retire its prior $5.0 million credit facility, to pay certain related fees and expenses, to fund working capital and for other corporate purposes.

The Credit Facility Agreement includes terms and conditions for cash dominion events which may be triggered by any of the following: (1) the occurrence and continuance of any event of default, (2) outstanding borrowings under the revolving credit facility, or (3) a failure by us to maintain unrestricted cash in an amount of at least $6.5 million for three consecutive business days or $3.5 million at any time. Refer to note 14 Subsequent Events for further disclosure regarding the new credit facility.

The credit facility contains standard terms and conditions related to events of default, including a cross default to other indebtedness such as sale-leaseback and other lease financings, which are subject to specific thresholds and, in certain cases, cure periods. If an event of default occurs and is continuing under the Credit Facility Agreement, the lenders thereunder may, among other things, terminate their obligations to lend under the Credit Facility Agreement and require us to repay all amounts owed under the credit facilities.

As of March 22, 2014, we had cash of $20.1 million including $12.0 million drawn against eligible account receivables and inventory in our borrowing base collateral.

We are currently seeking additional financing under sale-leaseback arrangements for capital expenditures related to the new distribution center and corporate headquarters incurred during 2013 which will increase our working capital and potentially fund the completion of the new facility. Should we not obtain this financing, the project will continue to be postponed until such time that we generate positive cash flows from operations or can obtain other financing.

Due to the inherent uncertainties in making estimates and assumptions in our forecast, there can be no assurance that the Company will be able to execute on its strategic initiatives. Therefore, if our operations underperform to our forecasted results, our financial position, results of operations, and cash flows may be materially adversely impacted. There are additional factors which are not necessarily within our control such as competition, vendor or other payment demands, current national and regional economic conditions and weather which could negatively impact our forecast and have a material adverse effect on our cash flows.

If we cannot meet our capital needs using cash on hand and cash from operations, we may have to take additional actions such as additional headcount reductions, modifying our business plan to close additional stores as lease terms end, seeking additional financing to the extent available, and further reducing and/or delaying capital expenditures. Incurring additional debt, however, will increase our capital requirements for debt service, and there can be no assurance that we will be able to obtain financing on terms and conditions satisfactory to us, or at all.

We need significant working capital to fund our operations and capital expenditures.

Payments under our store leases and the lease of our corporate headquarters and distribution center, as well as personnel costs, account for a significant portion of our operating expenses. If our performance does not generate sufficient cash flows from operations to fund our business plans, we may need to incur additional indebtedness or may need to seek additional equity or debt financing. If additional equity or debt financing is not available to us on satisfactory terms, or at all, our ability to run and potentially expand our business would be curtailed and we may need to delay the implementation of certain systems, further delay the opening of our new distribution center, or further delay the move to our new corporate headquarters. Also, we may not have enough cash on hand to fund any operating shortfalls, which could result in our inability to continue operations.

Any borrowings under our line of credit and any future debt financing will require interest payments and need to be repaid or refinanced, and would create additional cash demands and financial risk for us. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets, or issue equity to obtain the necessary funds. We do not know if we would be able to take any of the actions on a timely basis, on terms satisfactory to us,

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or at all. Any indebtedness we might incur in the future may contain covenants that restrict our ability to incur additional debt, invest in the long-term growth of our store base, or to otherwise impact the value of our common stock.

Risks Related to Our Business

Our success depends on our ability to anticipate, identify and respond quickly to changing fashion trends.

Our core market, apparel and accessories for women in their late teens, twenties, and thirties, is subject to rapidly shifting fashion trends, customer tastes and demands. Accordingly, our success is heavily dependent on our ability to anticipate, identify and capitalize on the latest fashion trends and respond to rapidly changing customer demands, including merchandise, styles and materials that will appeal and be saleable to our customers.

Our Planning and Allocation department and our merchandising team, are primarily responsible for performing this analysis and making product purchase decisions. Our failure to anticipate, identify or react swiftly to changes in styles, trends or desired image preferences, or to anticipate demand, is likely to lead to lower demand for our merchandise, which could cause, among other things, sales declines, excess inventories and a greater number of markdowns. If we do not accurately forecast fashion trends and sales levels, our business, financial condition and results of operations will be adversely affected.

Our business is sensitive to consumer spending and economic conditions.

The United States apparel industry is subject to cyclical variations, recessions in the general economy and uncertainties regarding future economic prospects that affect consumer spending habits, all of which could negatively impact our business overall and specifically our sales, gross margins and profitability. Consumer purchases of apparel, accessories and particularly discretionary retail items, including our fashion merchandise, may be adversely affected by economic conditions such as employment levels, salary and wage levels, the availability of consumer credit, inflation, high interest rates, high tax rates, high fuel prices and consumer confidence with respect to current and future economic conditions. Consumer purchases may decline during recessionary periods or at other times when unemployment is higher or disposable income is lower. These risks may be exacerbated for retailers like us that focus significantly on selling discretionary fashion merchandise. Consumer willingness to make discretionary purchases may decline, may stall, or may be slow to increase due to national and regional economic conditions. Our financial performance is particularly susceptible to economic and other conditions in regions or states where we have a significant number of stores, such as Florida, Texas, Pennsylvania and Georgia. Future slowdowns or disruptions in the economy could adversely affect mall traffic and new mall and shopping center development and could materially and adversely affect us and our long-term growth plans.

We operate in the highly competitive specialty retail apparel industry and the size and resources of some of our competitors may allow them to compete more effectively than we can.

