

BODY CENTRAL CORP  
Form 10-Q  
August 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

or

**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)

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

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

**6225 Powers Avenue**

**Jacksonville, FL 32217**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The number of shares outstanding of the registrant's common stock as of August 8, 2012 was 16,271,118 shares.

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**FORWARD-LOOKING STATEMENTS**

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

- our ability to identify and respond to new and changing fashion trends, customer preferences and other related factors;
- failure to execute successfully our growth strategy;
- changes in consumer spending and general economic conditions;
- changes in the competitive environment in our industry and the markets the Company serves, including increased competition from other retailers;
- failure of our new stores or existing stores to achieve sales and operating levels consistent with our expectations;
- our dependence on a strong brand image;
- failure of our information technology systems to support our business;
- our dependence upon key executive management or our inability to hire or retain additional personnel;

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- disruptions in our supply chain and distribution facility;
- 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 costs of fuel, or other energy, transportation or utilities costs as well as in the costs of raw materials, labor and employment;
- the impact of governmental laws and regulations and the outcomes of legal proceedings;
- restrictions imposed by our lease obligations on our current and future operations; 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 the Company believes that our assumptions are reasonable, the Company cautions that it is very difficult to predict the impact of known factors, and, it is impossible for us to anticipate all factors that could affect our actual results. For the discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission ( SEC ).

The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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

	June 30, 2012	December 31, 2011	July 2, 2011
	(In thousands, except share data)		
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 26,447	\$ 41,993	\$ 29,229
Short-term investments	15,601		
Accounts receivable	1,058	2,607	741
Inventories	18,103	21,141	18,079
Prepaid expenses and other current assets	6,518	4,293	3,475
Deferred tax asset	1,793	1,953	1,974
Total current assets	69,520	71,987	53,498
Property and equipment, net of accumulated depreciation and amortization of \$22,284, \$19,892 and \$17,617	26,182	22,159	19,318
Goodwill	21,508	21,508	21,508
Intangible assets, net of accumulated amortization of \$3,810, \$3,663 and \$3,370	16,395	16,542	16,835
Other assets	106	106	102
Total assets	\$ 133,711	\$ 132,302	\$ 111,261
<b>Liabilities and Stockholders Equity</b>			
Current liabilities			
Merchandise accounts payable	\$ 10,054	\$ 16,498	\$ 14,482
Accrued expenses and other current liabilities	15,465	18,608	13,878
Total current liabilities	25,519	35,106	28,360
Other liabilities	7,392	7,899	5,619
Deferred tax liability	4,001	4,225	4,598
Total liabilities	36,912	47,230	38,577
Commitments and contingencies			
Stockholders equity			
Common stock, \$0.001 par value, 45,000,000 shares authorized, 16,271,118 shares issued and outstanding as of June 30, 2012, 16,095,377 shares issued and outstanding as of December 31, 2011 and 15,816,541 shares issued and outstanding as of July 2, 2011	16	16	16
Additional paid-in capital	95,215	92,705	89,304
Accumulated income (deficit)	1,575	(7,649)	(16,636)
Accumulated other comprehensive loss	(7)		
Total stockholders equity	96,799	85,072	72,684
Total liabilities and stockholders equity	\$ 133,711	\$ 132,302	\$ 111,261

