

BODY CENTRAL CORP  
Form 10-Q  
August 16, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended July 2, 2011**

**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   
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of August 15, 2011 was 15,857,235 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 we operate 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 we expected, including:

- our ability to identify and respond to new and changing fashion trends, customer preferences and other related factors;
- our ability 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 we serve, including increased competition from other retailers;
- our new stores or existing stores achieving sales and operating levels consistent with our expectations;
- the success of the malls and shopping centers in which our stores are located;
- our dependence on a strong brand image;
- our direct business growing consistently with our growth strategy;
- our information technology systems supporting our business;

- our dependence upon key executive management or our inability to hire or retain additional personnel;
- disruptions in our supply chain and distribution facility;
- our lease obligations;
- 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;
- our maintaining effective internal controls; and

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- our ability to protect our trademarks or other intellectual property rights.

Body Central Corp. (herein we , our , us or the Company ) derives many of its forward-looking statements from its operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, it is impossible for us to anticipate all factors that could affect our actual results. For the discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 1, 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. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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

|  | July 2,<br>2011                   | January 1,<br>2011 | July 3,<br>2010 |
|--|-----------------------------------|--------------------|-----------------|
|  | (In thousands, except share data) |                    |                 |
| <b>Assets</b>  |                                   |                    |                 |
| Current assets   |                                   |                    |                 |
| Cash and cash equivalents  | \$ 29,229                         | \$ 16,202          | \$ 8,535        |
| Accounts receivable  | 741                               | 1,258              | 1,105           |
| Inventories  | 18,079                            | 18,369             | 15,864          |
| Prepaid expenses and other current assets  | 3,475                             | 3,933              | 4,233           |
| Deferred tax asset, current  | 1,974                             | 1,425              | 1,167           |
| Total current assets   | 53,498                            | 41,187             | 30,904          |
| Property and equipment, net of accumulated depreciation and amortization of \$17,617, \$15,627 and \$14,341  | 19,318                            | 17,071             | 16,414          |
| Goodwill   | 21,508                            | 21,508             | 21,508          |
| Intangible assets, net of accumulated amortization of \$3,370, \$3,077 and \$2,747   | 16,835                            | 17,128             | 17,458          |
| Other assets   | 102                               | 102                | 106             |
| Total assets   | \$ 111,261                        | \$ 96,996          | \$ 86,390       |
| <b>Liabilities, Redeemable Preferred Stock and Stockholders Equity (Deficit)</b>   |                                   |                    |                 |
| Current liabilities  |                                   |                    |                 |
| Accounts payable   | \$ 14,482                         | \$ 14,880          | \$ 12,852       |
| Accrued expenses and other current liabilities   | 12,610                            | 14,605             | 13,866          |
| Current portion of long-term debt  |                                   |                    | 5,750           |
| Total current liabilities  | 27,092                            | 29,485             | 32,468          |
| Other liabilities  | 6,887                             | 5,149              | 5,887           |
| Deferred tax liability, long-term  | 4,598                             | 4,220              | 1,886           |
| Long-term debt, less current portion   |                                   |                    | 27,018          |
| Total liabilities  | 38,577                            | 38,854             | 67,259          |
| Commitments and contingencies  |                                   |                    |                 |
| Redeemable preferred stock   |                                   |                    |                 |
| Preferred stock, Series D, \$0.001 par value, no shares authorized, issued or outstanding  |                                   |                    |                 |
| Preferred stock, Series C, \$0.001 par value, no shares authorized, issued or outstanding as of July 2, 2011, and January 1, 2011; 30,000 shares authorized, issued and outstanding as of July 3, 2010                 |                                   |                    | 3,494           |
| Preferred stock, Series A, \$0.001 par value, no shares authorized, issued or outstanding as of July 2, 2011, and January 1, 2011; 325,000 shares authorized, 308,820 shares issued and outstanding as of July 3, 2010 |                                   |                    | 31,080          |
| Preferred stock, Series B, \$0.001 par value, no shares authorized, issued or outstanding as of July 2, 2011, and January 1, 2011; 175,000 shares authorized, 158,386 shares issued and outstanding as of July 3, 2010 |                                   |                    | 15,540          |
| Undesignated preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding   |                                   |                    |                 |
| Stockholders equity (deficit)  |                                   |                    |                 |

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Common stock, \$0.001 par value, 45,000,000 shares authorized,  
 15,816,541 shares issued and outstanding as of July 2, 2011;  
 150,000,000 shares authorized, 15,405,677 shares issued and  
 outstanding as of January 1, 2011; 19,053,345 shares authorized,  
 203,235 shares issued and outstanding as of July 3, 2010

|  |            |           |           |
|--|------------|-----------|-----------|
|  | 16         | 15        |           |
| Additional paid-in capital   | 89,304     | 85,496    | 477       |
| Accumulated deficit  | (16,636)   | (27,369)  | (31,460)  |
| Total stockholders' equity (deficit)   | 72,684     | 58,142    | (30,983)  |
| Total liabilities, redeemable preferred stock and stockholders' equity (deficit) | \$ 111,261 | \$ 96,996 | \$ 86,390 |