We face intense competition in the specialty retail apparel industry. We compete on the basis of a combination of factors, including price, breadth, quality and style of merchandise, as well as our brand image and ability to respond to fashion trends. While we believe that we compete primarily with specialty retailers, catalog retailers and Internet businesses that specialize in women's apparel and accessories, we also face competition from department stores and value retailers. We believe our primary competitors are specialty apparel retailers that offer their own private labels, such as Forever 21, Wet Seal, rue21 and Charlotte Russe. We also compete with a wide variety of large and small retailers for customers, vendors, suitable store locations and personnel. The competitive landscape we face, particularly among specialty retailers, is subject to rapid change as new competitors emerge and existing competitors change their offerings. We cannot be assured that we will be able to compete successfully and navigate the shifts in our market.

Many of our competitors and potential competitors may be larger and have greater name recognition and access to greater financial, marketing and other resources. Therefore, these competitors may be able to adapt to changes in trends and customer desires more quickly, devote greater resources to the marketing and sale of their products, generate greater brand recognition or adopt more aggressive pricing policies than we can. As a result, we may lose market share, which would reduce our sales and revenues and adversely affect our results of operations.

Our inability to maintain or improve levels of comparable store sales or direct sales could negatively impact our profitability and financial operations.

If our future comparable store sales continue to decline or do not improve consistent with our forecasts, our profitability could be negatively impacted. In addition, the comparable store sales results have fluctuated in the past and can be expected to fluctuate in the future. A variety of factors affect comparable store sales, including fashion trends, competition, current national and regional economic conditions, pricing, changes in our merchandise mix, inventory shrinkage, the success of our marketing programs, holiday timing and weather conditions.

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We have strategic initiatives which are centered on a more consistent and singular approach to branding, merchandise content and customer messaging, between our stores and direct business. If these strategies are not achieved, we could experience continued negative operating cash flows.

Our ability to attract customers to our stores that are located in regional malls and other shopping centers and venues depends heavily on the success of the malls and centers in which our stores are located.

Our stores are principally located in regional malls, with some in outlet, lifestyle and power centers. Net sales at our stores are derived, to a significant degree, from the volume of traffic in those malls and centers and the surrounding areas. Our stores benefit from the ability of adjacent tenants to generate consumer traffic near our stores and the continuing popularity of the regional malls and outlet, lifestyle and power centers as shopping destinations. Our sales volume and traffic may be adversely affected by, among other things, economic downturns nationally or regionally, high fuel prices, increased competition, unfavorable weather conditions, changes in consumer demographics, a decrease in popularity of malls generally or of particular malls in which our stores are located. A reduction in customer traffic as a result of these or any other factors, or our inability to obtain or maintain desirable store locations within malls, could have a material adverse effect on our business. In addition, store closings in malls, particularly stores that attract similar customers, or deteriorations in the financial condition of mall operators could limit their ability to finance our tenant improvements, which would have an adverse impact on our ability to open profitable stores.

Our business largely depends on a strong brand image.

We believe that our brand image and brand awareness has contributed significantly to the success of our business. We also believe that maintaining and enhancing our brand image particularly in new markets where we have limited brand recognition is important to maintaining and expanding our customer base. Maintaining and enhancing our brand image may require us to make substantial investments in areas such as merchandising, marketing, store operations, community relations, store graphics, catalog distribution and employee training. These investments may be substantial and may not ultimately be successful.

We rely on word-of-mouth, foot traffic, catalogs, email and text message blasts to capture the interest of our customers and drive them to our stores and website. We do not use traditional advertising channels, such as newspapers, magazines, billboards, television and radio, which are used by some of our competitors. We expect to increase our use of social media, such as Facebook and Twitter, in the future. If our marketing efforts are not successful, there may be no immediately available alternative marketing channel for us to build or maintain brand awareness.

Our ability to obtain merchandise quickly and at competitive prices could suffer as a result of any deterioration or change in our vendor relationships or their businesses.

We do not own or operate any manufacturing facilities. Instead, we purchase all of our merchandise from third-party vendors. Two of our vendors collectively accounted for approximately 19.1% of our purchases in fiscal year 2013. Our business and financial performance depend in large part on our ability to quickly evaluate merchandise for style and fit and also to test and purchase a wide array of desired merchandise from our vendors at competitive prices and in the quantities we require. We generally operate without long-term purchase contracts or other contractual guarantees. We typically have averaged up to 30 days to pay our merchandise vendors. However, our payment terms below this average subsequent to the fiscal year ended December 28, 2013. If payment terms deteriorate beyond that assumed in our 2014 forecast, and consequently our payment terms were to significantly change, it could have a material adverse effect on our ability to fund operations.

The benefits we currently experience from our vendor relationships could be adversely affected if a sufficient number of our vendors:

- choose to stop providing merchandise samples to us or otherwise discontinue selling products to us;
- raise the prices they charge to a level such that we are unable to sell merchandise at prices that make sense for us and our customers;
- change pricing terms or adversely change the quality of the materials or craftsmanship utilized;
- change payment terms, reduce credit limits and/or require payment in advance;
-

reduce our access to styles, brands and products by entering into broad exclusivity arrangements with our competitors or otherwise in the marketplace;

- sell similar products to our competitors with similar or better pricing; or

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- initiate or expand sales of apparel and accessories to retail customers directly through their own stores, catalogs or on the Internet and compete with us directly.

Market and economic events that adversely impact our vendors could impair our ability to obtain merchandise in sufficient quantities and at competitive prices. For instance, the cost of cotton may increase. An increase could cause our vendors to increase their prices, which could impact the prices we charge and our results of operations. We historically have established good working relationships with many small-to-mid-size vendors that often have more limited resources, production capacities and operating histories. Many of these vendors rely on credit from third parties such as factoring companies. If the credit relationships of our vendors should change, we may be required to pay for merchandise from our vendors earlier than our historical practice. As we grow and need greater amounts of inventory, we may need to develop new relationships with larger vendors as our current vendors may be unable to supply us with needed quantities. We may not be able to find similar products on the same terms from larger vendors. If we are unable to acquire suitable merchandise in sufficient quantities and at acceptable prices due to the loss of, or a deterioration or change in our relationship with, our vendors or events harmful to our vendors occur, it may adversely affect our business and results of operations.

