

bebe stores, inc.
Form DEF 14A
October 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

bebe stores, inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

400 Valley Drive

Brisbane, California 94005

415-715-3900

October 10, 2012

Dear Fellow Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders to be held on October 22, 2012 at 9:30 a.m. local time, at our executive offices located at 400 Valley Dr., Brisbane, California, 94005. I hope you will be able to attend and participate in the Annual Meeting, at which time we will have the opportunity to review the business and operations of our company.

The formal Notice of Annual Meeting of Shareholders and Proxy Statement are attached and describe the matters to be acted upon by our shareholders.

It is important that your shares be represented and voted at the Annual Meeting. Accordingly, after reading the attached Proxy Statement, please complete, date, sign and return the accompanying form of proxy. Your vote is important, regardless of the number of shares you own.

Sincerely yours,

Manny Mashouf

Chief Executive Officer and

Chairman of the Board

400 Valley Drive

Brisbane, California 94005

415-715-3900

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD OCTOBER 22, 2012

TO OUR SHAREHOLDERS:

Notice is hereby given that the 2012 Annual Meeting of Shareholders (the Annual Meeting) of bebe stores, inc., a California corporation (we , bebe or the Company), will be held on October 22, 2012, at 9:30 a.m. local time, at our principal executive offices located at 400 Valley Drive, Brisbane, California 94005 for the following purposes:

1. To elect the five directors named in the Proxy Statement to hold office until the Company s 2013 Annual Meeting of Shareholders and until their successors are duly elected and qualified, or until their earlier resignation or removal;
2. To ratify the appointment of Deloitte and Touche LLP as our independent registered public accounting firm for the fiscal year ending July 6, 2013; and
3. To transact such other business as may properly come before the meeting.

Your board of directors recommends that you vote FOR the election of the director nominees listed in the Company s Proxy Statement for the Annual Meeting under the section caption Election of Directors and vote FOR the ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ending July 6 2013. Shareholders of record at the close of business on September 26, 2012 are entitled to notice of, and to vote at, the meeting and adjournments or postponements of the meeting.

Sincerely yours,

Manny Mashouf

Chief Executive Officer and

Chairman of the Board

PLEASE COMPLETE, DATE AND SIGN THE ACCOMPANYING FORM OF PROXY AND RETURN IT IN THE ENVELOPE PROVIDED AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING. IF YOU LATER DECIDE TO REVOKE YOUR PROXY FOR ANY REASON, YOU MAY DO SO IN THE MANNER DESCRIBED IN THE ATTACHED PROXY STATEMENT. IF YOU HOLD YOUR SHARES THROUGH AN ACCOUNT WITH A BROKERAGE FIRM, BANK, OR OTHER NOMINEE, PLEASE FOLLOW THE INSTRUCTIONS YOU RECEIVE FROM THE HOLDER OF RECORD TO VOTE YOUR SHARES.

400 Valley Drive

Brisbane, California 94005

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

The accompanying proxy is solicited by the board of directors of bebe stores, inc., a California corporation, for use at our Annual Meeting of Shareholders to be held on October 22, 2012, or any adjournments or postponements of the meeting, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders.

GENERAL INFORMATION

Annual Report

Our annual report on Form 10-K for the fiscal year ended June 30, 2012 is enclosed with this proxy statement.

Voting Securities

Only shareholders of record as of the close of business on September 26, 2012 will be entitled to vote at the meeting and any adjournments or postponements of the meeting. As of that date, we had 84,392,464 shares of common stock outstanding, all of which are entitled to vote with respect to all matters to be acted upon at the

Annual Meeting of Shareholders. Shareholders may vote in person or by proxy. Each shareholder of record is entitled to one vote for each share of stock held by him, her, or it. Our bylaws provide that a majority of all of the shares of the stock entitled to vote, whether present in person or represented by proxy, shall constitute a quorum for the transaction of business at the meeting. Votes for and against, abstentions and broker non-votes will each be counted as present for purposes of determining the presence of a quorum.

We are mailing this proxy statement, the accompanying proxy card and the accompanying annual report on Form 10-K for the fiscal year ended June 30, 2012 on or about October 10, 2012 to all shareholders entitled to vote at the Annual Meeting.

Shares Held in street name, Broker Non-Votes and Routine Matters

If your shares are held of record by a broker, brokerage firm, broker-dealer, bank, or other nominee in a fiduciary capacity (typically referred to as being held in street name), you should review the information provided to you by the holder of record. This information will describe the procedures you must follow in instructing the holder of record how to vote your street name shares and how to revoke your previous instructions.

A broker non-vote occurs when a broker submits a proxy card with respect to shares held in street name but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters even if they have not received voting instructions from the beneficial owner, but not on non-routine matters. The only proposal this year which is considered a routine matter is the ratification of the appointment of the Company's independent registered public accounting firm. The election of directors is considered non-routine, so your broker can only vote your shares if it receives voting instructions from you.

Solicitation of Proxies

We will bear the cost of soliciting proxies. In addition to soliciting shareholders by mail through our employees, we will request banks, brokers and other custodians, nominees and fiduciaries to solicit customers for whom they hold our stock and will reimburse them for their reasonable, out-of-pocket expenses. We may use the services of our officers, directors and others to solicit proxies, personally or by telephone, without additional compensation.

Voting of Proxies

All shares represented by a valid proxy received prior to the meeting will be voted, and where a shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted according to the specification made. If no choice is indicated on the proxy, except in the case of a broker non-vote, the shares will be voted as recommended by the board, and as follows: **FOR** the election of each of the director nominees listed under the caption **PROPOSAL 1 ELECTION OF DIRECTORS** and **FOR** the ratification of the appointment of Deloitte & Touche, LLP as the Company's independent public accounting firm for the year ending July 6, 2013, as described in **PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

A shareholder giving a proxy has the power to revoke his, her or its proxy, at any time prior to the time it is voted, by delivering to our Legal Department, at our principal offices located at 400 Valley Drive, Brisbane, California 94005, a written instrument revoking the proxy or a duly executed proxy with a later date, or by attending the meeting and voting in person.

