

BODY CENTRAL CORP  
Form 10-Q  
November 08, 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 September 29, 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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of November 8, 2012 was 16,307,342 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

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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)**

	September 29, 2012	December 31, 2011	October 1, 2011
	(In thousands, except share data)		
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 22,679	\$ 41,993	\$ 31,749
Short-term investments	14,265		
Accounts receivable	1,536	2,607	1,024
Inventories	20,860	21,141	20,631
Prepaid expenses and other current assets	7,516	4,293	5,312
Deferred tax asset	2,168	1,953	1,925
Total current assets	69,024	71,987	60,641
Property and equipment, net of accumulated depreciation and amortization of \$23,650, \$19,892 and \$18,676	30,860	22,159	19,861
Goodwill	21,508	21,508	21,508
Intangible assets, net of accumulated amortization of \$3,810, \$3,633 and \$3,517	16,574	16,542	16,688
Other assets	108	106	111
Total assets	\$ 138,074	\$ 132,302	\$ 118,809
<b>Liabilities and Stockholders' Equity</b>			
Current liabilities			
Merchandise accounts payable	\$ 8,547	\$ 16,498	\$ 13,801
Accrued expenses and other current liabilities	19,674	18,608	17,367
Total current liabilities	28,221	35,106	31,168
Other liabilities	7,900	7,899	6,347
Deferred tax liability	4,577	4,225	4,542
Total liabilities	40,698	47,230	42,057
Commitments and contingencies			
Stockholders' equity			
Common stock, \$0.001 par value, 45,000,000 shares authorized, 16,307,342 shares issued and outstanding as of September 29, 2012, 16,095,377 shares issued and outstanding as of December 31, 2011 and 15,911,135 shares issued and outstanding as of October 1, 2011	16	16	16
Additional paid-in capital	95,634	92,705	90,524
Accumulated income (deficit)	1,728	(7,649)	(13,788)
Accumulated other comprehensive loss	(2)		
Total stockholders' equity	97,376	85,072	76,752
Total liabilities and stockholders' equity	\$ 138,074	\$ 132,302	\$ 118,809

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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 STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
	(in thousands, except share and per share data)			
Net revenues	\$ 67,920	\$ 67,110	\$ 229,956	\$ 215,764
Cost of goods sold, including occupancy, buying, distribution center and catalog costs	46,399	44,531	154,440	140,401
Gross profit	21,521	22,579	75,516	75,363
Selling, general and administrative expenses	19,718	16,577	55,820	49,974
Depreciation and amortization	1,607	1,342	4,469	3,815
Income from operations	196	4,660	15,227	21,574
Interest income, net of interest expense	3	2	10	14
Other income, net of other expense	45	39	104	206
Income before income taxes	244	4,701	15,341	21,794
Provision for income taxes	91	1,853	5,800	8,213
Net income	\$ 153	\$ 2,848	\$ 9,541	\$ 13,581
Net income per common share:				
Basic	\$ 0.01	\$ 0.18	\$ 0.59	\$ 0.86
Diluted	\$ 0.01	\$ 0.18	\$ 0.58	\$ 0.85
Weighted-average common shares outstanding:				
Basic	16,205,845	15,864,008	16,169,953	15,703,053
Diluted	16,305,557	16,166,285	16,350,690	16,008,014
Other comprehensive income (loss):				
Unrealized gain (loss) on short-term investments, net of taxes	5		(2)	
Other comprehensive income (loss), net of tax	5		(2)	
Comprehensive income	\$ 158	\$ 2,848	\$ 9,539	\$ 13,581