We are planning to replace several core information technology systems, which might disrupt our operations and cause us to incur significant unexpected expenses.

We have begun to replace several significant systems relating to inventory management, allocations, customer relationship management, accounting and general ledger, warehouse management, and our web site functionality. When implementing new technology systems, even an off-the-shelf solution, there is always risk that the system does not function properly or that other challenges arise that we did not anticipate. The risks associated with these systems changes could disrupt and adversely impact the promptness and accuracy of our merchandise distribution, transaction processing, financial accounting and reporting, including the implementation of our internal controls over financial reporting. Any resulting disruptions could harm our business, prospects, financial condition and results of operations.

A failure in our e-commerce operations could significantly disrupt our business and lead to reduced sales and reputational damage.

Our direct business operations represent an important part of our business, accounting for approximately 10.2% of our net revenues in fiscal year 2013. Expanding our direct business is an important part of our growth strategy. In addition to changing consumer preferences and buying trends in e-commerce, we are vulnerable to certain additional risks and uncertainties associated with Internet sales, including changes to state or Federal sales and use tax legislation, changes in required technology interfaces, website downtime and other technical failures, security breaches and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce Internet sales and damage our brand's reputation.

System security breaches could disrupt or damage our internal operations, information technology systems or reputation.

Computer programmers and hackers, or even internal users, may be able to penetrate, create systems disruptions or cause shutdowns of our network security or that of third-party companies with which we have contracted to provide payment processing services. As a result, we could incur significant expenses addressing problems created by these breaches. This risk is heightened because we collect and store customer information for marketing purposes. Any compromise of customer information could subject us to customer or government litigation and harm our reputation, which could adversely affect our business and growth. Moreover, we could incur significant expenses or disruptions of our operations in connection with system disruptions or data breaches.

Many states have adopted breach of data security statutes or regulations that require notification to consumers if the security of their personal information is breached. Governmental focus on data security may lead to additional legislative action, and the increased emphasis on information security may lead customers to request that we take additional measures to enhance security. As a result, we may have to modify our business with the goal of further improving data security, which would result in increased expenses and operating complexity. Lastly, our reputation may be damaged by any compromise of security, accidental loss or theft of customer data in our possession, which would negatively impact our business, financial condition or results of operations.

To support our current long-term growth strategy, we will need to place increasing reliance on our information technology and distribution systems. Any failure, inadequacy or interruption of our systems could harm our ability to effectively operate our business.

As our operations grow, greater demands will be placed on our information technology, distribution, sales order and inventory management systems. Our ability to effectively manage and maintain controls and procedures related to financial reporting, to manage and maintain our inventory and to ship products to our stores and our customers on a timely basis depends to a significant extent on our in-store systems, including our point-of-sale software and inventory management systems, as well

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as our systems that enable our direct business through our catalog and website. To manage the growth of our operations, personnel and real estate portfolio, we will need to continually improve and expand our operational resources, including our operational and financial systems, transaction processing and internal controls and business processes. In doing so, we would expect to encounter transitional issues that could cause us to incur substantial additional expenses. The failure of our information systems to operate effectively, problems with transitioning to upgraded or replacement systems or expanding them into new stores or a breach in security of these systems, could adversely impact the promptness and accuracy of our merchandise distribution, transaction processing, financial accounting and reporting, the efficiency of our operations and our ability to properly forecast earnings and cash requirements. We cannot anticipate all the demands that will be placed on our systems and we could be required to make significant additional expenditures to remediate any failure to upgrade, problems or breaches of our information technology systems, which could have a material adverse effect on our results of operations and business.

Our current growth plans for future years will place a strain on our existing resources and could cause us to encounter challenges we have not faced before.

As our number of stores and our direct sales grow, our operations will become more complex. While we have grown substantially as a company since inception, this growth has been over a period of decades. As we move forward, we expect our growth to bring new challenges that we have not faced before. Among other strains, this growth may make it more difficult for us to adequately predict expenditures, such as real estate and construction expenses, budgeting will become more complex, and we also may place increased burdens on our vendors, as we will likely increase the size of our merchandise orders. As a result, if new order delivery times lengthen, we could see more fashions arrive after trends have passed, resulting in excess inventory and greater markdowns.

In addition, our recent growth has placed increased demands on our existing operational, managerial, administrative and other resources. Specifically, our inventory management systems and personnel processes are being upgraded to keep pace with our current and long-term growth strategy. We cannot anticipate all of the demands that our expanding operations will impose on our business, and our failure to appropriately address these demands could have a material adverse effect on our business.

We depend on key personnel and may not be able to retain or replace these individuals or recruit additional personnel, which could harm our business.

During fiscal year 2013, we made changes and additions to our executive team whose experience and strengths we believe are key to improving the financial performance of the Company. The loss of any of our key personnel could have a material adverse effect on our business, as we may not be able to find suitable individuals to replace them on a timely basis.

As our business expands, our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. Attracting and retaining experienced and successful personnel in the retail industry is competitive. If we are not able to retain key members of senior management, our long-term growth strategy and business generally could be impaired.

Our business will suffer and our growth strategy may not be successful if we are unable to find and retain store employees that reflect our brand image and embody our culture.