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



Table of Contents**BODY CENTRAL CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

|  | Thirteen Weeks Ended                            |                 | Twenty-Six Weeks Ended |                 |
|--|---|-----------------|------------------------|-----------------|
|  | July 2,<br>2011                                 | July 3,<br>2010 | July 2,<br>2011        | July 3,<br>2010 |
|  | (in thousands, except share and per share data) |                 |                        |                 |
| Net revenues   | \$ 74,670                                       | \$ 61,172       | \$ 148,654             | \$ 119,345      |
| Cost of goods sold, including occupancy, buying, distribution center and catalog costs | 48,619  | 41,191          | 95,870                 | 79,590          |
| Gross profit   | 26,051  | 19,981          | 52,784                 | 39,755          |
| Selling, general and administrative expenses   | 16,695  | 14,180          | 33,396                 | 26,617          |
| Depreciation and amortization  | 1,270   | 1,155           | 2,473                  | 2,272           |
| Income from operations   | 8,086   | 4,646           | 16,915                 | 10,866          |
| Interest (income) expense, net of interest expense (income)                            | (7)   | 865             | (12)                   | 1,787           |
| Other (income), net of other expense (income)  | (122)   | 7               | (166)                  | (56)            |
| Income before income taxes   | 8,215   | 3,774           | 17,093                 | 9,135           |
| Provision for income taxes   | 2,897   | 1,443           | 6,360                  | 3,415           |
| Net income   | \$ 5,318  | \$ 2,331        | \$ 10,733              | \$ 5,720        |
| Net income per common share:   |   |                 |                        |                 |
| Basic  | \$ 0.34   | \$ 11.29        | \$ 0.68                | \$ 27.78        |
| Diluted  | \$ 0.33   | \$ 0.19         | \$ 0.66                | \$ 0.46         |
| Weighted-average common shares outstanding:  |   |                 |                        |                 |
| Basic  | 15,816,541                                      | 203,235         | 15,794,562             | 203,235         |
| Diluted  | 16,181,665                                      | 12,581,893      | 16,144,142             | 12,411,266      |

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

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

|   | Twenty-Six Weeks Ended |                 |
|---|------------------------|-----------------|
|   | July 2,<br>2011        | July 3,<br>2010 |
|   | (in thousands)         |                 |
| <b>Cash flows from operating activities</b>                                       |                        |                 |
| Net income  | \$ 10,733              | \$ 5,720        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                        |                 |
| Depreciation and amortization   | 2,473                  | 2,272           |
| Deferred income taxes   | (171)                  | (208)           |
| Excess tax benefits from stock-based compensation                                 | (1,850)                |                 |
| Stock-based compensation  | 494                    | 263             |
| Loss on disposal of property and equipment  | 6                      | 56              |
| Changes in assets and liabilities:  |                        |                 |
| Accounts receivable   | 517                    | (195)           |
| Inventories   | 290                    | (2,966)         |
| Prepaid expenses and other current assets   | 458                    | 127             |
| Other assets  |                        | 11              |
| Accounts payable  | (398)                  | 3,773           |
| Accrued expenses and other current liabilities                                    | (760)                  | (313)           |
| Income taxes  | 617                    | 190             |
| Other liabilities   | 1,753                  | 1,540           |
| Net cash provided by operating activities   | 14,162                 | 10,270          |
| <b>Cash flows from investing activities</b>                                       |                        |                 |
| Purchases of property and equipment   | (4,449)                | (3,479)         |
| Net cash used in investing activities   | (4,449)                | (3,479)         |
| <b>Cash flows from financing activities</b>                                       |                        |                 |
| Principal payments on long-term debt  |                        | (5,482)         |
| Proceeds from common stock offering, net of issuance costs                        | 1,074                  |                 |
| Proceeds from exercise of stock options   | 390                    |                 |
| Excess tax benefits from stock-based compensation                                 | 1,850                  |                 |
| Net cash provided by (used in) financing activities                               | 3,314                  | (5,482)         |
| Net increase in cash and cash equivalents   | 13,027                 | 1,309           |
| <b>Cash and cash equivalents</b>  |                        |                 |
| Beginning of year   | 16,202                 | 7,226           |
| End of period   | \$ 29,229              | \$ 8,535        |

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

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BODY CENTRAL CORP.

NOTES TO THE 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, Mid-Atlantic and Midwest regions of the United States. In addition, the Company operates a direct business through its e-commerce website, *www.bodyc.com*, and Body Central catalog.

**Principles of Consolidation**

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, consisting primarily 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 consolidated financial statements and related notes thereto should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended January 1, 2011, included in the Company's Annual Report on Form 10-K, filed with the SEC.

**Fiscal Year End**

The Company's fiscal year is the fifty-two or fifty-three weeks ending on the Saturday closest to December 31. As used herein, the interim periods presented are the thirteen week and twenty-six week periods ended July 2, 2011 and July 3, 2010.

**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**

The Financial Accounting Standards Board ( FASB ) 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 operating 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. The Company has no international sales. All of the Company s identifiable assets are in the United States.

### **Inventories**

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.

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BODY CENTRAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

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

**New Accounting Standards**

In January 2010, the FASB issued Accounting Standards Update (ASC) 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The new guidance requires disclosures of transfers in and out of Level 1 and 2 fair value measurements, including a description of the reason for the transfer. The new guidance also calls for disclosures about the activity in Level 3 measurements by separately presenting information on purchases, sales, issuances and settlements on a gross basis rather than a single net number. The guidance also clarifies 1) the level of disaggregation that should be used in completing disclosures about fair value measurements and 2) the disclosures required in describing the inputs and valuation techniques used for both nonrecurring and recurring fair value measurements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding the activity in Level 3 measurements, which became effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have a material impact on the Company's financial statements or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amends ASC 220, *Comprehensive Income*. The amended guidance requires most entities 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 adoption of this guidance will not have a material impact on the Company's financial statements or disclosures.

**Reclassification**

A reclassification has been made to the thirteen weeks and twenty-six weeks ended July 3, 2010 Consolidated Financial Statements in order to conform to the presentation for the thirteen weeks and twenty-six weeks ended July 2, 2011.

**2. Financial Instruments**

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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.