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)**

	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
	(in thousands)	
<b>Cash flows from operating activities</b>		
Net income	\$ 9,541	\$ 13,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,469	3,815
Deferred income taxes	137	(178)
Excess tax benefits from stock-based compensation	(751)	(2,420)
Stock based compensation	1,473	734
Amortization of premiums and discounts on investments, net	263	
Loss on disposal of property and equipment	82	11
Changes in assets and liabilities:		
Accounts receivable	1,071	235
Inventories	281	(2,261)
Prepaid expenses and other current assets	(488)	(1,380)
Other assets	(2)	(9)
Merchandise accounts payable	(7,951)	(1,079)
Accrued expenses and other current liabilities	357	1,559
Income taxes	(1,983)	2,185
Other liabilities	732	2,659
Net cash provided by operating activities	7,231	17,452
<b>Cash flows from investing activities</b>		
Proceeds from the sales of assets	29	
Purchases of property and equipment	(13,158)	(6,201)
Purchase of intangible assets	(179)	
Purchases of short-term investments	(24,582)	
Proceeds from sales of short-term investments	1,051	
Proceeds from maturities of short-term investments	9,000	
Net cash used in investing activities	(27,839)	(6,201)
<b>Cash flows from financing activities</b>		
Proceeds from common stock offering, net of issuance costs		1,142
Proceeds from exercise of stock options	543	734
Excess tax benefits from stock-based compensation	751	2,420
Net cash provided by financing activities	1,294	4,296
Net (decrease) increase in cash and cash equivalents	(19,314)	15,547
<b>Cash and cash equivalents</b>		
Beginning of year	41,993	16,202
End of period	\$ 22,679	\$ 31,749

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 thirty-nine week periods ended September 29, 2012 and October 1, 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 Consolidated Balance Sheets.

Beginning in March 2011, the Company began selling gift cards in 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 thirty-nine week periods ended September 29, 2012 and October 1, 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 fair market value. Unrealized gains or losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of 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.

Short-term investments consist of tax-free municipal bonds that have maturities that are less than one year. Short-term investments are available-for-sale securities that are recorded at fair market value. Short-term investments on the consolidated balance sheets were \$14.3 million as of September 29, 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 Consolidated Statements of Comprehensive Income.

**Reclassification**

A reclassification has been made to the thirty-nine weeks ended October 1, 2011 Condensed Consolidated Financial Statements in order to conform to the presentation for the thirty-nine weeks ended September 29, 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 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 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 consolidated financial statements or disclosures.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 allows an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to re-calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, early adoption is permitted. The Company does not expect that the adoption of ASU 2012-02 will have a material impact on its consolidated financial statements or disclosures.





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

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

The Company's material financial instruments consist primarily of cash and cash equivalents, short-term investments, accounts receivable 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	September 29, 2012	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(in thousands)				
Municipal Bonds	\$ 12,520	\$	\$ 12,520	\$
Short-term, high-quality, fixed-income securities	1,642		1,642	
Certificates of Deposit	2,192	2,192		

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Total	\$	16,354	\$	2,192	\$	14,162	\$
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Certificates of deposit, fixed-income securities and municipal bonds with an initial maturity date of three months or less when purchased are classified as cash and cash equivalents on the accompanying unaudited Consolidated Balance Sheets. Municipal bonds with an initial maturity date greater than three months when purchased and a maturity of one year or less are classified as short-term investments on the accompanying unaudited Consolidated Balance

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Sheets. As of September 29, 2012, municipal bonds in the amount of \$11.6 million and fixed-income securities in the amount of \$2.7 million were included in short-term investments.

Description	October 1, 2011	Quoted	Significant	Significant
		Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
(in thousands)				
Money Market Securities	\$ 27,106	\$ 27,106	\$	\$
Total	\$ 27,106	\$ 27,106	\$	\$

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 37.3% and 39.4% for the thirteen weeks ended September 29, 2012 and October 1, 2011, respectively, and 37.8% and 37.7% for the thirty-nine weeks ended September 29, 2012 and October 1, 2011, respectively. The decrease in the effective tax rate for the thirteen-week period ended September 29, 2012 was primarily due to a permanent adjustment to the 2011 federal and state income tax payments, compared to the estimated tax provision.

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 \$361,000 and \$350,000 for the thirty-nine weeks ended September 29, 2012 and October 1, 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 September 29, 2012, are as follows:

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Fiscal Year	(in thousands)	
2012 Remaining	\$	6,120
2013		22,971
2014		21,043
2015		18,961
2016		16,372
Thereafter		23,434
	Total	\$ 108,901

**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 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 of 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 at the end of each quarter, and other customary covenants. As of September 29, 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

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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.