Like most retailers, we experience significant employee turnover rates, particularly among store employees. Our success depends in part upon our ability to continually attract, motivate and retain a sufficient number of store employees who understand and can represent and appreciate our brand and customers. We compete for qualified personnel with a variety of companies looking to hire for retail positions. If we are unable to attract, train, assimilate or retain employees in the future, we may not be able to service our customers effectively, thus reducing our ability to operate our existing stores as profitably as we have in the past.

We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs.

We do not own any real estate. Instead, we lease all of our store locations, as well as our corporate headquarters and distribution facility in Jacksonville, Florida. Although our leases range from month-to-month to approximately ten years, we typically occupy our stores under operating leases with terms of six to ten years. Most of our leases have early termination provisions if we do not achieve specified sales targets after an initial term, which is typically four years. We believe that we have been able to negotiate favorable rental rates over the last few years due in part to the state of the economy and higher than usual vacancy rates in a number of regional malls. These trends may not continue and there is no guarantee that we will be able to continue to negotiate such favorable terms. In addition to future minimum lease payments, most of our leases provide for additional rental payments based upon our achieving specified net sales, and many provide for additional payments associated with common area maintenance, real estate taxes and insurance. Further, many of our lease agreements have escalating rent provisions over the initial term. Our substantial occupancy costs could have significant negative consequences, which include:

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- requiring that a substantial portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes;
- increasing our vulnerability to general adverse economic and industry conditions; and
- limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete.

We depend on cash flow from operations to pay our lease expenses and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities to fund these expenses and needs and sufficient funds are not otherwise available to us, we may not be able to service our lease expenses, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which would harm our business. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying rent for the balance of the lease term. In addition, if we are not able to enter into new leases or renew existing leases on terms acceptable to us, this could have an adverse effect on our results of operations.

We have one active facility which is both our corporate headquarters and distribution facility. If we encounter difficulties associated with this facility, we could face inventory shortages that would have a material adverse effect on our business operations.

Both our corporate headquarters and our only distribution facility are located in the same facility in Jacksonville, Florida. Our distribution facility supports both our retail stores and our direct business. All of our merchandise is shipped from our merchandise consolidators to the distribution facility and then packaged and shipped from our distribution facility to our stores and our direct customers. Our stores and our direct customers must receive merchandise in a timely manner in order to stay current with the fashion preferences of our customers.

In January 2013, we signed a lease to occupy a larger, more modern distribution facility. The facility will provide greater functionality to support enhanced inventory management capabilities and sales growth. We intend to transition to the new distribution center and corporate headquarters over the next 24 months, or at such time as we are able to generate sufficient cash flows from operations, or obtain additional equity or debt financing on satisfactory terms.

While we believe the size and scale of our distribution center is sufficient to service our growth plans for the foreseeable future, the efficient flow of our merchandise requires that we have adequate capacity in our distribution facility to support our current level of operations and our long-term growth plans. Our planned transition to the new distribution center is a complex transition involving the installation and implementation of complex systems and equipment. We cannot be assured such transition will occur without unanticipated complications. If we encounter such difficulties associated with our new distribution facility or if it were to shut down for any reason, including by fire or other natural disaster, we could face inventory shortages resulting in "out-of-stock" conditions in our stores, and delays in shipments to our direct customers, resulting in significantly higher costs and longer lead times associated with distributing our merchandise.

Hurricanes or other unanticipated catastrophes that result in a disruption of our operations could negatively impact our business.

A substantial number of our stores are located in the southeastern U.S. which is prone to severe weather conditions. For example, hurricanes have passed through Florida and other states along the Gulf Coast causing extensive damage to the region. Such a catastrophe could have an adverse impact on our operations, whether it was to occur at our distribution center or in an area where our retail locations are more densely located. In addition, to the extent that the predictions of some climate change models prove accurate, there may be significant national and regional physical effects from climate change such as increases in storm intensity and frequency, including hurricanes. An increase in adverse weather conditions impacting the southeastern U.S. generally could harm our business, results of operations and financial condition. In fact, all of our locations expose us to diverse risks, given that natural disasters or other unanticipated catastrophes, such as telecommunications failures, cyber-attacks, fires or terrorist attacks, can occur anywhere and could cause disruptions in our operations. Extensive or multiple disruptions in our operations, whether at our stores or our corporate headquarters and distribution center, due to natural disasters or other unanticipated catastrophes could have a material adverse effect on our results of operations.

In 2012, we implemented a disaster recovery plan that included the relocation of our data center to a third-party site. While we have taken steps to mitigate the risk related to unanticipated catastrophes, we cannot be assured that these actions have adequately limited our exposure to business interruptions.

Our net revenues and merchandise fluctuate on a seasonal basis, leaving our operating results particularly susceptible to changes in seasonal shopping patterns, weather and related risks.

Due to the seasonal nature of the retail industry, we have historically experienced and expect to continue to experience some fluctuations in our net revenues and net income period over period. As such, quarterly net revenues cannot be used as an

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accurate indicator of annual results. In addition, net revenues in a period can fluctuate due to shifts in the timing of the holidays. For instance, the Easter holiday will occur during different fiscal quarters from year to year. If for any reason our net revenues were below seasonal norms or expectations during these quarters, our annual results of operations could be adversely affected. In order to prepare for these fluctuations, we must order and keep in stock more merchandise than we carry at other times during the year. This inventory build-up may require us to expend cash faster than is generated by our operations during such periods.

Our net revenues also fluctuate based on weather patterns. Any unanticipated decrease in demand for our products during these peak shopping periods could require us to sell excess inventory at a substantial markdown, which could have a material adverse effect on our business, profitability and brand image. In addition, we may experience variability in net revenues as a result of a variety of other factors, including the timing of new store openings and catalog mailings, store events, other marketing activities, sales tax holidays and the back-to-school selling season and other holidays, which may cause our results of operations to fluctuate on a quarterly basis and relative to corresponding periods in prior years.