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## BODY CENTRAL CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

The Company's material financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses. The fair values of cash, accounts receivable, accounts payable and accrued expenses 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 repaid all amounts owed under the term loan facilities of its senior credit facility on October 20, 2010, using proceeds from the Company's initial public offering. The term loans were repaid at carrying 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:

|                          | Total     | Fair Value Measurements Using                         |   |  |
|--------------------------|-----------|---|---|--|
|                          |           | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|                          |           | (in thousands)  |   |  |
| Money market securities: |           |   |   |  |
| July 2, 2011             | \$ 24,359 | \$ 24,359   | \$  | \$   |
| January 1, 2011          | \$ 11,084 | \$ 11,084   | \$  | \$   |
| July 3, 2010             | \$ 4,048  | \$ 4,048  | \$  | \$   |

Money market securities, which are short-term investments of excess cash, are classified as cash and cash equivalents on the 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 35.3% and 38.2% for the thirteen weeks ended July 2, 2011 and July 3, 2010, respectively, and 37.2% and 37.4% for the twenty-six weeks ended July 2, 2011 and July 3, 2010, respectively. In May 2011, certain employee

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stock options designated as incentive stock options were exchanged for stock options designated as nonqualified stock options with the same terms and conditions. Accordingly, the Company established a deferred tax asset on the cumulative stock-based compensation of the exchanged stock options.

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.



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BODY CENTRAL CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

**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 \$233,000 and \$231,000 for the twenty-six weeks ended July 2, 2011 and July 3, 2010, respectively, related to this lease.

**5. Stockholders Equity (Deficit)**

**Common Stock**

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.

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 over-allotment shares by the selling stockholders.

**Stock-Based Compensation Plan**

On March 22, 2011, the Company's Board of Directors approved, subject to stockholder approval, an amendment and restatement of the Company's Amended and Restated 2006 Equity Plan (the "Plan"). On May 25, 2011, the Company's stockholders approved the amendment and restatement to the Plan. The amended and restated Plan permits up to 250,000 of the remaining 1,335,345 shares of common stock reserved for future issuance as of July 2, 2011 under the Plan to be issued in the form of restricted stock awards and will allow certain awards under the Plan to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, if the compensation committee of the Company's board of directors chooses to qualify the awards in other respects.

Stock-based compensation expense of \$494,000 and \$263,000 for the twenty-six weeks ended July 2, 2011 and July 3, 2010, respectively, is included in selling, general and administrative expenses and cost of goods sold on the Company's Consolidated Statements of Operations. The

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Company did not capitalize any expense related to stock-based compensation.

### *Option Awards*

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

|                                |            |
|--------------------------------|------------|
| Expected option term (1)       | 6.25 years |
| Expected volatility factor (2) | 68.2%      |
| Risk-free interest rate (3)    | 2.3%       |
| Expected annual dividend yield | 0%         |

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## BODY CENTRAL CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

(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.

There were no awards of stock options during the twenty-six weeks ended July 3, 2010.

A summary of stock option information for the twenty-six weeks ended July 2, 2011 is as follows:

|  | Shares    | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term |
|--|-----------|---------------------------------|---|
| <b>Outstanding as of January 1, 2011</b> | 1,094,094 | \$ 3.06                         |   |
| Granted                                  | 33,500    | 20.65                           |   |
| Exercised                                | (344,188) | 2.74                            |   |
| Forfeited                                |           |                                 |   |
| <b>Outstanding as of July 2, 2011</b>    | 783,406   | \$ 5.89                         | 8.0 years                                   |
| <b>Exercisable as of July 2, 2011</b>    | 250,509   | \$ 3.58                         | 7.2 years                                   |

The aggregate intrinsic value of outstanding and exercisable options awards, representing the excess of the average market price of the Company's stock on July 2, 2011 over the exercise price, multiplied by the applicable number of in-the-money options, was \$5.1 million, at July 2, 2011. All of the stock options exercisable as of July 2, 2011 were in-the-money.

A summary of the status of nonvested options awards as of July 2, 2011 and changes during the twenty-six weeks ended July 2, 2011, are presented below:

|  | Shares    |    | Weighted-<br>Average<br>Grant-Date<br>Fair Value |
|--|-----------|----|--|
| <b>Nonvested as of January 1, 2011</b> | 607,335   | \$ | 2.76   |
| Granted                                | 33,500    |    | 13.10  |
| Vested                                 | (107,938) |    | 1.08   |
| Forfeited                              |           |    |  |
| <b>Nonvested as of July 2, 2011</b>    | 532,897   | \$ | 3.75   |

Total compensation cost related to nonvested stock option awards not yet recognized was \$1.2 million as of July 2, 2011, and is expected to be recognized over a weighted average remaining period of 1.5 years.

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## BODY CENTRAL CORP.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

*Restricted Stock Awards*

On May 25, 2011, the Company granted an aggregate of 5,400 restricted shares of its common stock to certain directors of the Company with a fair value of \$25.00 per granted share. The restricted stock awards vest in full on the first anniversary of the grant. As of July 2, 2011, unrecognized compensation expense of \$121,000 related to non-vested restricted stock awards is expected to be recognized over the next 0.9 years.