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Stock-based compensation expense of \$969,000 and \$490,000 for the thirty-nine weeks ended September 29, 2012 and October 1, 2011, respectively, is included in selling, general and administrative expenses, and \$504,000 and \$244,000 for the thirty-nine weeks ended September 29, 2012 and October 1, 2011, respectively is included in 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.

*Option Awards*

The fair value of each option grant for the thirty-nine weeks ended September 29, 2012 and October 1, 2011 was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
Expected option term (1)	6.25 years	6.25 years
Expected volatility factor (2)	66.30%	66.1%
Risk-free interest rate (3)	1.0%	1.5%
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 thirty-nine weeks ended September 29, 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	168,577		18.07



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Exercised	(135,103)		4.02	
Forfeited	(167,233)		12.20	
<b>Outstanding as of September 29, 2012</b>	<b>500,297</b>	<b>\$</b>	<b>13.24</b>	
<b>Exercisable as of September 29, 2012</b>	<b>135,330</b>	<b>\$</b>	<b>8.80</b>	<b>7.39 years</b>

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A summary of the status of nonvested options awards as of September 29, 2012 and changes during the thirty-nine weeks ended September 29, 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	168,577	10.95
Vested	(164,094)	3.76
Forfeited	(167,233)	6.72
<b>Nonvested as of September 29, 2012.</b>	364,967	\$ 8.99

Total compensation cost related to nonvested stock option awards not yet recognized was \$1.9 million as of September 29, 2012, and is expected to be recognized over a weighted average remaining period of 3.2 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	69,948	21.93
Vested	(9,860)	21.13
Forfeited	(23,790)	23.45
<b>Nonvested as of September 29, 2012.</b>	67,002	\$ 20.94

As of September 29, 2012, unrecognized compensation expense of \$978,000 related to non-vested restricted stock awards is expected to be recognized over the next 2.8 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.

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:

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	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
(in thousands, except share and per share data)				
Net income as reported	\$ 153	\$ 2,848	\$ 9,541	\$ 13,581
Net income attributable to common shareholders	\$ 153	\$ 2,848	\$ 9,541	\$ 13,581
Weighted average basic common shares	16,205,845	15,864,008	16,169,953	15,703,053
Impact of dilutive securities:				
Stock options	92,886	302,277	167,872	304,961
Restricted Stock	6,826		12,865	
Weighted average dilutive common shares	16,305,557	16,166,285	16,350,690	16,008,014
Per common share:				
Net income per common share - basic	\$ 0.01	\$ 0.18	\$ 0.59	\$ 0.86
Net income per common share - dilutive	\$ 0.01	\$ 0.18	\$ 0.58	\$ 0.85

Equity awards to purchase 377,344 and 15,000 shares of common stock for the thirteen weeks ended September 29, 2012 and October 1, 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. Equity awards to purchase 193,916 and 15,000 shares of common stock for the thirty-nine weeks ended September 29, 2012 and October 1, 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.

### **9. Contingencies**

On August 27, 2012, a securities class action complaint, *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 complaint, filed 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 our business and operations, thereby causing our 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.

Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate under current accounting rules. The Company intends to defend the *Mogensen v. Body Central Corp. et al.* complaint vigorously and does not believe it will have a material effect on our consolidated financial position, results of operations or cash flows.

### **ITEM 2. 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. 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*

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*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*. 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 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 September 29, 2012, the Company had 263 stores with an average size of approximately 4,262 square feet. Our stores are located in fashion retail venues in the South, Southwest, Mid-Atlantic and Midwest. In the thirty-nine weeks ended September 29, 2012, the Company opened twenty-six stores and closed four.

**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***

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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;

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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 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. 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 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 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 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,

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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.