Increases in costs of catalog mailing, paper and printing will affect the cost of our direct business, which will reduce our profitability.

Postal rate increases and paper and printing costs increase our catalog distribution costs and affect the financial results of our direct business. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting by zip code and carrier routes. We are not a party to any long-term contracts for the supply of paper. Our cost of paper has fluctuated significantly, and our future paper costs are subject to supply and demand forces that we cannot control. Future additional increases in postal rates or in paper or printing costs could reduce our profitability to the extent that we are unable to pass those increases directly to customers or offset those increases by raising selling prices.

We may suffer risks if our vendors fail to comply with applicable laws, including a failure to use acceptable labor practices, or if our vendors suffer disruptions in their businesses.

Our vendors source the merchandise sold in our stores from manufacturers both inside and outside of the U.S. Although each of our purchase orders is subject to our vendor manual and requires adherence to accepted labor practices and compliance with labor, immigration, manufacturing safety and other laws, we do not supervise, control or audit our vendors or the manufacturers that produce the merchandise we sell. The violation of any labor, immigration, manufacturing safety or other laws by any of our vendors or their U.S. and non-U.S. manufacturers, such as use of child labor, could damage our brand image or subject us to boycotts by our customers or activist groups. Any event causing a sudden disruption of manufacturing or imports, including the imposition of additional import restrictions, could interrupt, or otherwise disrupt, the shipment of finished products to us by our vendors and materially harm our operations. Political and financial instability outside the U.S., strikes, adverse weather conditions or natural disasters that may occur or acts of war or terrorism in the U.S. or worldwide, may affect the production, shipment or receipt of merchandise. These factors, which are beyond our control, could materially hurt our business, financial condition and results of operations or may require us to modify our current business practices or incur increased costs.

Changes in laws, including employment laws and laws related to our merchandise, could make conducting our business more expensive or otherwise cause us to change the way we do business.

We are subject to numerous regulations, including labor and employment, truth-in-advertising, consumer protection and ordinances that regulate retailers generally or govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. If these regulations were to change or were violated by our management, employees or vendors, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties or suffer reputational harm, which could reduce demand for our merchandise and hurt our business and results of operations.

In addition to increased regulatory compliance requirements, changes in laws could make the ordinary conduct of our business more expensive or require us to change the way we do business. Laws related to employee benefits and treatment of employees, including laws related to limitations on employee hours, immigration laws, child labor laws, minimum wage laws, supervisory status, leaves of absence, mandated health benefits (such as those required under the

Affordable Care Act) or overtime pay, could also negatively impact us, such as by increasing compensation and benefits costs for overtime and medical expenses. Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for some merchandise, or additional labor costs associated with readying merchandise for sale. It is often difficult for us to plan and prepare for potential changes to applicable laws, and future actions or payments related to these changes could be material to us.

There are claims made against us from time to time that can result in litigation that could distract management from our business activities and result in significant liability or damage to our brand.

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As a growing company with expanding operations, we increasingly face the risk of litigation and other claims against us. Litigation and other claims may arise in the ordinary course of our business and include employee claims, commercial disputes, intellectual property issues, product-oriented allegations and slip and fall claims. These claims can raise complex factual and legal issues that are subject to risks and uncertainties and could require significant management time. Litigation and other claims against us could result in unexpected expenses and liabilities, which could materially adversely affect our operations and our reputation.

We may be unable to protect our trademarks or other intellectual property rights.

We believe that our trademarks are integral to our store design, our direct business and our success in building brand image and loyalty. We have registered those trademarks that we believe are important to our business with the U.S. Patent and Trademark Office. We cannot be assured that these registrations will prevent imitation of our name, merchandising concept, store design or private label merchandise or the infringement of our other intellectual property rights by others. In most cases, the apparel and accessories we sell are purchased on a non-exclusive basis from vendors that also sell to our competitors. Our competitors may seek to replicate aspects of our business strategy and in-store experience, thereby diluting our experience and adversely affecting our brand and competitive position. Imitation of our name, concept, store design or merchandise in a manner that projects lesser quality or carries a negative connotation of our brand image could have a material adverse effect on our business, financial condition and results of operations.

In some regions of the U.S., our stores are located in the same malls and shopping centers as stores operated by a company doing business under the name The Body Shop®, which operates cosmetics and beauty stores. While we are not affiliated with this company, in 1991, we granted this company a license to use our Body Shop trademark which is held by us in connection with retail store services for the sale of women's apparel and apparel accessories. This license was non-exclusive as to certain uses and our agreements with this company permit us to continue to use our "Body Shop" mark in our stores located in Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. While we currently operate under the Body Central banner, we operate under the Body Shop banner in 5 stores in Florida and Georgia. The use by the cosmetic and beauty store of the Body Shop trademark may create confusion between our business and their business and this could affect our brand.

We are not aware of any claims of infringement upon or challenges to our right to use any of our brand names or trademarks in the U.S. Nevertheless, we cannot be certain that the actions we have taken to establish and protect our trademarks will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks or proprietary rights of others. Although we cannot currently estimate the likelihood of success of any such lawsuit or ultimate resolution of such a conflict, such a controversy could have a material adverse effect on our business, financial condition and results of operations. If disputes arise in the future, we may not be able to successfully resolve these types of conflicts to our satisfaction.