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

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
	(in thousands, except share and per share data)			
Net revenues	\$ 79,355	\$ 74,670	\$ 162,036	\$ 148,654
Cost of goods sold, including occupancy, buying, distribution center and catalog costs	54,622	48,619	108,041	95,870
Gross profit	24,733	26,051	53,995	52,784
Selling, general and administrative expenses	17,852	16,695	36,102	33,396
Depreciation and amortization	1,385	1,270	2,862	2,473
Income from operations	5,496	8,086	15,031	16,915
Interest income, net of interest expense		(7)	(7)	(12)
Other income, net of other expense	(15)	(122)	(58)	(166)
Income before income taxes	5,511	8,215	15,096	17,093
Provision for income taxes	2,062	2,897	5,708	6,360
Net income	\$ 3,449	\$ 5,318	\$ 9,388	\$ 10,733
Net income per common share:				
Basic	\$ 0.21	\$ 0.34	\$ 0.58	\$ 0.68
Diluted	\$ 0.21	\$ 0.33	\$ 0.57	\$ 0.66
Weighted-average common shares outstanding:				
Basic	16,180,104	15,816,541	16,152,007	15,794,562
Diluted	16,364,447	16,181,665	16,361,514	16,144,142
Other comprehensive loss:				
Unrealized loss on short-term investments	7		7	
Provision for income taxes	(3)		(3)	
Other comprehensive loss, net of tax	4		4	
Comprehensive income	\$ 3,445	\$ 5,318	\$ 9,384	\$ 10,733

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



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

	Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net income	\$ 9,388	\$ 10,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,862	2,473
Deferred income taxes	(64)	(171)
Excess tax benefits from stock-based compensation	(709)	(1,850)
Stock based compensation	1,288	494
Amortization of premiums and discounts on investments, net	152	
Loss on disposal of property and equipment	58	6
Changes in assets and liabilities:		
Accounts receivable	1,549	517
Inventories	3,038	290
Prepaid expenses and other current assets	(2,225)	458
Merchandise accounts payable	(6,444)	(398)
Accrued expenses and other current liabilities	(2,434)	(760)
Income taxes		617
Other liabilities	(492)	1,753
Net cash provided by operating activities	5,967	14,162
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(6,812)	(4,449)
Purchases of short-term investments	(16,885)	
Proceeds from sales of short-term investments	100	
Proceeds from maturities of short-term investments	1,025	
Net cash used in investing activities	(22,572)	(4,449)
<b>Cash flows from financing activities</b>		
Proceeds from common stock offering, net of issuance costs		1,074
Proceeds from exercise of stock options	350	390
Excess tax benefits from stock-based compensation	709	1,850
Net cash provided by financing activities	1,059	3,314
Net (decrease) increase in cash and cash equivalents	(15,546)	13,027
<b>Cash and cash equivalents</b>		
Beginning of year	41,993	16,202
End of period	\$ 26,447	\$ 29,229

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

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**Notes to the Condensed Consolidated Financial Statements (Unaudited)**

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

**Nature of Business and Organization**

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

**Principles of Consolidation**

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting primarily of normal and recurring adjustments, necessary for the fair presentation of consolidated financial position, results of operations, and cash flows for the interim periods presented. All intercompany accounts and transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, these unaudited condensed consolidated financial statements and related notes thereto should be read in conjunction with the condensed consolidated financial statements and notes thereto for the fiscal year ended December 31, 2011, included in the Company's Annual Report on Form 10-K, filed with the SEC.

**Fiscal Year**

The Company's fiscal year ends on the Saturday closest to December 31. As used herein, the interim periods presented are the thirteen week and twenty-six week periods ended June 30, 2012 and July 2, 2011.

**Use of Estimates**

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

### **Segment Reporting**

GAAP has established guidance for reporting information about a company's operating segments, including disclosures related to a company's products and services, geographic areas and major customers. The Company has aggregated its net revenues generated from its retail stores and its direct business into one reportable segment. The Company aggregates its operating segments because they have a similar class of customer, nature of products, nature of production process and distribution methods as well as similar economic characteristics. All of the Company's identifiable assets are in the United States.

### **Revenue Recognition**

The Company recognizes revenue, and the related cost of goods sold is expensed, at point-of-sale or upon shipment to customers. Shipping and handling fees billed to customers for online and catalog sales are included in net revenues, and the related shipping and handling costs are included in cost of goods sold. Based on historical sales returns, an allowance for sales returns

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is recorded as a reduction of net revenues in the periods in which the sales are recognized. Sales tax collected from customers is excluded from net revenues and is included as part of accrued expenses and other current liabilities on the Condensed Consolidated Balance Sheets.