**6. Income Per Common Share**

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

The following table shows the amounts used in computing income per common 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 |                 |
|--|---|-----------------|------------------------|-----------------|
|  | July 2,<br>2011                                 | July 3,<br>2010 | July 2,<br>2011        | July 3,<br>2010 |
|  | (in thousands, except share and per share data) |                 |                        |                 |
| Net income as reported                         | \$ 5,318  | \$ 2,331        | \$ 10,733              | \$ 5,720        |
| Less: Preferred stock dividends declared       |   | (37)            |                        | (75)            |
| Net income attributable to common shareholders | \$ 5,318  | \$ 2,294        | \$ 10,733              | \$ 5,645        |
| Weighted average basic common shares           | 15,816,541                                      | 203,235         | 15,794,562             | 203,235         |
| Impact of dilutive securities:                 |   |                 |                        |                 |
| Stock options                                  | 365,124   | 509,549         | 349,104                | 338,922         |
| Restricted stock                               |   |                 | 476                    |                 |
| Convertible securities                         |   | 11,869,109      |                        | 11,869,109      |
| Weighted average dilutive common shares        | 16,181,665                                      | 12,581,893      | 16,144,142             | 12,411,266      |
| Per common share:                              |   |                 |                        |                 |
| Basic income per common share                  | \$ 0.34   | \$ 11.29        | \$ 0.68                | \$ 27.78        |
| Diluted income per common share                | \$ 0.33   | \$ 0.19         | \$ 0.66                | \$ 0.46         |

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As part of the Company's initial public offering on October 14, 2010, the Company's convertible Series A and Series B preferred stock were converted to 11,869,109 shares of the Company's common stock. Equity awards to purchase 33,500 shares of common stock for the thirteen weeks and twenty-six weeks ended July 2, 2011, 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. All outstanding equity awards to purchase common stock were included in the computation of weighted average diluted common shares amounts for the thirteen and twenty-six week periods ended July 3, 2010.

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**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 January 1, 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 specialty retailer offering on-trend, quality apparel and accessories at value prices. We operate specialty apparel stores under the Body Central and Body Shop banners, as well as a direct business comprised of our Body Central catalog and our e-commerce website at [www.bodyc.com](http://www.bodyc.com). We target 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. We continually update 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. We believe our multi-channel strategy supports our brand building efforts and provides us with synergistic growth opportunities across all of our sales channels.

Our stores are located in fashion retail venues in the South, Mid-Atlantic and Midwest regions of the United States. In the thirteen weeks ended July 2, 2011, we opened seven stores and closed none. As of July 2, 2011, we had 221 stores with an average size of approximately 4,305 square feet.

**How We Assess the Performance of Our Business**

In assessing the performance of our business, we consider a variety of operational and financial measures. We believe that 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 and selling, general and administrative expenses.

***Net Revenues***

Net revenues consist of sales of our merchandise from our 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*

We calculate comparable or same store sales by including 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:



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- 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 we provide in our stores;
- our ability to source and distribute products efficiently; and
- the number of stores we open and close in any period.

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

*Direct Sales*

We offer direct sales through our catalogs and through our e-commerce website, *www.bodyc.com*, which accepts orders directly from our customers. We believe 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. We define revenue per catalog as direct sales divided by the number of catalogs circulated. 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. Changes in the mix of our products, such as changes in the proportion of accessories, may also impact our cost of goods sold. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and take appropriate markdowns to clear these goods. The timing and level of markdowns are not seasonal in nature, but are driven by customer acceptance of our merchandise. If we misjudge sales levels and/or trends, we may be faced with excess inventories and be required to mark down our prices for those products in order to sell them. The Company records a markdown reserve based on estimated future markdowns related to current inventory to clear slow-moving inventory.

Table of Contents***Selling, General and Administrative Expenses***

Selling, general and administrative expenses include all operating costs not included in cost of goods sold. These expenses include payroll and other expenses related to operations at our corporate headquarters and store operations. These expenses 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. We expect that our selling, general and administrative expenses will increase in future periods due to our continuing store growth, continuing growth in our direct business and, in part, due to additional legal, accounting, insurance and other expenses that we will incur as a result of becoming a public company. Among other things, compliance with the Sarbanes-Oxley Act and related rules and regulations have and are expected to continue to result in significant additional legal and accounting costs.

**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 |                 | Twenty-Six Weeks Ended |                 |
|---|----------------------|-----------------|------------------------|-----------------|
|   | July 2,<br>2011      | July 3,<br>2010 | July 2,<br>2011        | July 3,<br>2010 |
| <b>Percentage of Net Revenues:</b>                      |                      |                 |                        |                 |
| Net revenues  | 100.0%               | 100.0%          | 100.0%                 | 100.0%          |
| Cost of goods sold                                      | 65.1                 | 67.3            | 64.5                   | 66.7            |
| <b>Gross profit</b>                                     | 34.9                 | 32.7            | 35.5                   | 33.3            |
| Selling, general and administrative expenses            | 22.4                 | 23.2            | 22.5                   | 22.3            |
| Depreciation and amortization                           | 1.7                  | 1.9             | 1.7                    | 1.9             |
| <b>Income from operations</b>                           | 10.8                 | 7.6             | 11.4                   | 9.1             |
| Interest (income) expense, net                          | (0.0)                | 1.4             | (0.0)                  | 1.5             |
| Other (income) expense, net                             | (0.2)                | 0.0             | (0.1)                  | (0.0)           |
| <b>Income before income taxes</b>                       | 11.0                 | 6.2             | 11.5                   | 7.7             |
| Provision for income taxes                              | 3.9                  | 2.4             | 4.3                    | 2.9             |
| <b>Net income</b>                                       | 7.1%                 | 3.8%            | 7.2%                   | 4.8%            |
| <b>Operating Data (unaudited):</b>                      |                      |                 |                        |                 |
| Stores:   |                      |                 |                        |                 |
| Comparable store sales change                           | 14.7%                | 9.4%            | 15.4%                  | 13.5%           |
| Number of stores open at end of period                  | 221                  | 199             | 221                    | 199             |
| Sales per gross square foot (in whole dollars)          | \$ 68                | \$ 59           | \$ 134                 | \$ 116          |
| Average square feet per store                           | 4,305                | 4,289           | 4,305                  | 4,289           |
| Total gross square feet at end of period (in thousands) | 951                  | 853             | 951                    | 853             |
| Direct:   |                      |                 |                        |                 |
| Number of catalogs circulated (in thousands)            | 6,780                | 7,561           | 14,945                 | 14,146          |
| Revenue per catalog (in whole dollars)                  | \$ 1.49              | \$ 1.47         | \$ 1.39                | \$ 1.46         |