Because we have not registered our trademarks in any foreign countries, international protection of our brand image and the use of these marks could be limited. For instance, we are aware of a company outside the U.S. that has used our brand name and has a similar logo, image and website for its business. Also, other entities may have rights to trademarks that contain portions of our marks or may have registered similar or competing marks for apparel or accessories in foreign countries in which our vendors source our merchandise. Our inability to register our trademarks or purchase or license the right to use our trademarks or logos in these jurisdictions could limit our ability to obtain supplies from less costly markets or penetrate new markets should our business plan change to include selling our merchandise in those foreign jurisdictions.

We may be subject to liability if we or our vendors infringe upon the trademarks or other intellectual property rights of third parties, including the risk that we could acquire merchandise from our vendors without the full right to sell it.

While we do not manufacture and produce apparel and accessories, we may be subject to liability if our vendors infringe upon the trademarks or other intellectual property rights of third parties. We do not independently investigate whether our vendors legally hold intellectual property rights to the merchandise they manufacture and distribute. Third parties may bring legal claims, or threaten to bring legal claims, against us that their intellectual property rights are being infringed or violated by our use of intellectual property. Litigation or threatened litigation could be costly and distract our senior management from operating our business. If we were to be found liable for any such infringement, we could be required to pay substantial damages and could be subject to injunctions preventing further infringement. In addition, any payments we are required to make and any injunctions with which we are required to comply as a result of infringement claims could be costly and thereby adversely affect our financial results.

If a third party claims to have licensing rights with respect to merchandise we purchased from a vendor, or if we acquire unlicensed merchandise, we may be obligated to remove this merchandise from our stores, incur costs associated with this removal if the distributor or vendor is unwilling or unable to reimburse us and be subject to liability under various civil and

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criminal causes of action, including actions to recover unpaid royalties and other damages and injunctions. Additionally, we will be required to purchase new merchandise to replace any we remove.

We rely upon independent third-party transportation providers for substantially all of our merchandise shipments.

We currently rely upon independent third-party transportation providers for substantially all of our merchandise shipments, including shipments to all of our stores and our direct customers. Our use of outside delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs, and employee strikes and inclement weather, which may impact a shipper's ability to provide delivery services that adequately meet our shipping needs. If we change shipping companies, we could face logistical difficulties that could adversely impact deliveries and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from the independent third-party transportation providers we currently use, which would increase our costs.

Our ability to source our merchandise profitably could be hurt if new trade restrictions are imposed or existing trade restrictions become more burdensome.

We currently purchase our entire inventory from domestic, third-party vendors, who source our merchandise both domestically and internationally. These vendors, to the extent they obtain apparel and accessories from outside of the U.S., are subject to trade restrictions, including increased tariffs, safeguards or quotas, which could increase the cost or reduce the supply of merchandise available to us. Under the World Trade Organization Agreement, effective January 1, 2005, the U.S. and other World Trade Organization member countries removed quotas on goods from World Trade Organization members, which in certain instances we believe affords our vendors greater flexibility in importing textile and apparel products from World Trade Organization countries from which they source our merchandise. However, as the removal of quotas resulted in an import surge from China, the U.S. imposed safeguard quotas on a number of categories of goods and apparel from China and may impose additional quotas in the future. These and other trade restrictions could have a significant impact on our vendor's sourcing patterns in the future. The extent of this impact, if any, and the possible effect on our purchasing patterns and costs, cannot be determined at this time. We cannot predict whether any of the countries in which our vendors' merchandise is currently manufactured or may be manufactured in the future will be subject to additional trade restrictions imposed by the U.S. and foreign governments, nor can we predict the likelihood, type or effect of any restrictions. Trade restrictions, including increased tariffs or quotas, embargoes, safeguards and customs restrictions against apparel items, as well as U.S. or foreign labor strikes, work stoppages or boycotts, could increase the cost or reduce the supply of apparel to our vendors, and we would expect the costs to be passed along in increased prices to us, which could hurt our profitability.

We may be subjected to sales and use tax in states where we operate our direct business, which could have a material adverse effect on our business, financial condition and results of operations.

Under current state and federal laws, we are not required to collect and remit sales tax in states where we sell through our Internet or catalog channels. Legislation is pending in some states that may require us to collect and remit sales tax on direct sales or institute use tax reporting. If states pass sales or use tax laws, we may need to collect and remit current and past sales tax and could face greater exposure to income tax and franchise taxes in these states. Any increase in sales tax or use tax reporting on our Internet sales could discourage customers from purchasing through our catalog or Internet channels, which could have a material adverse effect on our results of operations.

Increases in the minimum wage could have a material adverse effect on our business, financial condition, results of operations and cash flows.

From time to time, legislative proposals are made to increase the minimum wage in the U.S., as well as a number of individual states. Wage rates for many of our employees are at or slightly above the minimum wage. As federal or state minimum wage rates increase, we may need to increase not only the wage rates of our minimum wage employees, but also the wages paid to our other hourly employees as well. Any increase in the cost of our labor could have a material adverse effect on our operating costs, financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that might be considered favorable.

Our certificate of incorporation and by-laws contain provisions that may make the acquisition of our company more difficult without the approval of our Board of Directors. These provisions, among other things:

- establish a classified Board of Directors so that not all members of our Board of Directors are elected at one time;

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- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super-majority voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that our Board of Directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our Board of Directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change-in-control, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price and trading volume to decline.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own any real property; all of our properties are leased. Our executive offices, warehouse and distribution center are located in an approximately 179,000 square foot facility in Jacksonville, Florida. This facility is leased under a lease agreement expiring in 2016. Of the approximately 179,000 square feet in the facility, approximately 146,000 square feet are dedicated to warehouse space and distribution. In January 2013, we signed a lease to occupy a larger, more modern distribution facility. The facility will provide greater functionality to support enhanced inventory management capabilities and sales growth. We intend to transition to the new distribution center and corporate headquarters over the next 24 months, or at such time as we are able to generate sufficient cash flows from operations, or obtain additional equity or debt financing on satisfactory terms.