Beginning in March 2011, the Company began selling gift cards in our stores, which do not expire or lose value over periods of inactivity. The Company accounts for gift cards by recognizing a liability at the time a gift card is sold. The Company recognizes income from gift cards and gift certificates when they are redeemed by the customer.

Revenue from unredeemed gift certificates is recognized when it is determined that the likelihood of the gift certificate being redeemed is remote and that there is no legal obligation to remit unredeemed gift certificates to relevant jurisdictions. No revenue from gift certificate breakage was recognized in the thirteen week and twenty-six week periods ended June 30, 2012 and July 2, 2011.

**Cash and Cash Equivalents**

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

**Short-term Investments**

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

Our short-term investments consist of tax-free municipal bonds that have maturities that are less than one year. Our short-term investments are available-for-sale securities that are recorded at fair market value. Short-term investments on the Condensed Consolidated Balance Sheets were \$15.6 million as of June 30, 2012.

**Inventories**

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

The Company reviews its inventory levels to identify slow-moving merchandise and generally uses markdowns to clear this merchandise. The Company records a markdown reserve based on estimated future markdowns related to current inventory to clear slow-moving inventory. These markdowns may have an adverse impact on earnings, depending on the extent and

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amount of inventory affected. The markdown reserve is recorded as an increase to cost of goods sold in the Condensed Consolidated Statements of Comprehensive Income.

**Reclassification**

A reclassification has been made to the twenty-six weeks ended July 2, 2011 Condensed Consolidated Balance Sheets in order to conform to the presentation for the twenty-six weeks ended June 30, 2012.

**New Accounting Standards**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820)*. The amended guidance requires most entities to change wording that describes the requirements for measuring fair value and for disclosing information about fair value measurements. The objective of this amendment is to develop a single, converged fair value framework between the FASB and International Accounting Standards Board (IFRS). The Company's adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amends Accounting Standards Codification (ASC) 220, *Comprehensive Income*. The amended guidance requires most entities to present changes in net income and other comprehensive income in either a single statement of comprehensive income or two separate, but consecutive, statements. The objective of these amendments is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. This guidance is effective for fiscal years beginning after December 15, 2011. The Company's adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements or disclosures.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210)*. The amended guidance requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The objective of this amendment is to facilitate comparability between entities that prepare their financial statements on the basis of GAAP and those that prepare it on the basis of IFRS. This guidance is effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance will not have a material impact on the Company's condensed consolidated financial statements or disclosures.

**2. Financial Instruments**

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

- Level 1 Inputs based on quoted prices in active markets for identical assets and liabilities.
  
- Level 2 Inputs other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are

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observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

- Level 3 Unobservable inputs based on little market or no market activity and which are significant to the fair value of the assets and liabilities.

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

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

The Company has determined the estimated fair value amounts of its financial instruments using available market information. The assets that are measured at fair value on a recurring basis include the following:

Description	June 30, 2012	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(in thousands)				
Municipal Bonds	\$ 19,748	\$	\$ 19,748	\$
Short-term, high-quality, fixed-income securities	1,462		1,462	
Certificates of Deposit	1,960	1,960		
Total	\$ 23,170	\$ 1,960	\$ 21,210	\$

Certificates of deposit, fixed-income securities and municipal bonds with an initial maturity of three months or less when purchased are classified as cash and cash equivalents on the accompanying unaudited Condensed Consolidated Balance Sheets. Municipal bonds with an initial maturity greater than three months when purchased and a maturity of one year or less are classified as short-term investments on the accompanying Condensed Consolidated Balance Sheets. As of June 30, 2012, municipal bonds in the amount of \$4.1 million, fixed-income securities in the amount of \$1.5 million and certificates of deposit in the amount of \$2.0 million were included in cash and cash equivalents and municipal bonds in the amount of \$15.6 million were included in short-term investments.