**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:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
<b>Percentage of Net Revenues:</b>				
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	68.3	66.4	67.2	65.1
<b>Gross profit</b>	31.7	33.6	32.8	34.9
Selling, general and administrative expenses	29.0	24.7	24.3	23.2
Depreciation and amortization	2.5	2.0	1.8	1.8
<b>Income from operations</b>	0.2	6.9	6.7	10.0
Interest income, net of interest expense	0.0	0.0	0.0	0.0
Other income, net of other expense	0.1	0.1	0.0	0.1
<b>Income before income taxes</b>	0.3	7.0	6.7	10.1
Provision for income taxes	0.1	2.8	2.5	3.8
<b>Net income</b>	0.2%	4.2%	4.2%	6.3%
<b>Operating Data (unaudited):</b>				
Stores:				
Comparable store sales change	-11.9%	8.2%	-6.7%	13.0%
Number of stores open at end of period	263	226	263	226
Sales per gross square foot (in whole dollars)	\$ 55	\$ 63	\$ 179	\$ 194
Average square feet per store	4,262	4,311	4,262	4,311
Total gross square feet at end of period (in thousands)	1,121	974	1,121	974
Direct:				
Number of catalogs circulated (in thousands)	4,200	3,999	19,825	18,944
Revenue per catalog (in whole dollars)	\$ 1.41	\$ 1.53	\$ 1.45	\$ 1.42

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:



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	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Stores at beginning of period	257	221	241	209
Stores opened during period	7	5	26	17
Stores closed during period	(1)		(4)	
Stores at end of period	263	226	263	226

**Thirteen Weeks Ended September 29, 2012 Compared to the Thirteen Weeks Ended October 1, 2011**

	Thirteen Weeks Ended		Thirteen Weeks Ended		Variance	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011	Dollars	Percentages
	Amount	Percentage of Net Revenues (Unaudited)	Amount	Percentage of Net Revenues		
(Dollars in thousands)						
Net revenues	\$ 67,920	100.0%	\$ 67,110	100.0%	\$ 810	1.2%
Cost of goods sold	46,399	68.3	44,531	66.4	1,868	4.2
<b>Gross profit</b>	<b>21,521</b>	<b>31.7</b>	<b>22,579</b>	<b>33.6</b>	<b>(1,058)</b>	<b>(4.7)</b>
Selling, general and administrative expenses	19,718	29.0	16,577	24.7	3,141	18.9
Depreciation and amortization	1,607	2.5	1,342	2.0	265	19.7
<b>Income from operations</b>	<b>196</b>	<b>0.2</b>	<b>4,660</b>	<b>6.9</b>	<b>(4,464)</b>	<b>(95.8)</b>
Interest income, net of interest expense	3		2		1	50.0
Other income, net of other expense	45	0.1	39	0.1	6	15.4
<b>Income before income taxes</b>	<b>244</b>	<b>0.3</b>	<b>4,701</b>	<b>7.0</b>	<b>(4,457)</b>	<b>(30.4)</b>
Provision for income taxes	91	0.1	1,853	2.8	(1,762)	(95.1)
<b>Net income</b>	<b>\$ 153</b>	<b>0.2%</b>	<b>\$ 2,848</b>	<b>4.2%</b>	<b>\$ (2,695)</b>	<b>(94.6)%</b>
<b>Operating Data:</b>						
Revenues:						
Stores	\$ 62,006	91.3%	\$ 60,997	90.9%	\$ 1,009	1.7%
Direct	5,914	8.7	6,113	9.1	(199)	(3.3)
<b>Net revenues</b>	<b>\$ 67,920</b>	<b>100.0%</b>	<b>\$ 67,110</b>	<b>100.0%</b>	<b>\$ 810</b>	<b>1.2%</b>

**Net Revenues**

Net revenues increased by \$810,000, or 1.2%, for the thirteen weeks ended September 29, 2012, as compared to the thirteen weeks ended October 1, 2011.

Store sales increased \$1.0 million, or 1.7%, for the thirteen weeks ended September 29, 2012, as compared to the thirteen weeks ended October 1, 2011. The increase in store sales resulted from the 37 net store additions since October 1, 2011, partially offset by a decrease in comparable store sales. Comparable store sales decreased \$6.9 million, or 11.9%, for the thirteen weeks ended September 29, 2012, compared to an increase of 8.2% for the thirteen weeks ended October 1, 2011. The



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decrease in our comparable store sales was primarily the result of fewer transactions on a per store basis when compared to the same period last year. Non-comparable store sales increased \$7.9 million for the thirteen weeks ended September 29, 2012, compared to the thirteen weeks ended October 1, 2011. There were 213 comparable stores and 50 non-comparable stores open during the thirteen weeks ended September 29, 2012.