As of December 28, 2013, we had 294 retail stores in 28 states, located primarily in the South, Southwest, Mid-Atlantic and Midwest. All of our stores are leased from third parties, and the leases typically have terms of six to ten years. Most of our leases have early termination clauses, which permit the lease to be terminated by us if certain sales levels are not met in specific periods or if a shopping center does not meet specified occupancy standards. In addition to future minimum lease payments, most of our store leases provide for additional rental payments based on our achieving specified net sales and many provide for additional payments associated with common area maintenance, real estate, taxes and insurance. In addition, many of our lease agreements have defined escalating rent provisions over the initial term and extensions

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings incidental to the conduct of our business. In the opinion of management the lawsuits and claims pending are not likely to have a material adverse effect on our financial condition, results of operations or cash flows. Legal fees related to legal proceedings are included in selling, general, and administrative expenses in the Consolidated Statements of Comprehensive (Loss) Income.

On August 27, 2012, a securities class action, Mogensen v. Body Central Corp. et al., 3:12-cv-00954, was filed in the United States District Court for the Middle District of Florida against us and certain of our current and former officers and directors. The amended complaint, filed on February 22, 2013, on behalf of persons who acquired our stock between November 10, 2011 and June 18, 2012, alleges that defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 by making false or misleading statements about the business and operations, thereby causing

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the stock price to be artificially inflated during that period. The complaint seeks monetary damages in an unspecified amount, equitable relief, costs and attorney’s fees. On March 19, 2014, we received notice that our motion for dismissal of this complaint was granted by the United States District Court for the Middle District of Florida. Pursuant to this judgment, the plaintiffs may file an amended complaint within 21 days. We believe that the complaint lacks merit and will continue to defend our position vigorously should an amendment be filed. We do not believe that the outcome of the class action will have a material adverse effect on the business, financial statements, or disclosures.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART 11.

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

Market Information

Our common stock has been listed on the NASDAQ Global Market under the symbol "BODY" since our initial public offering on October 14, 2010. Prior to that time there was no public market for our common stock. The following table sets forth the high and low bid prices of our common stock as reported on the NASDAQ Global Market:

	High	Low
Fiscal year 2013		
Fourth Quarter	$ 6.10	$ 3.20
Third Quarter	13.07	6.04
Second Quarter	13.32	8.94
First Quarter	9.98	7.58
Fiscal year 2012		
Fourth Quarter	11.55	9.21
Third Quarter	11.68	7.71
Second Quarter	30.93	8.07
First Quarter	29.49	22.23
Fiscal year 2011		
Fourth Quarter	25.06	17.09
Third Quarter	26.20	14.61
Second Quarter	26.98	19.77
First Quarter	24.48	14.11
Fiscal year 2010		
Fourth Quarter (beginning October 14, 2010)	$ 15.75	$ 11.98

Holders

As of March 17, 2014, there were approximately 62 shareholders of record of our common stock.

Dividends

We did not declare or pay dividends on our common stock for our fiscal years 2013, 2012 or 2011. We do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be retained and used in the operation and growth of our business. Any future determination to pay dividends will be at the discretion of our Board of Directors, subject to compliance with applicable law and any contractual provisions, including under agreements for indebtedness that we may incur, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, capital requirements and other factors that our Board of Directors deems relevant. Because we are a holding company, our ability to pay dividends depends on our receipt of cash

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dividends from our operating subsidiaries, which may further restrict our ability to pay dividends as a result of the laws of their jurisdiction of organization, agreements of our subsidiaries or covenants under future indebtedness we may incur.

Stock Price Performance Graph

The following graph compares the cumulative stockholder return on our common stock with the cumulative total return to the NASDAQ Composite Index and the Dow Jones US Apparel Retailers Index. The graph assumes $100 invested on October 14, 2010, in the common stock of Body Central Corp., the NASDAQ Composite Index, and the Dow Jones US Apparel Retailers Index. It also assumes that all dividends are reinvested. The stock performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

		Fiscal Year Ended			
	October 14, 2010	January 1, 2011	December 31, 2011	December 29, 2012	December 28, 2013
Body Central Corp.	100.00	109.77	192.00	73.23	31.00
NASDAQ Composite	100.00	108.93	106.97	121.55	170.67
Dow Jones U.S. Apparel Retailer Index	100.00	109.87	122.55	141.91	187.53

Unregistered Sales of Equity Securities

None.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected consolidated financial data has been derived from our consolidated financial statements. We have also included certain non-financial operating data to enhance your understanding of our business. We operate on a fiscal calendar which results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31st. The reporting periods contained in our audited financial statements included in this Annual Report on Form 10-K contain 52 weeks of operations in fiscal year 2013, which ended December 28, 2013, 52 weeks of operations in fiscal year 2012, which ended December 29, 2012, 52 weeks of operations in fiscal year 2011, which ended December 31, 2011, 52 weeks of operations in fiscal year 2010, which ended January 1, 2011, and 53 weeks of operations in fiscal year 2009, which ended January 2, 2010.

The consolidated selected financial data set forth below should be read in conjunction with our consolidated financial statements, the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K. The historical results presented below are not necessarily indicative of the results to be expected for any future period.