Description	July 2, 2011	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(in thousands)				



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Money Market Securities	\$	24,359	\$	24,359	\$	\$
Total	\$	24,359	\$	24,359	\$	\$

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

**3. Income Taxes**

The provision for income taxes is based on the current estimate of the annual effective tax rate and is adjusted as necessary for discrete events occurring in a particular period. The effective income tax rate was 37.4% and 35.3% for the thirteen weeks ended June 30, 2012 and July 2, 2011, respectively, and 37.8% and 37.2% for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively. The increase in the effective tax rate for the thirteen week and twenty-six week periods ended June 30, 2012 was primarily due to non-recurring discrete items recorded in the prior year related to changes in the employee incentive stock plan.

The Company recognizes income tax liabilities related to unrecognized tax benefits in accordance with FASB ASC 740, *Income Taxes*, guidance related to uncertain tax positions, and adjusts these liabilities when its judgment changes as the result of the evaluation of new information. The Company does not anticipate any significant changes to the unrecognized tax benefits recorded at the balance sheet date within the next twelve months.

**4. Related Parties**

The Company leases office and warehouse space under a lease agreement dated October 1, 2006 with a company that is owned by certain members of management who are also stockholders of the Company. The lease expires on October 1, 2016. The Company incurred rent expense of \$240,000 and \$233,000 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, related to this lease.

**5. Leases**

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

Future minimum rental commitments, by year and in the aggregate, under non-cancelable operating leases as of June 30, 2012, are as follows:

Fiscal Year	(in thousands)
2012 Remaining	\$ 11,483
2013	21,336
2014	19,566

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2015		17,501
2016		14,882
Thereafter		20,142
Total	\$	104,910

**6. Debt**

On January 20, 2012, the Company entered into a Line of Credit Agreement with Branch Banking and Trust Company that provides for a revolving line of credit facility in the amount of \$5.0 million with an accordion feature that allows Branch Banking and Trust Company to increase the facility up to \$20.0 million at its sole discretion. The facility has maturity date of May

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5, 2013 and bears interest at the one month LIBOR rate plus 1.35% per annum, as adjusted monthly on the first day of each month, with an all-in floor rate of 2.0%. The facility is secured by all the assets of the Company. The Line of Credit Agreement includes a financial covenant requiring the Company to have a Tangible Net Worth (as defined in the Line of Credit Agreement) of \$30.0 million quarterly, and other customary covenants. As of June 30, 2012, the Company was in compliance with all covenants and had no outstanding borrowings under this line of credit facility.

**7. Stockholders Equity**

**Common Stock**

On February 16, 2011, the Company completed a secondary offering of 5,703,764 shares of common stock priced at \$16.50 per share. The Company sold 100,000 new shares of its common stock in the offering and selling shareholders sold 5,603,764 shares of common stock in the offering which included all of the 743,969 shares sold pursuant to the underwriters' over-allotment option. The offering raised net proceeds of \$1.1 million for the Company, after deducting the underwriting discount and offering expenses paid by the Company. The Company did not receive any proceeds from the sale of the shares by the selling stockholders.

On May 25, 2011, the Company amended and restated the Company's Third Amended and Restated Certificate of Incorporation to reduce its total number of authorized shares of common stock to 45 million shares, par value \$0.001 per share.

**Stock-Based Compensation Plan**

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

Stock-based compensation expense of \$1.3 million and \$494,000 for the twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively, is included in selling, general and administrative expenses and cost of goods sold on the Company's Condensed Consolidated Statements of Comprehensive Income. The Company did not capitalize any expense related to stock-based compensation.

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The fair value of each option grant for the twenty six weeks ended June 30, 2012 and July 2, 2011 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011
Expected option term (1)	6.25 years	6.25 years
Expected volatility factor (2)	66.24%	68.20%
Risk-free interest rate (3)	1.1%	2.3%
Expected annual dividend yield	0%	0%

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

(2) The stock volatility for each grant is measured using the weighted average of historical weekly price changes of certain peer companies common stock over the most recent period equal to the expected option life of the grant.