Delivery of Proxy Statement

To reduce the expense of delivering duplicate voting materials to our shareholders who may have more than one bebe stock account in one household, with your consent and unless otherwise requested, we will only deliver one set of voting materials, which includes the proxy statement, proxy cards and the 2012 annual report on Form 10-K, to shareholders who share the same address.

If you share an address with another shareholder and have received only one set of voting materials, you may write or call us to request a separate copy of these materials at no cost to you. For future annual meetings, you may request separate voting materials, or request that we send only one set of voting materials to you if you are receiving multiple copies, by calling our Legal Department at: (415) 715-3900, or by writing to us at: bebe stores, inc., 400 Valley Drive, Brisbane, California 94005.

NOTICE REGARDING INTERNET AVAILABILITY OF PROXY MATERIALS

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on October 22, 2012: This proxy statement and our 2012 Annual Report on Form 10-K are available on the Investors Relations page at <http://www.bebe.com/b/2288217011>.

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PROPOSAL NO. 1**ELECTION OF DIRECTORS**

Our board of directors currently consists of five directors. At the recommendation of the board of directors Nominating and Corporate Governance Committee, the board of directors has designated five director nominees for election at the Annual Meeting of Shareholders. If elected, the nominees will serve as directors until our Annual Meeting of Shareholders in 2013 and until their respective successors are duly elected and qualified, or until their earlier resignation or removal. If a nominee declines to serve or becomes unavailable for any reason, or if another vacancy occurs before the election, although management knows of no reason to anticipate that this will occur, the proxies may be voted for such substitute nominee the board of directors may designate.

Vote Required and Board of Directors Recommendation

If a quorum representing a majority of all outstanding shares of common stock is present, either in person or by proxy, the five nominees for director receiving the highest number of votes for will be elected. If no choice is indicated, the shares will be voted in favor of election. Broker non-votes will be counted as present for purposes of determining the presence of a quorum, but will not have an effect on the outcome of the vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE NOMINEES LISTED BELOW.

Director Nominees

The table below sets forth our director nominees to be elected at this meeting, along with their age and current position, followed by a summary of background and business experience for each. The information set forth in the table has been furnished to the Company by each nominee.

| Name | Age | Position |
|------------------|------------|--------------------------------------|
| Manny Mashouf | 74 | Chairman and Chief Executive Officer |
| Barbara Bass | 61 | Director |
| Cynthia Cohen | 59 | Lead Independent Director |
| Corrado Federico | 71 | Director |
| Caden Wang | 60 | Director |

Manny Mashouf founded bebe stores, inc. and has served as Chairman of the Board since our incorporation in 1976. Mr. Mashouf served as our Chief Executive Officer from 1976 to February 2004 and reassumed the position in January 2009 and continues to serve in this capacity. As founder of the Company, and after serving as its Chief Executive Officer for 32 years, Mr. Mashouf has extensive knowledge of the Company's history, management, operations, and core customers. Mr. Mashouf has served on the board of Eternal Brands since 2012. Mr. Mashouf's wealth of industry and Company-specific knowledge, strategic vision and global approach to the business are instrumental in helping the board oversee the overall business and direction of the Company and make him uniquely qualified to sit on our board.

Barbara Bass has served as a director since February 1997. Ms. Bass has also served on the following boards of directors: DFS Group Limited, a worldwide luxury retailer catering to the traveling public (1994 until 2012); Starbucks Corporation (1996-2011); and UCSF Foundation which is the giving, receiving and investing arm for the University (1996-present, serving as Chair from 2001-2005). From 1989 to 1992, Ms. Bass was President and Chief Executive Officer of the Emporium Weinstock's division of Carter Hawley Hale Stores, Inc., a department store chain. From 1993 to approximately 2007, Ms. Bass has served as President of the Gerson Bakar Foundation, a charitable organization focusing primarily on the arts, medicine and education, and since 2007 has held the position of Chief Executive Officer. Since 2007, she has also been Chief Executive Officer of the

Achieve Foundation, which focuses primarily on education. Ms. Bass' significant industry experience, including serving as Chief Executive Officer of a nationally recognized retailer, and her extensive experience serving on numerous boards, including that of a multinational, Fortune 500 company, provides the Company with valuable management, operational and strategic insights. Her work with, and commitment to, non-profit organizations also provides the Company with a perspective of social awareness. We believe Ms. Bass' significant executive management, retail and board experience qualifies her to sit on our board.

Cynthia Cohen has served as a director since December 2003 and Lead Independent Director since January 2009. She also currently serves on the boards of directors of Steiner Leisure Ltd. and Equity One, Inc., as well as several boards of privately held companies. Ms. Cohen serves on the Executive Advisory Board for the Center for Retailing Education and Research at the University of Florida and is founder and President of Strategic Mindshare, a strategy consulting firm. Prior to founding Strategic Mindshare in 1990, she was a Partner in Management Consulting with Deloitte & Touche LLP. Ms. Cohen has extensive consulting experience in retail strategy and brand management, along with a strong financial background, and has served on numerous boards of directors. We believe her strong, multi-faceted experience provides the Company with a valuable and highly relevant perspective and qualifies Ms. Cohen to sit on our board.

Corrado Federico has served as a director since November 1996. From approximately 1997 through 2008, Mr. Federico served on the board of directors for Hot Topic, a publicly traded retail company. Mr. Federico was President of Solaris Properties, a real estate leasing company, until December 2008 and has served as the President of Corado, Inc., a land development firm, since 1991. From 1986 to 1991, Mr. Federico held the position of President and Chief Executive Officer of Esprit de Corp. Inc., a wholesaler and retailer of junior and children's apparel, footwear and accessories. We believe Mr. Federico is qualified to sit on our board because of his executive management experience, including successfully serving as Chief Executive Officer of a prominent and multi-national apparel company, as well as his board experience, which provide the Company with valuable insights into operations, management, and brand focus.