Direct sales, including shipping and handling fees, decreased \$199,000, or 3.3%, for the thirteen weeks ended September 29, 2012, from the thirteen weeks ended October 1, 2011. This decrease was due primarily to the decrease in revenue per book, partially offset by an increase in the number of books circulated.

***Gross Profit***

Gross profit decreased \$1.1 million, or 4.7%, for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011. As a percentage of net revenues, gross profit margin decreased by 190 basis points for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011. This decrease was attributable to an 80 basis point decrease in merchandise margin from markdowns taken to clear slow-moving inventory and a 110 basis point increase in freight costs, store occupancy, distribution and buying costs as a percentage of net revenues.

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

Selling, general and administrative expenses increased by \$3.1 million, or 18.9%, for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011. This increase resulted in part from an \$865,000 increase in store operating expenses due primarily to the 37 net store additions since October 1, 2011. As a percentage of net revenues, store operating expenses increased to 18.0% for the thirteen weeks ended September 29, 2012 as compared to 16.9% for the thirteen weeks ended October 1, 2011. General and administrative expenses increased \$2.3 million for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011. As a percentage of net revenues, general and administrative expenses increased to 11.0% for the thirteen weeks ended September 29, 2012 from 7.8% for the thirteen weeks ended October 1, 2011. The increase as a percent of net revenues was primarily due to an increase in professional fees related to recruiting expenses for newly hired and open executive positions, an increase in corporate payroll related to new positions, consulting fees related to strategic planning and new systems development, severance benefits to former employees and legal fees related to the class action lawsuit. The aforementioned items, excluding the increase in corporate payroll related to new positions, equated to a net increase of approximately \$1.2 million from the third quarter of 2011. As a percentage of net revenues, selling, general and administrative expenses were 29.0% for the thirteen weeks ended September 29, 2012 and 24.7% for the thirteen weeks ended October 1, 2011 due to reasons discussed above.

***Depreciation and Amortization Expense***

Depreciation and amortization expense increased \$265,000, or 19.7%, for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011. This increase was primarily due to capital expenditures related to new store construction and upgrades to our information technology systems. As a percentage of net revenues, depreciation and amortization expense increased 50 basis points to 2.5% for the thirteen week period ended September 29, 2012 from 2.0% for the thirteen week period ended October 1, 2011.

*Interest Income, Net of Interest Expense*

Interest income, net of interest expense was \$3,000 for the thirteen weeks ended September 29, 2012 and \$2,000 for the thirteen weeks ended October 1, 2011.

Table of Contents**Provision for Income Taxes**

Provision for income taxes decreased \$1.8 million for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011, which was attributable to a \$4.5 million decrease in income before income taxes, and a 210 basis point decrease in the effective tax rate to 37.3% in the thirteen weeks ended September 29, 2012 from 39.4% in the thirteen weeks ended October 1, 2011. This decrease in the effective tax rate was primarily due to a permanent true up to the 2011 federal and state income tax payments, compared to the estimated tax provision.

**Net Income**

Net income decreased \$2.7 million for the thirteen weeks ended September 29, 2012 as compared to the thirteen weeks ended October 1, 2011 due to the factors discussed above.

**Thirty-nine weeks Ended September 29, 2012 Compared to the Thirty-nine weeks Ended October 1, 2011**

	September 29, 2012		Thirty-Nine Weeks Ended October 1, 2011		Variance	
	Amount	Percentage of Net Revenues (Unaudited) (Dollars in thousands)	Amount	Percentage of Net Revenues	Dollars	Percentages
Net revenues	\$ 229,956	100.0%	\$ 215,764	100.0%	\$ 14,192	6.6%
Cost of goods sold	154,440	67.2	140,401	65.1	14,039	10.0
<b>Gross profit</b>	<b>75,516</b>	<b>32.8</b>	<b>75,363</b>	<b>34.9</b>	<b>153</b>	<b>0.2</b>
Selling, general and administrative expenses	55,820	24.3	49,974	23.2	5,846	11.7
Depreciation and amortization	4,469	1.8	3,815	1.8	654	17.1
<b>Income from operations</b>	<b>15,227</b>	<b>6.7</b>	<b>21,574</b>	<b>10.0</b>	<b>(6,347)</b>	<b>(29.4)</b>
Interest income, net of interest expense	10	0.0	14	0.0	(4)	(28.6)
Other income, net of other expense	104		206	0.1	(102)	(49.5)
<b>Income before income taxes</b>	<b>15,341</b>	<b>6.7</b>	<b>21,794</b>	<b>10.1</b>	<b>(6,453)</b>	<b>(29.6)</b>
Provision for income taxes	5,800	2.5	8,213	3.8	(2,413)	(29.4)
<b>Net income</b>	<b>\$ 9,541</b>	<b>4.2%</b>	<b>\$ 13,581</b>	<b>6.3%</b>	<b>\$ (4,040)</b>	<b>(29.7)%</b>