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

A summary of stock option information for the twenty-six weeks ended June 30, 2012 is as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term
<b>Outstanding as of December 31, 2011</b>	634,056	\$ 9.72	
Granted	98,577	24.48	
Exercised	(86,197)	4.06	
Forfeited			
<b>Outstanding as of June 30, 2012</b>	646,436	\$ 12.73	
<b>Exercisable as of June 30, 2012</b>	120,956	\$ 6.37	7.26 years



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A summary of the status of nonvested options awards as of June 30, 2012 and changes during the twenty-six weeks ended June 30, 2012, are presented below:

	Number of Shares		Weighted- Average Grant-Date Fair Value Per Share
<b>Nonvested as of December 31, 2011</b>	527,717	\$	5.96
Granted	98,577		14.84
Vested	(100,308)		2.79
Forfeited	(506)		0.98
<b>Nonvested as of June 30, 2012.</b>	525,480	\$	8.24

Total compensation cost related to nonvested stock option awards not yet recognized was \$2.7 million as of June 30, 2012, and is expected to be recognized over a weighted average remaining period of 3.4 years.

*Restricted Stock Awards*

	Number of Shares		Weighted- Average Grant-Date Fair Value Per Share
<b>Nonvested Restricted stock awards as of December 31, 2011</b>	30,704	\$	20.68
Granted	61,370		23.83
Vested	(5,400)		25.00
Forfeited	(2,530)		19.76
<b>Nonvested as of June 30, 2012.</b>	84,144	\$	22.73

As of June 30, 2012, unrecognized compensation expense of \$1.5 million related to nonvested restricted stock awards is expected to be recognized over the next 3.2 years.

**8. Earnings Per Share**

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





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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
(in thousands, except share and per share data)				
Net income as reported	\$ 3,449	\$ 5,318	\$ 9,388	\$ 10,733
Net income attributable to common shareholders	\$ 3,449	\$ 5,318	\$ 9,388	\$ 10,733
Weighted average basic common shares	16,180,104	15,816,541	16,152,007	15,794,562
Impact of dilutive securities:				
Stock options	171,063	365,124	196,488	349,104
Restricted Stock	13,280		13,019	476
Weighted average dilutive common shares	16,364,447	16,181,665	16,361,514	16,144,142
Per common share:				
Net income per common share - basic	\$ 0.21	\$ 0.34	\$ 0.58	\$ 0.68
Net income per common share - dilutive	\$ 0.21	\$ 0.33	\$ 0.57	\$ 0.66

Equity awards to purchase 263,343 and 33,500 shares of common stock for the thirteen weeks and twenty-six weeks ended June 30, 2012 and July 2, 2011, respectively were outstanding, but were not included in the computation of weighted average diluted common share amounts as the effect of doing so would have been anti-dilutive.

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

*The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity, and cash flows of our Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the SEC, and our unaudited consolidated financial statements and the related notes included herein. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those discussed in or implied by forward-looking statements as a result of various factors. See Forward-Looking Statements.*

**Overview**

Founded in 1972, Body Central Corp. is a multi-channel specialty retailer offering on-trend, quality apparel and accessories at value prices. The company operates 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.bodyc.com](http://www.bodyc.com). The Company targets women in their late teens and twenties from diverse cultural backgrounds, who seek the latest fashions and a flattering fit. Our stores feature an assortment of tops, dresses, bottoms, jewelry, accessories and shoes sold primarily under our exclusive Body Central® and Lipstick® labels. The Company continually updates our

merchandise and floor sets with an emphasis on coordinated outfits presented by lifestyle to give our customers a reason to shop our stores frequently. The Company believes our multi-channel

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strategy supports our brand building efforts and provides us with synergistic growth opportunities across all of our sales channels. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 provides additional information about our business, operations and financial condition.

As of June 30, 2012, the Company had 257 stores with an average size of approximately 4,274 square feet. Our stores are located in fashion retail venues in the South, Southwest, Mid-Atlantic and Midwest. In the twenty-six weeks ended June 30, 2012, the Company opened nineteen stores and closed three.