	Fiscal Year Ended				
	December 28, 2013	December 29, 2012	December 31, 2011	January 1, 2011	January 2, 2010

	(In thousands, except share data)				
Statement of Income Data:					
Net revenues	$283,560	$310,958	$296,500	$243,364	$198,834
Cost of goods sold, including occupancy, buying, distribution center and catalog costs	210,797	210,913	193,101	161,802	139,352
Gross profit	72,763	100,045	103,399	81,562	59,482
Selling, general and administrative expenses	94,904	74,650	66,803	56,920	46,360
Depreciation and amortization	8,775	6,273	5,204	4,773	4,678
Impairment of depreciable long-lived assets	933	—	—	—	—
Impairment of goodwill	21,508	—	—	—	196
(Loss) income from operations	(53,357)	19,122	31,392	19,869	8,248
Interest (expense) income, net	(26)	7	16	(3,292)	(3,956)
Other income, net	1,025	205	237	(308)	128
(Loss) income before income taxes	(52,358)	19,334	31,645	16,269	4,420
Benefit from (provision for) income taxes	10,048	(7,387)	(11,925)	(6,458)	(1,640)
Net (loss) income	$(42,310)	$11,947	$19,720	$9,811	$2,780
Net (loss) income per common share:					
Basic	$(2.59)	$0.74	$1.25	$2.77	$12.94
Diluted	$(2.59)	$0.73	$1.22	$0.73	$0.23
Weighted-average common shares outstanding:					
Basic	16,337,959	16,187,530	15,780,908	3,502,657	203,235
Diluted	16,337,959	16,342,859	16,218,382	13,383,642	12,173,978
Revenues:					
Stores	$254,682	$275,133	$261,842	209,413	165,331
Direct	28,878	35,825	34,658	33,951	33,503
Net revenues	$283,560	$310,958	$296,500	243,364	198,834
Stores:					
Comparable store sales change	(16.8)%	(8.1)%	11.3%	14.8%	4.9%
Number of stores open at end of period	294	276	241	209	185
Sales per gross square foot (in whole dollars)	$204	$234	$253	$233	$207
Average square feet per store	4,248	4,258	4,287	4,300	4,312
Total gross square feet at end of period (in thousands)	1,249	1,175	1,033	899	798
Direct:					
Number of catalogs circulated (in thousands)	20,900	24,200	22,900	21,900	20,300
Capital expenditures (in thousands)	22,378	$17,714	$9,683	$6,804	$4,809
Balance Sheet Data:					
Cash and cash equivalents	$16,513	$41,136	$41,993	$16,202	$7,226
Working capital	23,971	44,295	36,881	11,702	(1,967)
Total assets	120,962	149,585	132,302	96,996	79,209
	2,369	—	—	—	—

Long-term financing obligation, sale-leaseback, less current portion					
Long-term debt, less current portion	5,000	—	—	—	33,000
Redeemable preferred stock	—	—	—	—	50,038
Stockholders' equity (deficit)	$60,990	$100,346	$85,072	$58,142	$(36,891)
Cash Flow Data:					
Net cash (used in) provided by operating activities	$(13,624)	$16,172	$29,325	$19,409	$13,018

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

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The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our Company as of and for the periods presented below. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See "Forward-Looking Statements."
This MD&A should be read in conjunction with the accompanying consolidated financial statements which have been prepared assuming that we will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, we have experienced recurring losses from operations and negative cash flows from operations; these conditions, should they continue, raise substantial doubt as to our ability to continue as a going concern. Management's plans concerning the matters are also discussed in Note 1 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Overview

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

As of December 28, 2013, the Company had 294 stores with an average size of approximately 4,248 square feet. Our stores are located in fashion retail venues in the South, Southwest, Mid-Atlantic and Midwest. In the fiscal year ended December 28, 2013, the Company opened 22 stores and closed 4.

How the Company Assesses the Performance of Our Business

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

Net Revenues

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

Store Sales

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

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

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

Comparable store sales is only one element we use to assess the success of our growth strategy. Purchases of apparel and accessories are sensitive to a number of factors that influence the levels of consumer spending, including economic conditions and the level of disposable consumer income, consumer debt, interest rates and consumer confidence. Our business is seasonal and as a result, our revenues fluctuate. In addition, our revenues in any given quarter can be affected by the timing of holidays, the weather and other factors beyond our control.

Direct Business Unit Sales

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

Gross Profit

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

Our cost of goods sold is greater in higher volume periods because cost of goods sold generally increases as net revenues increase. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and take appropriate markdowns to clear these goods. The timing and level of markdowns are not seasonal in nature, but are driven by customer acceptance of our merchandise. If we misjudge sales levels and/or trends, we may be faced with excess inventories and be required to mark down our prices for those products in order to sell them. Significant markdowns have reduced the gross profit margin in some prior periods, including fiscal year 2013, and may do so in the future. As such, we record a markdown reserve based on estimates of future markdowns related to current inventory.

Selling, General and Administrative Expenses

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

Results of Operations

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

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	Fiscal Year Ended December 28, 2013	December 29, 2012	December 31, 2011
Percentage of Net Revenues:			
Net revenues	100.0 %	100.0 %	100.0 %
Cost of goods sold, including occupancy, buying, distribution center and catalog costs	74.3	67.8	65.1
Gross profit	25.7	32.2	34.9
Selling, general and administrative expenses	33.5	24.0	22.5
Depreciation and amortization	3.1	2.0	1.8
Impairment of depreciable long-lived assets	0.3	—	—
Impairment of goodwill	7.6	—	—
(Loss) income from operations	(18.8)	6.2	10.6
Other income, net	0.4	—	0.1
(Loss) income before income taxes	(18.4)	6.2	10.7
Benefit from (provision for) income taxes	3.5	(2.4)	(4.0)
Net (loss) income	(14.9)%	3.8 %	6.7 %
Operating Data:			
Stores:			
Comparable store sales change	(16.8)%	(8.1)%	11.3 %
Number of stores open at end of period	294	276	