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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 |                 |
|-------------------------------|----------------------|-----------------|------------------------|-----------------|
|                               | July 2,<br>2011      | July 3,<br>2010 | July 2,<br>2011        | July 3,<br>2010 |
| Stores at beginning of period | 214                  | 185             | 209                    | 185             |
| Stores opened during period   | 7                    | 15              | 12                     | 17              |
| Stores closed during period   |                      | (1)             |                        | (3)             |
| Stores at end of period       | 221                  | 199             | 221                    | 199             |

**Thirteen Weeks Ended July 2, 2011 Compared to the Thirteen Weeks Ended July 3, 2010**

|   | July 2,<br>2011 |               | Thirteen Weeks Ended<br>July 3,<br>2010 |               | Variance  |             |
|---|-----------------|---------------|---|---------------|-----------|-------------|
|   | Amount          | Percentage of | Amount                                  | Percentage of | Dollars   | Percentages |
|   |                 | Net Revenues  |   | Net Revenues  |           |             |
| (Unaudited)<br>(Dollars in thousands)           |                 |               |   |               |           |             |
| Net revenues                                    | \$ 74,670       | 100.0%        | \$ 61,172                               | 100.0%        | \$ 13,498 | 22.1%       |
| Cost of goods sold                              | 48,619          | 65.1          | 41,191                                  | 67.3          | 7,428     | 18.0        |
| <b>Gross profit</b>                             | 26,051          | 34.9          | 19,981                                  | 32.7          | 6,070     | 30.4        |
| Selling, general and<br>administrative expenses | 16,695          | 22.4          | 14,180                                  | 23.2          | 2,515     | 17.7        |
| Depreciation and amortization                   | 1,270           | 1.7           | 1,155                                   | 1.9           | 115       | 10.0        |
| <b>Income from operations</b>                   | 8,086           | 10.8          | 4,646                                   | 7.6           | 3,440     | 74.0        |
| Interest (income) expense, net                  | (7)             |               | 865                                     | 1.4           | (872)     | (100.8)     |
| Other (income) expense, net                     | (122)           | (0.2)         | 7                                       |               | (129)     | (1,842.9)   |
| <b>Income before income taxes</b>               | 8,215           | 11.0          | 3,774                                   | 6.2           | 4,441     | 117.7       |
| Provision for income taxes                      | 2,897           | 3.9           | 1,443                                   | 2.4           | 1,454     | 100.8       |
| <b>Net income</b>                               | \$ 5,318        | 7.1%          | \$ 2,331                                | 3.8%          | \$ 2,987  | 128.1%      |

**Operating Data  
(unaudited):**

Revenues:

|                     |           |        |           |        |           |       |
|---------------------|-----------|--------|-----------|--------|-----------|-------|
| Stores              | \$ 64,558 | 86.5%  | \$ 50,046 | 81.8%  | \$ 14,512 | 29.0% |
| Direct              | 10,112    | 13.5   | 11,126    | 18.2   | (1,014)   | (9.1) |
| <b>Net revenues</b> | \$ 74,670 | 100.0% | \$ 61,172 | 100.0% | \$ 13,498 | 22.1% |

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***Net Revenues***

Net revenues increased by \$13.5 million, or 22.1%, for the thirteen weeks ended July 2, 2011, from the thirteen weeks ended July 3, 2010.

Store sales increased \$14.5 million, or 29.0%, for the thirteen weeks ended July 2, 2011, from the thirteen weeks ended July 3, 2010. The increase in store sales resulted in part from a 10.8% increase in the number of customer transactions, driven in part by 22 new store openings, net of store closings, since July 3, 2010. Comparable store sales increased \$7.0 million, or 14.7%, for the thirteen weeks ended July 2, 2011, compared to an increase of 9.4% for the thirteen weeks ended July 3, 2010. Non-comparable store sales increased \$7.5 million for the thirteen weeks ended July 2, 2011, compared to the thirteen weeks ended July 3, 2010. There were 183 comparable stores and 38 non-comparable stores open during the thirteen weeks ended July 2, 2011.

Direct sales, including shipping and handling fees, from our direct business decreased \$1.0 million, or 9.1%, for the thirteen weeks ended July 2, 2011, as compared to the thirteen weeks ended July 3, 2010, due to a decrease in the number of catalogs circulated partially offset by an increase in average revenue per catalog.

***Gross Profit***

Gross profit increased \$6.1 million, or 30.4%, for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010. As a percentage of net revenues, gross profit margin increased by 220 basis points for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010. This increase was attributable to a 250 basis point decrease in freight costs, store occupancy, distribution and buying costs as a percentage of net revenues, due primarily to an increase in store sales, partially offset by a 30 basis point decrease in merchandise margin.

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

Selling, general and administrative expenses increased by \$2.5 million, or 17.7%, for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010. This increase resulted in part from a \$1.5 million increase in store operating expenses due primarily to our store growth. As a percentage of net revenues, store operating expenses decreased to 15.9% for the thirteen weeks ended July 2, 2011 from 16.9% for the thirteen weeks ended July 3, 2010.

General and administrative expenses increased \$1.0 million for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010 due in part to compensation expenses for new positions, increased incentive provisions tied to performance, professional fees related to being a public company and additional stock-based compensation from equity grants. As a percentage of net revenues, general and administrative expenses increased to 6.5% for the thirteen weeks ended July 2, 2011 from 6.3% for the thirteen weeks ended July 3, 2010.