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

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

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

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

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

Opening new stores is an important part of our growth strategy. The Company expects a significant percentage of our net revenues to come from non-comparable store sales. Accordingly, comparable store sales is only one element the Company uses to assess the success of our growth strategy.

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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 timing of holidays, the weather and other factors beyond our control.

*Direct Sales*

The Company offers direct sales through our catalogs and through our e-commerce website, *www.bodyc.com*, which accepts orders directly from our customers. The Company believes the circulation of our catalogs and access to our website increases our reputation and brand recognition with our target customers and helps support the strength of our store operations. Direct sales are not included in our comparable store sales.

*Gross Profit*

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

Our cost of goods sold is greater in higher volume periods because cost of goods sold generally increases as net revenues increase. The Company reviews 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 normally not seasonal in nature, but are driven by customer acceptance of our merchandise. If the Company misjudges sales levels and/or trends, the Company may be faced with excess inventories and be required to mark down our prices for those products in order to sell them. The Company records 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. These expenses generally do not 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. The Company expects that our selling, general and administrative expenses will increase in future periods due to our continued store growth and growth in our direct business.

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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:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
<b>Percentage of Net Revenues:</b>				
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	68.8	65.1	66.7	64.5
<b>Gross profit</b>	31.2	34.9	33.3	35.5
Selling, general and administrative expenses	22.5	22.4	22.3	22.5
Depreciation and amortization	1.8	1.7	1.7	1.7
<b>Income from operations</b>	6.9	10.8	9.3	11.4
Interest income, net of interest expense	0.0	0.0	(0.0)	0.0
Other income, net of other expense	(0.0)	(0.2)	(0.0)	(0.1)
<b>Income before income taxes</b>	6.9	11.0	9.3	11.5
Provision for income taxes	2.6	3.9	3.5	4.3
<b>Net income</b>	4.3%	7.1%	5.8%	7.2%
<b>Operating Data (unaudited):</b>				
Stores:				
Comparable store sales change	-7.6%	14.7%	-4.5%	15.4%
Number of stores open at end of period	257	221	257	221
Sales per gross square foot (in whole dollars)	\$ 62	\$ 68	\$ 126	\$ 134
Average square feet per store	4,274	4,305	4,274	4,305
Total gross square feet at end of period (in thousands)	1,098	951	1,098	951
Direct:				
Number of catalogs circulated (in thousands)	7,500	6,780	15,625	14,945
Revenue per catalog (in whole dollars)	\$ 1.47	\$ 1.49	\$ 1.46	\$ 1.39

The Company has determined our operating segments on the same basis that the Company uses internally to evaluate performance. Our operating segments are our stores and our direct business. These have been aggregated into one reportable segment. The Company aggregates our operating segments because they have a similar type of customer, nature of products, nature of production process and distribution methods as well as similar economic characteristics.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Stores at beginning of period	243	214	241	209

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Stores opened during period	15	7	19	12
Stores closed during period	(1)		(3)	
Stores at end of period	257	221	257	221

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	Thirteen Weeks Ended		Thirteen Weeks Ended		Variance	
	June 30, 2012	Percentage of Net Revenues	July 2, 2011	Percentage of Net Revenues	Dollars	Percentages
	Amount	(Unaudited)	Amount			
	(Dollars in thousands)					
Net revenues	\$ 79,355	100.0%	\$ 74,670	100.0%	\$ 4,685	6.3%
Cost of goods sold	54,622	68.8	48,619	65.1	6,003	12.3
<b>Gross profit</b>	<b>24,733</b>	<b>31.2</b>	<b>26,051</b>	<b>34.9</b>	<b>(1,318)</b>	<b>(5.1)</b>
Selling, general and administrative expenses	17,852	22.5	16,695	22.4	1,157	6.9
Depreciation and amortization	1,385	1.8	1,270	1.7		