**Operating Data:**

Revenues:						
Stores	\$ 201,289	87.5%	\$ 188,876	87.5%	\$ 12,413	6.6%
Direct	28,667	12.5	26,888	12.5	1,779	6.6
<b>Net revenues</b>	<b>\$ 229,956</b>	<b>100.0%</b>	<b>\$ 215,764</b>	<b>100.0%</b>	<b>\$ 14,192</b>	<b>6.6%</b>



*Net Revenues*

Net revenues increased by \$14.2 million, or 6.6%, for the thirty-nine weeks ended September 29, 2012, as compared to the thirty-nine weeks ended October 1, 2011.

Store sales increased \$12.4 million, or 6.6%, for the thirty-nine weeks ended September 29, 2012, as compared to the thirty-nine weeks ended October 1, 2011. The increase in store sales resulted from the 37 net store additions since October 1, 2011, partially offset by a decrease in comparable store sales. Comparable store sales decreased \$12.0 million, or 6.7%, for the thirty-nine weeks ended

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September 29, 2012, compared to an increase of 13.0% for the thirty-nine weeks ended October 1, 2011. The decrease in our comparable store sales was primarily the result of fewer transactions on a per store basis when compared to the same period last year. Non-comparable store sales increased \$24.4 million for the thirty-nine weeks ended September 29, 2012, compared to the thirty-nine weeks ended October 1, 2011. There were 204 comparable stores and 59 non-comparable stores open during the thirty-nine weeks ended September 29, 2012.

Direct sales, including shipping and handling fees, increased \$1.8 million, or 6.6%, for the thirty-nine weeks ended September 29, 2012, as compared to the thirty-nine weeks ended October 1, 2011. This increase was due to an increase in the number of books circulated and a higher average revenue per catalog.

***Gross Profit***

Gross profit increased \$153,000, or 20 basis points, for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011. As a percentage of net revenues, gross profit margin decreased by 210 basis points for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011. This decrease was attributable to a 140 basis point decrease in merchandise margin from markdowns taken to clear slow-moving inventory and a 70 basis point increase in freight costs, store occupancy, distribution and buying costs as a percentage of net revenues.

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

Selling, general and administrative expenses increased by \$5.8 million, or 11.7%, for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011. This increase resulted in part from a \$3.4 million increase in store operating expenses due primarily to the 37 net store additions since October 1, 2011. As a percentage of net revenues, store operating expenses increased to 15.9% for the thirty-nine weeks ended September 29, 2012 as compared to 15.3% for the thirty-nine weeks ended October 1, 2011, primarily due to the leveraging of store payroll as a percentage of net revenues.

General and administrative expenses increased \$2.4 million for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011. As a percentage of net revenues, general and administrative expenses increased to 8.4% for the thirty-nine weeks ended September 29, 2012 from 7.8% for the thirty-nine weeks ended October 1, 2011. The increase as a percent of net revenues was primarily due to an increase in professional fees related to recruiting expenses for newly hired and open executive positions, an increase in corporate payroll related to new positions, consulting fees related to strategic planning and new systems development, severance benefits to former employees and legal fees related to the class action lawsuit.

As a percentage of net revenues, selling, general and administrative expenses were 24.3% for the thirty-nine weeks ended September 29, 2012 and 23.2% for the thirty-nine weeks ended October 1, 2011 due to reasons discussed above.