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As a percentage of net revenues, selling, general and administrative expenses were 22.4% for the thirteen weeks ended July 2, 2011 and 23.2% for the thirteen weeks ended July 3, 2010 due to reasons discussed above.

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***Depreciation and Amortization Expense***

Depreciation and amortization increased \$115,000, or 10.0%, for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010. As a percentage of net revenues, depreciation and amortization decreased 20 basis points for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010, as a result of an increase of our comparable store sales.

***Interest (Income) Expense, Net***

Interest expense, net, for the thirteen weeks ended July 3, 2010, relates to interest expense on our term loan facilities of our senior credit facility. In October 2010, we repaid all amounts owed under the term loan facilities of our senior credit facility using net proceeds from our initial public offering. The senior credit facility was subsequently terminated.

***Provision for Income Taxes***

Provision for income taxes increased \$1.5 million for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010, which was attributable to a \$4.4 million increase in income before income taxes partially offset by an effective tax rate decrease of 290 basis points to 35.3% in the thirteen weeks ended July 2, 2011 from 38.2% in the thirteen weeks ended July 3, 2010. In May 2011, certain employee stock options designated as incentive stock options were exchanged for stock options designated as nonqualified stock options with the same terms and conditions. Accordingly, the Company established a deferred tax asset on the cumulative stock-based compensation of the exchanged stock options.

***Net Income***

Net income increased \$3.0 million for the thirteen weeks ended July 2, 2011 from the thirteen weeks ended July 3, 2010 due to the factors discussed above.



Table of Contents**Twenty-Six Weeks Ended July 2, 2011 Compared to the Twenty-Six Weeks Ended July 3, 2010**

|  | Twenty-Six Weeks Ended |  | July 3,         |                               | Variance        |              |
|--|------------------------|--|-----------------|-------------------------------|-----------------|--------------|
|  | July 2,<br>2011        | Percentage of<br>Net Revenues<br>(Unaudited) | July 3,<br>2010 | Percentage of<br>Net Revenues | Dollars         | Percentages  |
|  | Amount                 | (Dollars in thousands)                       | Amount          |                               |                 |              |
| Net revenues                                 | \$ 148,654             | 100.0%                                       | \$ 119,345      | 100.0%                        | \$ 29,309       | 24.6%        |
| Cost of goods sold                           | 95,870                 | 64.5   | 79,590          | 66.7                          | 16,280          | 20.5         |
| <b>Gross profit</b>                          | <b>52,784</b>          | <b>35.5</b>                                  | <b>39,755</b>   | <b>33.3</b>                   | <b>13,029</b>   | <b>32.8</b>  |
| Selling, general and administrative expenses | 33,396                 | 22.5   | 26,617          | 22.3                          | 6,779           | 25.5         |
| Depreciation and amortization                | 2,473                  | 1.7  | 2,272           | 1.9                           | 201             | 8.8          |
| <b>Income from operations</b>                | <b>16,915</b>          | <b>11.4</b>                                  | <b>10,866</b>   | <b>9.1</b>                    | <b>6,049</b>    | <b>55.7</b>  |
| Interest (income) expense, net               | (12)                   |  | 1,787           | 1.5                           | (1,799)         | (100.7)      |
| Other income, net                            | (166)                  | (0.1)  | (56)            |                               | (110)           | 196.4        |
| <b>Income before income taxes</b>            | <b>17,093</b>          | <b>11.5</b>                                  | <b>9,135</b>    | <b>7.7</b>                    | <b>7,958</b>    | <b>87.1</b>  |
| Provision for income taxes                   | 6,360                  | 4.3  | 3,415           | 2.9                           | 2,945           | 86.2         |
| <b>Net income</b>                            | <b>\$ 10,733</b>       | <b>7.2%</b>                                  | <b>\$ 5,720</b> | <b>4.8%</b>                   | <b>\$ 5,013</b> | <b>87.6%</b> |

**Operating Data  
(unaudited):**

## Revenues:

|                     |                   |               |                   |               |                  |              |
|---------------------|-------------------|---------------|-------------------|---------------|------------------|--------------|
| Stores              | \$ 127,879        | 86.0%         | \$ 98,657         | 82.7%         | \$ 29,222        | 29.6%        |
| Direct              | 20,775            | 14.0          | 20,688            | 17.3          | 87               | 0.4          |
| <b>Net revenues</b> | <b>\$ 148,654</b> | <b>100.0%</b> | <b>\$ 119,345</b> | <b>100.0%</b> | <b>\$ 29,309</b> | <b>24.6%</b> |

**Net Revenues**

Net revenues increased by \$29.3 million, or 24.6%, for the twenty-six weeks ended July 2, 2011, from the twenty-six weeks ended July 3, 2010.

Store sales increased \$29.2 million, or 29.6%, for the twenty-six weeks ended July 2, 2011, from the twenty-six weeks ended July 3, 2010. The increase in store sales resulted in part from a 11.0% increase in the number of customer transactions, driven in part by 22 new store openings, net of store closings, since July 3, 2010. Comparable store sales increased \$14.7 million, or 15.4%, for the twenty-six weeks ended July 2, 2011, compared to an increase of 13.5% for the twenty-six weeks ended July 3, 2010. Non-comparable store sales increased \$14.5 million for the twenty-six weeks ended July 2, 2011, compared to the twenty-six weeks ended July 3, 2010. There were 182 comparable stores and 39 non-comparable stores open during the twenty-six weeks ended July 2, 2011.

Direct sales, including shipping and handling fees, from our direct business increased \$87,000, or 0.4%, for the twenty-six weeks ended July 2, 2011, as compared to the twenty-six weeks ended July 3, 2010, as a result of an increase in the number of catalogs circulated partially offset by a decrease in average revenue per catalog.