Caden Wang has served as a director since October 2003. Since 2005, Mr. Wang has also served on the board of directors of Leapfrog Enterprises, Inc. From 1999 to 2001, Mr. Wang served as Executive Vice President and Chief Financial Officer of LVMH Selective Retailing Group, which included international retail holdings such as DFS, Sephora, and Miami Cruise Line Services. Mr. Wang previously served on the board of directors of Fossil, Inc. and as Chief Financial Officer for travel retailer DFS and retail companies Gumps and Cost Plus. Mr. Wang has significant strategic, international and finance experience, serving as Chief Financial Officer for multinational companies. He has also served on numerous boards of directors. Mr. Wang is our board's financial expert and provides valuable managerial, accounting and audit guidance, which we believe qualifies him to sit on our Board.

Independence

The board has reviewed, considered and discussed each director's relationships, both direct and indirect, with the Company and its subsidiaries in order to determine whether such director is independent for purposes of the Nasdaq Listing Rules, and has determined that, throughout the fiscal year ended June 30, 2012, four out of the five members of the board were independent for purposes of the Nasdaq Listing Rules. Specifically, the board has determined that Barbara Bass, Cynthia Cohen, Caden Wang, and Corrado Federico each qualified as independent under the applicable Nasdaq Listing Rules.

The fifth board member and Chairman, Mr. Mashouf, does not qualify as independent because he is an executive officer of the Company. In addition, Mr. Mashouf's nephew is employed by the Company as its Chief Information Officer (see *Certain Relationships and Related Transactions* below).

Director Compensation

Our non-employee directors are paid a fee of \$4,000 for each meeting of the board of directors that they attend in person and \$750 for the third and subsequent telephonic meetings of the board of directors that they

attend during a fiscal year. For each meeting attended of the Audit Committee, committee members are paid \$1,250 and the Chairman of the committee is paid \$3,000. For each meeting attended of the Compensation and Management Development Committee and the Nominating and Corporate Governance Committee, committee members are paid \$1,250 and the Chairman of the committee is paid \$2,500. For each meeting attended of a Special Committee, the Chairman and committee members are each paid \$1,250. In January 2009, the Company appointed a Lead Independent Director, who was paid \$1,000 per month until June 2010, \$5,000 per fiscal quarter from June 2012 through mid-August 2012 and \$10,000 per month from mid-August 2012 and thereafter. We also reimburse all directors for their expenses incurred in attending meetings and, up to \$2,000 per year, for their expenses incurred toward continuing board education.

In fiscal 2012, each of our non-employee directors received a restricted stock unit award of 3,384 shares. The number of shares was calculated in advance using the Black-Scholes value methodology, to represent approximately \$25,000 in value based on the closing price of our common stock on the date of the 2011 Annual Meeting of Shareholders and was awarded that same day. These awards vest on the date of the 2012 Annual Meeting of Shareholders, approximately one year after award, if the director remains a board member through the end of the day prior to the 2012 meeting. Each restricted stock unit represents a right to receive a share of stock on a date determined in accordance with the provisions of our 1997 Stock Plan, as amended, and the participant's restricted stock unit agreement.

In addition, during fiscal 2012, we granted each non-employee director an option to purchase 53,252 shares of our common stock, the number of shares was calculated to represent approximately \$150,000 in value based on the closing price on the day of the 2011 Annual Meeting of Shareholders and was awarded that same day. These awards vest over four years, with 20% of the award vesting on each of the first and second anniversaries of the date of grant and 30% of the award vesting on each of the third and fourth anniversaries of the date of grant.

Fiscal 2012 Total Director Compensation

| Name(1) | Fees Earned | Stock | Option | Total (\$) |
|------------------|-----------------|-----------------|-----------------|------------|
| | or Paid in Cash | Awards (\$) (2) | Awards (\$) (3) | |
| Barbara Bass | \$ 42,064 | \$ 25,380 | \$ 147,039 | \$ 214,483 |
| Cynthia Cohen | \$ 69,500 | \$ 25,380 | \$ 147,039 | \$ 241,919 |
| Corrado Federico | \$ 44,955 | \$ 25,380 | \$ 147,039 | \$ 217,374 |
| Caden Wang | \$ 50,000 | \$ 25,380 | \$ 147,039 | \$ 222,419 |

- (1) We compensate our Chairman of the Board and Chief Executive Officer, Manny Mashouf, in his capacity as our Chief Executive Officer; he receives no compensation in his capacity as director. For further information about executive officer compensation, see **COMPENSATION DISCUSSION AND ANALYSIS** and accompanying tables and charts.
- (2) Amounts represent the aggregate grant date fair values of the restricted stock unit awards granted by us in fiscal 2012, determined in accordance with FASB ASC Topic 718. Assumptions used to calculate the values of the stock awards are set forth under footnote 13 in our Form 10-K filing for the fiscal year ended June 30, 2012. In fiscal 2012, each non-employee director was granted a restricted stock unit award of 3,384 shares with a grant date fair value of \$25,380 (or \$7.50 per unit). At the end of fiscal 2012, each listed director held 3,384 restricted stock units, all of which will vest, assuming continuing board member status, within 60 days of October 1, 2012.
- (3) The amounts listed in this column are the aggregate grant date fair values of all options granted by us in fiscal 2012, determined in accordance with FASB ASC Topic 718. Assumptions used to calculate the values of the stock option awards are set forth under footnote 13 in our Form 10-K filing for the fiscal year ended June 30, 2012. In fiscal 2012, each non-employee director was granted options to purchase 53,252 shares of our common stock with a grant date fair value of \$147,039 (or \$2.76 per share). The number of stock options held by each listed director at the end of fiscal 2012 are as follows: Barbara Bass 141,603 (vested) and 154,136 (unvested, which include options which are scheduled to vest within 60 days of October 1, 2012); Cynthia Cohen 166,915 (vested) and 154,136 (unvested, which include options which are scheduled to vest within 60 days of October 1, 2012); Corrado Federico 141,603 (vested) and 154,136 (unvested, which include options which are scheduled to vest within 60 days of October 1, 2012); and Caden Wang 158,175 (vested) and 154,136 (unvested, which include options which are scheduled to vest within 60 days of October 1, 2012).