***Depreciation and Amortization Expense***

Depreciation and amortization expense increased \$654,000, or 17.1%, for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011. This increase was primarily due to capital expenditures from new store construction and upgrades to our information technology systems. Depreciation and amortization expense remained constant at 1.8% as a percentage of net revenues for the thirty-nine week period ended September 29, 2012 and for the thirty-nine week period ended October 1, 2011.

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***Interest Income, Net of Interest Expense***

Interest income, net of interest expense, was \$10,000 for the thirty-nine weeks ended September 29, 2012 and \$14,000 for the thirty-nine weeks ended October 1, 2011.

***Provision for Income Taxes***

Provision for income taxes decreased \$2.4 million for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011, which was attributable to a \$6.5 million decrease in income before income taxes. The effective tax rate was 37.8% for the thirty-nine week period ended September 29, 2012 compared to 37.7% for the thirty-nine week period ended October 1, 2011.

***Net Income***

Net income decreased \$4.0 million for the thirty-nine weeks ended September 29, 2012 as compared to the thirty-nine weeks ended October 1, 2011 due to the factors discussed above.

**Liquidity and Capital Resources**

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

The Company also has availability under a line of credit facility. On January 20, 2012, the Company entered into a Line of Credit Agreement with Branch Banking and Trust Company that provides for a revolving line of credit facility in the amount of \$5.0 million with an accordion feature that allows Branch Banking and Trust Company to increase the facility up to \$20 million. The facility has a maturity date of May 5, 2013 and bears interest at the one month LIBOR rate plus 1.35% per annum, as adjusted monthly on the first day of each month, with an all-in floor rate of 2.0%. The facility is secured by all the assets of the Company. The Line of Credit Agreement includes a financial covenant requiring the Company to have a Tangible Net Worth (as defined in the Line of Credit Agreement) of \$30.0 million quarterly, and other customary covenants. As of September 29, 2012, the Company was in compliance with all covenants and had no outstanding borrowings under this line of credit facility.

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Our ability to fund our cash flow needs depends largely on our future operating performance. 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 and net income.

Our cash and cash equivalents balance decreased \$9.0 million to \$22.7 million as of September 29, 2012, from \$31.7 million as of October 1, 2011. During the thirty-nine weeks ended September 29, 2012, the Company utilized \$14.5 million of its existing cash to invest in short-term financial instruments. Components of this change in cash for the thirty-nine weeks ended September 29, 2012,

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as well as the change for the thirty-nine weeks ended October 1, 2011, are shown in the following table:

	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
	(in thousands) (unaudited)	
Provided by operating activities	\$ 7,231	\$ 17,452
Used in investing activities	(27,839)	(6,201)
Provided by financing activities	1,294	4,296
<b>(Decrease) increase in cash / cash equivalents</b>	<b>\$ (19,314)</b>	<b>\$ 15,547</b>

*Operating Activities*

Operating activities consist of net income adjusted for non-cash items, including depreciation and amortization and the effect of other working capital requirements, as summarized in following table:

	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
	(in thousands) (unaudited)	
Net income	\$ 9,541	\$ 13,581
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,469	3,815
Deferred income taxes	137	(178)
Inventories	281	(2,261)
Merchandise accounts payable	(7,951)	(1,079)
Other working capital components, net	754	3,574
Net cash provided by operating activities	\$ 7,231	\$ 17,452

Net cash provided by operating activities decreased by \$10.2 million to \$7.2 million during the thirty-nine weeks ended September 29, 2012 as compared to \$17.4 million for the thirty-nine weeks ended October 1, 2011. This reduction was primarily attributable to a \$2.8 million unfavorable change in other working capital components, an unfavorable change of \$4.3 million associated with a reduction in merchandise payables offset by reductions in inventory, a \$4.0 million unfavorable change in net income, a \$315,000 favorable change in deferred tax assets and a \$654,000 favorable change in depreciation and amortization.