***Gross Profit***

Gross profit increased \$13.0 million, or 32.8%, for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010. As a percentage of net revenues, gross profit margin increased by 220 basis points for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010. This increase was attributable to a 230 basis point decrease in freight costs, store occupancy,

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distribution and buying costs as a percentage of net revenues, due primarily to an increase in store sales, partially offset by a 10 basis point decrease in merchandise margin.

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

Selling, general and administrative expenses increased by \$6.8 million, or 25.5%, for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010. This increase resulted in part from a \$3.6 million increase in store operating expenses due primarily to our store growth. As a percentage of net revenues, store operating expenses decreased to 15.8% for the twenty-six weeks ended July 2, 2011 from 16.7% for the twenty-six weeks ended July 3, 2010.

General and administrative expenses increased \$3.2 million for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010 due in part to compensation expenses for new positions, increased incentive provisions tied to performance, professional fees related to being a public company, additional stock-based compensation from equity grants, and information technology expenses associated with enhancing the functionality of our recently upgraded systems which support our direct business and our point-of-sale software system. As a percentage of net revenues, general and administrative expenses increased to 6.7% for the twenty-six weeks ended July 2, 2011 from 5.6% for the twenty-six weeks ended July 3, 2010.

As a percentage of net revenues, selling, general and administrative expenses were 22.5% for the twenty-six weeks ended July 2, 2011 and 22.3% for the twenty-six weeks ended July 3, 2010 due to reasons discussed above.

***Depreciation and Amortization Expense***

Depreciation and amortization increased \$201,000, or 8.8%, for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010. As a percentage of net revenues, depreciation and amortization decreased 20 basis points for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010, as a result of an increase of our comparable store sales.

***Interest (Income) Expense, Net***

Interest expense, net, for the twenty-six weeks ended July 3, 2010, relates to interest expense on our term loan facilities of our senior credit facility. In October 2010, we repaid all amounts owed under the term loan facilities of our senior credit facility using net proceeds from our initial public offering. The senior credit facility was subsequently terminated.

***Provision for Income Taxes***

Provision for income taxes increased \$2.9 million for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010, which was attributable to a \$8.0 million increase in income before income taxes partially offset by an effective tax rate decrease of 20 basis points to 37.2% in the twenty-six weeks ended July 2, 2011 from 37.4% in the twenty-six weeks ended July 3, 2010. In May 2011, certain employee stock options designated as incentive stock options were exchanged for stock options designated as nonqualified stock options with the same terms and conditions. Accordingly, the Company established a deferred tax asset on the cumulative stock-based compensation of the exchanged stock options.

***Net Income***

Net income increased \$5.0 million for the twenty-six weeks ended July 2, 2011 from the twenty-six weeks ended July 3, 2010 due to the factors discussed above.

Table of Contents**Liquidity and Capital Resources**

Our primary source of liquidity is currently cash flows from operations. As described below, we are currently in negotiations for a revolving credit facility that we expect will be effective in fiscal year 2011. Our primary cash 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 accounts payable and other current liabilities. Our working capital position benefits from the fact that we generally collect 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 we typically have up to 60 days to pay our merchandise vendors, depending on the applicable vendor terms.

Our ability to fund our cash flow needs depends largely on our future operating performance. We assess future operating performance by looking at a number of metrics, primarily our net revenues, comparable store and non-comparable store sales, direct sales through our catalog and e-commerce channels, gross profit margin, and selling, general and administrative expenses. Our liquidity position is directly affected by these performance metrics.

On February 16, 2011, we completed a secondary offering of 5,703,764 shares of our common stock priced at \$16.50 per share. We 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 raised net proceeds of \$1.1 million for the Company, after deducting the underwriting discount and offering expenses payable by us.

Our cash and cash equivalents balance increased \$13.0 million to \$29.2 million as of July 2, 2011, from \$16.2 million as of January 1, 2011. Components of this change in cash for the twenty-six weeks ended July 2, 2011, as well as the change for the twenty-six weeks ended July 3, 2010, are provided below in more detail.

A summary of operating, investing and financing activities are shown in the following table:

|  | Twenty-Six Weeks Ended        |                 |
|--|-------------------------------|-----------------|
|  | July 2,<br>2011               | July 3,<br>2010 |
|  | (in thousands)<br>(unaudited) |                 |
| Provided by operating activities           | \$ 14,162                     | \$ 10,270       |
| Used in investing activities               | (4,449)                       | (3,479)         |
| Provided by (used in) financing activities | 3,314                         | (5,482)         |
| <b>Increase in cash / cash equivalents</b> | <b>\$ 13,027</b>              | <b>\$ 1,309</b> |

***Operating Activities***

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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:

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|   | Twenty-Six Weeks Ended        |                 |
|---|-------------------------------|-----------------|
|   | July 2,<br>2011               | July 3,<br>2010 |
|   | (in thousands)<br>(unaudited) |                 |
| Net income  | \$ 10,733                     | \$ 5,720        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                               |                 |
| Inventories, net of merchandise payables  | (108)                         | 807             |
| Other working capital components and non-cash charges                             | 3,537                         | 3,743           |
| Net cash provided by operating activities   | \$ 14,162                     | \$ 10,270       |

Net cash provided by operating activities increased \$3.9 million to \$14.2 million during the twenty-six weeks ended July 2, 2011 as compared to \$10.3 million for the twenty-six weeks ended July 3, 2010. This increase was attributable to a \$5.0 million increase in net income offset by a \$915,000 increase in our requirements for inventory, net of merchandise accounts payable, and a \$206,000 increase in our other working capital requirements and non-cash charges. The increase in our cash requirements for inventory, net of merchandise accounts payable, was principally due to the increase in the number of stores.