CORPORATE GOVERNANCE MATTERS**Committees of the Board**

The Board has three standing committees - the Audit Committee, the Compensation and Management Development Committee (sometimes also referred to herein as Compensation Committee) and the Nominating and Corporate Governance Committee (sometimes also referred to herein as Governance Committee). The Board can also appoint a Special Committee (sometimes referred to herein as Special Committee) at its discretion and as circumstances may warrant (see below, Special Committee). The current members of the standing committees are identified in the following table.

Committees of the Board

| Director | Audit | Compensation | Nominating and Corporate Governance |
|----------------------|--------------|---------------------|--|
| Caden Wang | Chair | - | X |
| Cynthia Cohen | X | X | Chair |
| Barbara Bass | - | Chair | X |
| Corrado Federico | X | X | X |
| Fiscal 2012 Meetings | 6 | 4 | 12 |

Board Meetings

During the fiscal year ended June 30, 2012, the board of directors held 10 meetings. Each director serving on our board in fiscal year 2012 attended at least 80% of the meetings of the board of directors and the committees on which he or she serves.

Audit Committee

The members of the Audit Committee are Cynthia Cohen, Corrado Federico, and Caden Wang (Chairman). Our board of directors has determined that Mr. Wang is an audit committee financial expert as defined by the rules of the SEC and that each member of the Audit Committee qualifies as being independent for purposes of the Nasdaq Listing Rules.

The Audit Committee is organized and conducts its business pursuant to a written charter, a copy of which is posted on the Corporate Governance page of the Investor Relations section of the Company's website at www.bebe.com. Annually, the Audit Committee, in consultation with the Nominating and Corporate Governance Committee, reviews and reassesses the adequacy of its charter and recommends any proposed changes to the full board as necessary to reflect changes in regulatory requirements, authoritative guidance, and evolving practices. The Audit Committee's duties and responsibilities are set forth in its charter and are summarized as follows.

The primary purpose of the Audit Committee is the oversight of the integrity of the financial reports and other financial information provided by us to any governmental body or to the public and the oversight of our compliance with legal and regulatory requirements. The Audit Committee is responsible for the engagement, retention, compensation and oversight of our independent registered public accounting firm, including (1) the review of their qualifications, independence and performance, and (2) the review and approval of the fee arrangements and terms of engagement, including the planned scope of the audit as well as any non-audit services that may be performed by them. The Audit Committee is responsible for reviewing with management and our auditors the adequacy of internal financial controls, reviewing our critical accounting policies and the application of accounting principles, reviewing and approving any related party transactions and preparing any related report required by the rules of the SEC.

During the fiscal year ended June 30, 2012, the Audit Committee held six meetings.

Compensation and Management Development Committee

The members of the Compensation and Management Development Committee (Compensation Committee) are Barbara Bass (Chairperson), Cynthia Cohen and Corrado Federico. Our board of directors has determined that each member of the Compensation Committee is independent for purposes of the Nasdaq Listing Rules.

The Compensation Committee is organized and conducts its business pursuant to a written charter which was most recently reviewed and approved by the Committee in January 2012, a copy of which is posted on the Corporate Governance page of the Investor Relations section of the Company s website at www.bebe.com. Annually, the Compensation Committee reviews and reassesses the adequacy of its charter, in consultation with the Nominating and Board Governance Committee, and recommends any proposed changes to the full board as necessary to reflect changes in regulatory requirements, authoritative guidance and evolving practices. The Compensation Committee s charter sets forth the duties and responsibilities of the Compensation Committee and is summarized as follows. The Compensation Committee is responsible for discharging the board of directors responsibilities relating to compensation and benefits of our Chief Executive Officer, our other named executive officers and certain other of our employees as may be determined by the Compensation Committee. It is also responsible for overseeing and approving our compensation policies and practices and preparing any related report required under the rules and regulations of the SEC. In carrying out these responsibilities, the Committee reviews all components of executive officer compensation in the context of its compensation philosophy. In addition, the Compensation Committee is responsible for overseeing the development and implementation of management development plans and succession practices to ensure that we have sufficient management depth to support our continued growth and the talent needed to execute long term strategies in the event that one or more members of senior management retire or otherwise leave bebe.

During the fiscal year ended June 30, 2012, the Compensation Committee held four meetings.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is, or was during fiscal 2012, an officer or employee of ours or of any our subsidiaries or was formerly an officer of ours or of any our subsidiaries. No member of the Compensation Committee is, or was during fiscal 2012, an executive officer of another Company whose board of directors has a comparable committee on which one of our executive officers serves.

Nominating and Corporate Governance Committee

The members of the Nominating and Corporate Governance Committee are Barbara Bass, Cynthia Cohen (Chairperson), Corrado Federico and Caden Wang. Our board of directors has determined that each member of the Nominating and Corporate Governance Committee is independent for purposes of the Nasdaq Listing Rules.

The Nominating and Corporate Governance Committee is organized and conducts its business pursuant to a written charter, a copy of which is posted on the Corporate Governance page of the Investor Relations section of the Company s website at www.bebe.com. Annually, the Nominating and Corporate Governance Committee reviews and reassesses the adequacy of its charter and recommends any proposed changes to the full board as necessary to reflect changes in regulatory requirements, authoritative guidance and evolving practices. The Nominating and Corporate Governance Committee s duties and responsibilities are set forth in its charter and are summarized as follows.