*Investing Activities*

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



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	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
	(in thousands) (unaudited)	
Proceeds from sale of assets	\$ 29	\$
Purchases of property and equipment	(13,158)	(6,201)
Purchases of intangible assets	(179)	
Purchases of short-term investments	(24,582)	
Proceeds from sales of short-term investments	1,051	
Proceeds from maturities of short-term investments	9,000	
Net cash used in investing activities	\$ (27,839)	\$ (6,201)

For the thirty-nine weeks ended September 29, 2012, net cash used in investing activities increased \$21.6 million as compared to the thirty-nine weeks ended October 1, 2011. This increase was primarily attributable to \$24.6 million of purchases of short term investments, offset by \$1.0 million in proceeds from sales of short-term investments, \$9.0 million of maturities of short-term investments and a \$6.9 million increase in new store construction and other capital expenditures related to upgrading our software and a \$179,000 purchase of a website domain name.

***Financing Activities***

Financing activities consist primarily of proceeds from a common stock offering, exercise of employee stock options and tax benefits from stock-based award activities:

	Thirty-Nine Weeks Ended	
	September 29, 2012	October 1, 2011
	(in thousands) (unaudited)	
Proceeds from common stock offering, net of issuance costs	\$	\$ 1,142
Proceeds from the issuance of stock options	543	734
Excess tax benefits of stock-based compensation	751	2,420
Net cash provided by financing activities	\$ 1,294	\$ 4,296

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

***Outlook***

Our primary source of liquidity is currently cash flows from operations. Our primary needs are for capital expenditures in connection with opening new stores, remodeling or relocating existing stores, distributing our catalogs, operating our website and the additional working capital



required for running our operations. Cash is also required for investment in our information technology systems, maintenance of existing facilities and distribution facility enhancements, when required. The most significant components of our working capital are cash and cash equivalents, merchandise inventories,

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trade payables and other current liabilities. Our working capital position benefits from the fact that the Company generally collects cash from sales to customers the same day or, in the case of credit or debit card transactions, within several days of the related sale, and the Company typically has up to 30 days to pay our merchandise vendors, depending on the applicable vendor terms.

The Company believes that our cash position and net cash provided by operating activities, and availability under the Line of Credit Facility will be adequate to finance our working capital needs and planned capital expenditures for at least the next 12 months. Planned capital expenditures for fiscal year 2012 include expenditures for at least 35 new stores, relocation of and maintenance of existing stores, maintenance of corporate facilities and investments in information technology systems.

**Critical Accounting Policies**

Management has determined that our most critical accounting policies are those related to revenue recognition, inventory valuation, property and equipment, impairment of long-lived assets, goodwill, income taxes and stock-based compensation. The Company continues to monitor our accounting policies to ensure proper application of current rules and regulations. There have been no significant changes to these policies discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**New Accounting Standards**

Refer to Note 1 of the Consolidated Financial Statements.

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

There have been no material changes from the quantitative and qualitative disclosures about market risk disclosed in Item 7A. of Part II of our Form 10-K for the year ended December 31, 2011.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedure**

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

controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is subject to various legal proceedings and claims that arise in the ordinary course of our business. While the outcome of these and other claims cannot be predicted with certainty, the

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Company does not believe that the outcome of these matters will have a material adverse effect on our business, financial statements or disclosures.

**ITEM 1A. RISK FACTORS**

Our risk factors have not changed materially from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

- *should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;*
- *have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;*
- *may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and*
- *were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.*

*Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. We acknowledge that, notwithstanding the inclusion of the foregoing cautionary*

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*statements, we are responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading. Additional information about the Company may be found elsewhere in this report and the Company's other public files, which are available without charge through the SEC's website at <http://www.sec.gov>.*

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

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
10.1	Amendment dated, August 23, 2012, to Body Central Corp. Amended and Restated 2006 Equity Incentive Plan.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	Interactive data files from Body Central Corp.'s Quarterly Report on Form 10-Q for the quarter ended September 29, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Consolidated Financial Statements.

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\* These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. §1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any of the Company's filings, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2012

BODY CENTRAL CORP.

By: /s/ Thomas W. Stoltz  
Thomas W. Stoltz  
Interim Chief Executive Officer  
  
(Principal Executive Officer)

By: /s/ Thomas W. Stoltz  
Thomas W. Stoltz  
Executive Vice President, Chief Financial Officer and  
Treasurer  
  
(Principal Financial Officer)