***Investing Activities***

Investing activities consist primarily of capital expenditures for new and existing stores, as well as our investment in information technology:

|  | Twenty-Six Weeks Ended        |                 |
|--|-------------------------------|-----------------|
|  | July 2,<br>2011               | July 3,<br>2010 |
|  | (in thousands)<br>(unaudited) |                 |
| Capital expenditures (excluding tenant allowances) | \$ (2,142)                    | \$ (1,718)      |
| Tenant allowances                                  | (2,307)                       | (1,761)         |
| Net cash used in investing activities              | \$ (4,449)                    | \$ (3,479)      |

For the twenty-six weeks ended July 2, 2011, capital expenditures, excluding tenant allowances, increased \$424,000 as compared to the twenty-six weeks ended July 3, 2010. This increase was primarily attributable to capital expenditures related to upgrading our systems that support our direct business and higher per store construction costs. The higher per store construction costs are partially offset by increased tenant allowances.

Table of Contents***Financing Activities***

Financing activities have historically consisted of borrowings and payments on our senior credit facility. We repaid all amounts owed on our senior credit facility in October 2010 using net proceeds from our initial public offering. Subsequently, the senior credit facility was terminated.

|  | Twenty-Six Weeks Ended        |                 |
|--|-------------------------------|-----------------|
|  | July 2,<br>2011               | July 3,<br>2010 |
|  | (in thousands)<br>(unaudited) |                 |
| Principal payments on long-term debt                       | \$                            | \$ (5,482)      |
| Proceeds from common stock offering, net of issuance costs |                               | 1,074           |
| Proceeds from exercise of stock options                    |                               | 390             |
| Excess tax benefits of stock-based compensation            |                               | 1,850           |
| Net cash provided by (used in) financing activities        | \$                            | \$ 3,314        |

On February 16, 2011, we completed a secondary offering of 5,703,764 shares of our common stock priced at \$16.50 per share. We 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 raised net proceeds of \$1.1 million for the Company, after deducting the underwriting discount and offering expenses paid by us. In the twenty-six weeks ended July 3, 2010, we paid \$2.5 million of scheduled quarterly principal repayments on our senior credit facility in addition to an additional \$3.0 million principle repayment based on our operating results for fiscal year 2009.

***Senior Credit Facility***

We are in negotiations for a five-year, \$15 million senior secured revolving credit facility which includes an option by us to expand the facility by an additional \$5 million. Interest is expected to accrue based upon a reference index rate plus a fixed margin and have prevailing market terms and conditions. We anticipate this senior secured revolving credit facility will be effective in fiscal year 2011. There is no guarantee that such a facility will be entered into on commercially reasonable terms or at all.

***Outlook***

Our short-term and long-term liquidity needs arise primarily from capital expenditures associated with our growth strategy and working capital requirements. We believe that our cash position, net cash provided by operating activities, availability under an anticipated new revolving credit facility as well as net proceeds from our secondary common stock offering in February 2011 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 2011 include expenditures for an expected 30 to 33 new stores, relocation of and maintenance of existing stores, maintenance of corporate facilities, and investments in information technology systems, which includes investing in and upgrading several of our systems to provide improved support of our current operations and position us for future growth.



**Off Balance Sheet Arrangements**

We are not a party to any off balance sheet arrangements.

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**Critical Accounting Policies**

Management has determined that our most critical accounting policies are those related to revenue recognition, inventory valuation, property and equipment, net, impairment of long-lived assets, goodwill, income taxes and stock-based compensation. We continue 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 January 1, 2011.

**New Accounting Standards**

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. The new guidance requires disclosures of transfers in and out of Level 1 and 2 fair value measurements, including a description of the reason for the transfer. The new guidance also calls for disclosures about the activity in Level 3 measurements by separately presenting information on purchases, sales, issuances and settlements on a gross basis rather than a single net number. The guidance also clarifies (1) the level of disaggregation that should be used in completing disclosures about fair value measurements and (2) the disclosures required in describing the inputs and valuation techniques used for both nonrecurring and recurring fair value measurements. This guidance became effective for interim and annual reporting periods beginning after December 15, 2009, except for the new disclosures regarding the activity in Level 3 measurements, which became effective for fiscal years beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our financial statements or disclosures.

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*, which amends ASC 220, *Comprehensive Income*. The amended guidance requires most entities 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 adoption of this guidance will not have a material impact on the Company's financial statements or disclosures.

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

Our principal market risk will relate to interest rate sensitivity, which is the risk that future changes in interest rates will reduce our net income or net assets, if we enter into an anticipated senior secured revolving credit facility and actually draw down on such facility.

We source from U.S. vendors which place orders and supply merchandise to us from both U.S. manufacturers and foreign manufacturers. We contract for and settle all purchases in U.S. dollars. Thus, we consider the effect of currency rate changes to be indirect and we believe the effect of a major shift in currency exchange rates on short-term results would not materially affect our results of operations or cash flows. Over a longer period, the cumulative year-to-year impact of such changes could be significant, albeit indirectly, through increased charges in U.S. dollars from our vendors that source their products internationally.



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**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**

We are 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, we do 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 January 1, 2011.

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

None.

**ITEM 3.           DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4.           (REMOVED AND RESERVED)**

**ITEM 5.           OTHER INFORMATION**

None.

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**ITEM 6. EXHIBITS**

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

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 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 July 2, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to the Consolidated Financial Statements. |

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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: August 16, 2011

BODY CENTRAL CORP.

By: /s/ B. Allen Weinstein  
B. Allen Weinstein  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

By: /s/ Richard L. Walters  
Richard L. Walters  
Executive Vice President, Chief Financial Officer and  
Treasurer  
(Principal Financial Officer)