The responsibilities of the Nominating and Corporate Governance Committee are to: identify individuals qualified to become members of our board of directors; recommend to our board of directors director nominees for each election of directors; develop and recommend to our board of directors criteria for selecting qualified director candidates; consider committee member qualifications, appointment and removal; recommend corporate governance principles, codes of conduct and compliance mechanisms applicable to bebe; and provide oversight in the evaluation of our board of directors and each of its committees.

The Nominating and Corporate Governance Committee is also charged with the responsibility, in conjunction with the Compensation Committee, of evaluating the performance of the Chief Executive Officer and providing feedback to the Chief Executive Officer with respect to such evaluation. The Nominating and Corporate Governance Committee is also to perform any other activities consistent with its charter, the Company's bylaws, and governing law, as the Committee or the board deems necessary or appropriate.

During the fiscal year ended June 30, 2012, the Nominating and Corporate Governance Committee held twelve meetings.

Special Committee

The board can appoint a Special Committee, and assemble any number of board members who will comprise such committee, in order to address any particular issue the board determines warranted. An example of an issue that might generate a call for such committee is an initial review of a potential company acquisition target.

During the fiscal year ended June 30, 2012, no Special Committee was appointed and no Special Committee meetings took place.

Director Nominees, Qualification, and Consideration

Consistent with its charter, the Nominating and Corporate Governance Committee will evaluate and recommend to our board of directors director nominees for each election of directors.

Director Qualifications

In fulfilling its responsibilities, the Nominating and Corporate Governance Committee considers the following factors in reviewing possible candidates for nomination as director:

the appropriate size and composition of our board of directors and its committees;

the perceived needs of our board of directors for particular skills, background and business experience;

the skills, background, reputation and business experience of nominees compared to the skills, background, reputation and business experience already possessed by other members of our board;

nominees' independence from management;

applicable regulatory and listing requirements, including independence requirements and legal considerations, such as antitrust compliance;

the benefits of a constructive working relationship among directors; and

the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members.

The Nominating and Corporate Governance Committee's goal is to look at a pool of candidates who are diverse in quality work experience, skills, background, perspective, and profession in order to help ensure a board of directors derived from high quality business and professional experience and varied in perspectives, backgrounds, and skills. Directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the best interests of our shareholders. They must also have an inquisitive nature, objective perspective and mature judgment.

Board members are expected to prepare for, attend, and participate in all board and applicable committee meetings. They are also expected to visit our stores regularly and keep abreast of industry trends. Director candidates must be willing and have sufficient time available, in the judgment of the Nominating and Corporate Governance Committee, to perform all board and committee responsibilities.

The Company has no formal policy regarding diversity on the board. The Nominating and Corporate Governance Committee seeks candidates without regard to race, color, gender, or national origin. While not implying a diversity policy in any area, the Company notes that, regarding calendar years 2008, 2009, 2010 and 2011, UC Davis Graduate School of Management recognized bebe stores, inc. as being one of the Top 5 companies in California regarding percentage of women as executives and directors, with the Company ranking number one as of calendar year-end 2010 and 2011 (during our fiscal year 2012).

Other than the foregoing, there is no stated minimum criterion for director nominees, although the Nominating and Corporate Governance Committee may also consider such other factors as it may deem, from time to time, are in the best interests of bebe and its shareholders. Depending on the current needs of the board, the Nominating and Board Governance Committee may weigh certain factors more or less heavily. The Nominating and Corporate Governance Committee believes that it is preferable that at least one member of the board should meet the criteria for an audit committee financial expert as defined by SEC rules. The Nominating and Corporate Governance Committee also believes it is appropriate for one or more key members of bebe's management to participate as members of the board.

Identifying and Evaluating Candidates for Nomination as Director

The Nominating and Corporate Governance Committee annually evaluates the current members of our board of directors whose terms are expiring and who are willing to continue in service against the criteria set forth above in determining whether to recommend these directors for election. The Nominating and Corporate Governance Committee regularly assesses the optimum size of the board and its committees and the needs of the board for various skills, background and business experience in determining if the board requires additional candidates for nomination.

Candidates for nomination as director come to the attention of the Nominating and Corporate Governance Committee from time to time through incumbent directors, management, shareholders, or third parties. These candidates may be considered at meetings of the Nominating and Corporate Governance Committee at any point during the year. Such candidates are evaluated against the criteria set forth above. If the Nominating and Corporate Governance Committee believes at any time that it is desirable that the board consider additional candidates for nomination, the Nominating and Corporate Governance Committee may poll directors and management for suggestions or conduct research to identify possible candidates and may engage, if the Nominating and Corporate Governance Committee believes it is appropriate, a third party search firm to assist in identifying qualified candidates.

In addition, our bylaws permit shareholders to nominate directors for consideration at an annual meeting. In order to be evaluated in connection with the Nominating and Corporate Governance Committee's established procedures for evaluating potential director nominees as it pertains to the next annual meeting of shareholders, such shareholder's recommendation must be sent in writing to the Corporate Secretary, bebe stores, inc., 400 Valley Drive, Brisbane, CA 94005, at least 120 days prior to the anniversary of the date the proxy statement was mailed to shareholders in connection with the prior year's annual meeting of shareholders, and should contain the following information:

the candidate's name, age, contact information and present principal occupation or employment; and
a description of the candidate's qualifications, skills, background and business experience during, at a minimum, the last five years, including his/her principal occupation and employment and the name and principal business of any corporation or other organization in which the candidate was employed or served as a director.

For more information, see **SHAREHOLDER PROPOSALS TO BE PRESENTED AT NEXT ANNUAL MEETING** below.

All directors and director nominees submit a completed directors and officers questionnaire as part of the nomination process. The evaluation process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee will evaluate incumbent directors, as well as candidates for director nominees submitted by directors, management and shareholders consistently using the criteria stated above and will select for recommendation to the board the nominees that, in the Nominating and Corporate Governance Committee's judgment, best suit the needs of the board of directors at that time.

Committee Charters and Other Corporate Governance Materials

Our board of directors has adopted charters for its Audit, Compensation and Management Development, and Nominating and Corporate Governance Committees. Our board of directors has also adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors. In addition, it has adopted Corporate Governance Principles and Practices for the board of directors that address the composition of the board, criteria for board membership and other board matters, in order to help promote the effective functioning of the board and its Committees and to reflect the Company's commitment to high standards of corporate governance. Links to these materials are available on our website, www.bebe.com, under Corporate Governance.

The Company intends to satisfy any disclosure requirements regarding any amendment of, or waiver from, a provision of the Code of Business Conduct and Ethics by posting such information on the Corporate Governance page of the Company's website at www.bebe.com.

Board Leadership Structure

Combination of roles of Chairman of the Board and Chief Executive Officer

During our 2012 fiscal year, the Company was led by Mr. Mashouf, who served both as Chairman of the Board and Chief Executive Officer. We believe that the dual role was beneficial to the Company and appropriate during 2012, given the Chairman and Chief Executive Officer's extensive experience in the industry and unsurpassed knowledge of our Company culture and bebe's customers. This structure allowed Mr. Mashouf to effectively apply his industry knowledge, talent, and experience to the oversight of the business day-to-day management. This combination also served to provide clear Company leadership and a consistent message throughout the organization, thus avoiding the confusion, which sometimes occurs where there are multiple sources of direction.

The board consists of Mr. Mashouf, as Chairman, and four well qualified, non-management directors, each of whom are independent and have significant industry experience, having managed on an executive level and/or served on boards of significant, industry-related companies. In order to further strengthen the governance structure, we established a Lead Independent Director in 2009, and appointed Ms. Cohen to that position. Ms. Cohen held that position throughout our 2012 fiscal year. Additionally, each board committee is charged with overseeing our operations, risks, strategies, and performance and is chaired by an experienced, independent director. Lastly, the independent directors meet separately and frequently in executive sessions without the presence of the Chief Executive Officer or representatives of management. Each such meeting is chaired by the Lead Independent Director and may be called by any independent director.

For the reasons stated above, the board believes that its strong governance practices, including its majority of independent members, frequent meetings of the independent board members, active use of a Lead Independent

Director and having Mr. Mashouf fill both board Chairman and Chief Executive Officer roles, provide an effective and appropriate balance among specific knowledge and experience, strategy development, day-to-day operational execution and independent and effective oversight of our business affairs.

Board and Management Role in Risk Oversight

The board and its committees have overall responsibility in overseeing management's identification, assessment, and mitigation of risks that are material to us.

As discussed above under **CORPORATE GOVERNANCE MATTERS** *Audit Committee*, the Audit Committee assists the board in its oversight responsibility relating to our systems of internal controls, legal and regulatory compliance, and audit, accounting and financial reporting processes.

As discussed below in **CORPORATE GOVERNANCE MATTERS** *Risk Assessment in Compensation Programs*, the Compensation Committee oversees the management of risks relating to our compensation programs.

As described above in **CORPORATE GOVERNANCE MATTERS** *Nominating and Corporate Governance Committee*, the Nominating and Corporate Governance Committee oversees risks associated with corporate governance, business conduct, and ethics.

Throughout the year, and based on management presentation or reports or other information gathered by the board and its committees, the board and its committees will identify, assess and discuss with management planning for risk control.

Management is responsible for identifying risk and risk controls which are material to the business and related to its significant business activities, assessing the severity, likelihood, and timing of a potential risk, assessing the costs and potential benefits in addressing the potential risk and developing control and mitigation strategies, as appropriate. Such strategies include enacting programs individually tailored for a certain risk and inserting remedial measures within individual executives' yearly performance goals and objectives.

In addition to addressing risk issues as described above during fiscal 2012, during the fiscal fourth quarter of 2012, the board asked management to update the Enterprise Risk Assessment management completed in 2011 and report the findings back to the board for its review and comment. Management, led by its Legal Department and its Senior Manager, Business Processes, conducted interviews with leaders from all our critical departments with the goal of identifying what material risks existed for the Company. It then compared those risks to those management identified in 2011 and to those disclosed by our competitors in the industry. Management completed the review, identified the material risks to the business, organized them by both severity and likelihood, noted which risks from the previous year continued to exist (and to what extent) and which risks had been addressed and to what extent may have been ameliorated during fiscal 2011, Management then presented its findings at the August 2012 board meeting. The board reviewed and assessed the results and risks and provided its thoughts and recommendations to management to consider and implement, through various means, as appropriate.

The board, its committees and management continue to monitor our enterprise risk management program and continue to produce and review periodic risk management reports and updates as well as gather additional information related to potential risks and enterprise risk management from other sources.

Risk Assessment in Compensation Programs

After a thorough review of our compensation practices, and based on all the facts and circumstances available to us at the time of the filing of this Proxy Statement, the Compensation Committee has concluded that our compensation practices do not include risk-taking incentives and are not reasonably likely to have a material adverse effect on us.

In reaching this conclusion, we reviewed the compensation of all of our associates in light of the specific potential areas of risk: any business unit that carries a significant portion of our risk portfolio; any business unit whose compensation structure is significantly different than other business units; any business unit that is significantly more profitable than other business units; and any business unit whose compensation expense is a significant percentage of the business unit's revenue. The Compensation Committee does not believe that any of these specific areas of risk exist for us or apply to our compensation policies and practices in any meaningful manner.

Specifically, the Compensation Committee advocates for, and we enact, practices that serve to encourage longer term goals and provide less incentive for short-term risk-taking, such as:

- (1) aligning compensation potential with longer-term Company and shareholder interests through the use of stock options which: (a) vest over a relatively long period, (b) vest at an increasing yearly rate and encourage well-deliberated, long-term planning and execution and (c) are awarded in multiple grants with overlapping vesting periods, ensuring that one period is not significantly more important to an individual than another;
- (2) providing incentives based on achieving profit rather than sales targets or contract signings; and
- (3) a mix of cash and longer-term equity compensation components.

Certain Relationships and Related Transactions

As part of complying with SEC disclosure obligations, our Audit Committee monitors, reviews and directs for the disclosure, where appropriate, of related party transactions for potential conflicts of interest and other potential improprieties. In doing so, the Audit Committee applies our Code of Business Conduct and Ethics, which is posted on our website at www.bebe.com, under the Governance Section, and which provides that directors, officers and all other employees are expected to avoid any situation in which personal, family or financial interests conflict or even appear to conflict with our interests. The Corporate Governance Principles and Practices of our board of directors also requires that a director who has any concerns about a potential conflict of interest will consult with the board in advance of taking any action, position or interest which might conflict with his or her duties to us.

Specifically, the Audit Committee is interested in any transaction, arrangement or relationship, or series of similar transactions, arrangements or relationships, in which we or one of our subsidiaries participates or will participate, the amount involved exceeds or is expected to exceed \$120,000, and a related person had, has or will have a direct or indirect interest. Pursuant to applicable SEC guidelines, a related person is any person who is or was an executive officer, a director or a director nominee of the Company, or an immediate family member of any such individual, and any time since the beginning of the Company's last fiscal year; or who, at the time of the occurrence or at any time during the existence of the transaction, is the beneficial owner of more than 5% of the Company's outstanding shares of Common Stock, or an immediate family member of a beneficial owner of more than 5% of the Company's outstanding Common Stock.

Each director, director nominee, and executive officer also completes a questionnaire on an annual basis designed to elicit information about potential related person transactions. In addition, any related person transaction proposed to be entered into by us or one of our subsidiaries must be reported by our management to our General Counsel. Any potential related person transaction that is raised will be analyzed by our General Counsel, in consultation with management and with outside counsel, as appropriate, to determine whether the transaction, arrangement or relationship does, in fact, constitute a related person transaction requiring assessment by the Audit Committee.

The Code of Business Conduct and Ethics adopted by the board also addresses the potential conflicts of interest which may arise when a director, officer, or associate has an interest in a transaction to which we or one of our subsidiaries is a party. If a potential conflict of interest arises concerning one of our officers or directors, all information regarding the issue is to be reported to our General Counsel for review and, if appropriate or required under our policies (including our Related Person Transaction Policy), submitted to the Audit Committee for review and disposition.

All related person transactions will be referred to the Audit Committee for approval (or disapproval), ratification, revision or termination.

Manny Mashouf is the uncle of Hamid Mashouf, our Chief Information Officer. In fiscal 2012, Hamid Mashouf received a salary of \$288,846 and received a bonus for his 2012 services of \$187,750. In addition Hamid Mashouf is eligible to receive stock options in accordance with our compensation policies for our officers.

Except as disclosed above or otherwise disclosed in this proxy statement, during the fiscal year ended June 30, 2012, there was not any, nor is there any currently proposed transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$120,000, and in which any executive officer, director or holder of more than 5% of any class of our voting securities, or members of that person's immediate family, had or will have a direct or indirect material interest.

We have entered into indemnification agreements with each of our executive officers and directors. Such indemnification agreements require us to indemnify these individuals to the fullest extent permitted by law.

Communications with Directors

The Company believes it is important to provide shareholders with the ability to communicate with the board. Accordingly, shareholders may communicate with any and all of our directors by transmitting correspondence by mail, facsimile or email, addressed as follows:

Board of Directors

c/o Corporate Secretary

bebe stores, inc.

400 Valley Drive

Brisbane, CA 94005

Facsimile: 415-657-4424

Email: lsmith@bebe.com

The Corporate Secretary will maintain a log of such communications and transmit as soon as practicable such communications to the identified director addressee(s), unless there are safety or security concerns that mitigate against further transmission of the communication or the communication relates to commercial matters not related to the shareholder's stock ownership, as determined by the Corporate Secretary in consultation with legal counsel. The board of directors or individual directors so addressed shall be advised of any communication withheld for safety, security, or other reasons as soon as practicable.

We will make every effort to schedule our annual meeting of shareholders at a time and date to maximize attendance by directors taking into account the directors' schedules. We believe that annual meetings provide an opportunity for shareholders to communicate with directors. Last year, all of our directors attended our annual meeting of shareholders.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis provides important information regarding our executive compensation program, including the Company's compensation philosophy, the process by which executive compensation is set and specific compensation values taken from our fiscal 2012 year, as shown in the executive compensation tables that follow

Named Executive Officers

In this Proxy Statement, the term named executive officers (sometimes referred to as NEOs) means the following five individuals who served as executive officers of the Company during our entire fiscal year 2012, and who meet the criteria set out by the rules of the SEC regarding the identity of NEOs:

| | |
|------------------|---|
| Manny Mashouf | Chairman and Chief Executive Officer (CEO); |
| Walter Parks | Chief Operating Officer (COO) and Chief Financial Officer (CFO) |
| Emilia Fabricant | President, bebe |
| Susan Powers | Senior Vice President, Stores |
| Larry Smith | Senior Vice President, General Counsel and Secretary |

Ms. Fabricant resigned from the company on August 17, 2012.

Compensation Philosophy

The Compensation Committee's compensation philosophy is to pay its executives for performance, to align Total Direct Compensation (as defined below) to shareholder value, to offer and maintain competitive compensation packages in order to attract and retain well qualified executives and to offer long-term incentives designed to retain productive executives.

The Compensation Committee evaluates the overall competitiveness of our executive compensation program in order to assist in the objective of attracting and retaining well-qualified executives. Accordingly, an executive's cash compensation components (made up of Base Salary and Incentive Cash Compensation (or Bonus)) are generally targeted at approximately the median of salaries among our peer competitive companies within our industry (see **Peer Group Companies**, below). Long-term compensation is awarded in the form of Stock Options and/or Restricted Stock Units (or RSUs) and is used to bring an executive's Total Direct Compensation to approximately the median of Total Direct Compensation levels among such peer companies. While the competitive market data is an important factor to the Compensation Committee's approval process, it is just one of several factors considered by the Compensation Committee in approving executive compensation and the Committee retains discretion in determining the nature and extent of its use and sets the total compensation either lower or higher than the target as the circumstances may warrant. Further, a significant portion of our executives' Total Direct Compensation is tied to both meeting performance targets and to encourage long-term employment commitments, thus aligning with shareholder interest. Specifically, the opportunity to receive Incentive Cash Compensation is tied to meeting performance targets; stock options and/or RSUs are typically offered with longer-term vesting and, in many cases, RSUs are tied to meeting performance targets.

Total Direct Compensation and each of its components are defined and discussed below under ***Compensation Components***.

Compensation Committee Action

As stated above in **CORPORATE GOVERNANCE MATTERS, Compensation, Management and Development Committee**, the Compensation Committee meets to consider, establish and/or approve the compensation of our Chief Executive Officer and other executive officers on an annual basis, or at the time of hire, promotion or other change in responsibilities.

Compensation Consultant

In order to assist the Compensation Committee in carrying out its responsibility to determine appropriate levels of compensation for our executive officers, the Compensation Committee engages an independent compensation consultant, who provides the Committee with certain compensation surveys. These surveys

identify and analyze compensation awarded to CEOs and other executive officers at peer competitive companies and also compare our one and three year financial performance against that of our peer competitive companies, generated over generally the same period.

For each of fiscal years 2010, 2011 and 2012, the Compensation Committee engaged the compensation consultant Towers Watson & Co or its predecessor firms (cumulatively referred to as Towers Watson) for assisting it with compensation analysis and determination purposes. In assisting the Compensation Committee in its review of industry data and setting fiscal 2012 compensation levels, Towers Watson provided compensation and performance information from sixteen (16) companies doing business within the apparel and specialty retail industry that are comparable to us in terms of size, as measured by revenues and market capitalization. These companies are referred to throughout this section as **Peer Group Companies** and include: Buckle, Inc., Cache, Inc., Casual Male Retail Group, Inc., Cato Corp., Christopher & Banks Corporation, Citi Trends, Coldwater Creek, Inc., Destination Maternity Corporation, Hot Topic, Inc., Jos. A. Bank Clothiers, Inc., Pacific Sunwear of California, Inc., rue21, Inc., Shoe Carnival, Inc., Syms Corp., Wet Seal Inc. and Zumiez, Inc. For 2012 review and compensation setting purposes, and in an effort to improve the quality of comparative analysis, Towers Watson modified the list of Peer Group Companies presented for 2011 purposes so as to include only companies reflecting similar size revenue (from .5 times to 2 times our revenue). Accordingly, as compared to the previous year, Towers Watson excluded Dress Barn, Inc., Finish Line, Inc., Gymboree Corp., New York & Company, Inc., Stage Stores, Inc., Stein Mart, Inc. and The Talbots, Inc. and added Citi Trends, Syms Corp. and Zumiez, Inc.

At the end of the Peer Group Companies most recently reported years (most ending approximately in January and February 2011, with the exception of Destination Maternity Corporation, whose fiscal year ended in September, 2010, the revenues for this group ranged from \$207 million to \$981 million and, as of June 30, 2011, the market capitalization for this group ranged from \$63 million to \$1.526 billion. At the end of our fiscal 2011, the Company, at \$509 million in revenue, placed at approximately the 31st percentile of the Peer Group Companies in the revenue metric and, at \$514 million in market capitalization, placed at approximately the 68th percentile in the market capitalization metric.

The Compensation Committee then compared each of our executive officer's base, bonus, long-term compensation and Total Direct Compensation to those components awarded to similar positions at the Peer Group Companies, as available. The Compensation Committee used the surveys for guidance only and did not apply them rigidly.

In assessing and setting fiscal 2012 compensation for our executives, the most applicable survey provided by our compensation consultant compared our financial results and performance from fiscal year 2011, as well as over a three year period, in categories of net sales, net income, total shareholder return and market value to the most comparable publicly available numbers in the same categories taken from the Peer Group Companies. Due to the fact that Peer Group Companies and bebe publicly report their results and compensation details at different times throughout any given year, it is not possible to compare numbers for the identical periods of time.

When comparing our fiscal year 2011 numbers to those reported closest in time by the Peer Group Companies, our numbers compared and ranked as follows:

| | bebe results yr. ended 7/3/11 | Percentile Rank | Percentile 1-Yr Growth Rank | Percentile 3-Yr Growth Rank |
|-------------------------------|--|----------------------------|--|--|
| Total sales | \$ 509 | 31 | | |
| Sales 1-yr growth | (16)% | | lowest | |
| Sales 3-yr growth | (9)% | | | 8 |
| Income | \$ (5) | 34 | | |
| Market Value | \$ 514 | 68 | | |
| Total Shareholder Return 1-yr | 13% | | 33 | |
| Total Shareholder Return 3-yr | (8)% | | | 28 |

Numbers listed with \$ are in millions; numbers listed with % are compounded annual growth rates; market value and shareholder return numbers are as of 6/30/11.

Towers Watson did not perform any other services for us during the fiscal year and the total amount the Company paid Towers Watson for the consulting work described above was approximately \$40,000 which, based on a review of Towers Watson's Form 10-K filed for the fiscal year ended approximately June 30, 2011, does not represent a significant percentage of its revenues. The Company is not aware of any personal relationship between Towers Watson and any member of our Compensation Committee nor does it believe Towers Watson owns any bebe stock.

Total Direct Compensation

Total Direct Compensation is the sum of base salary, incentive cash (bonus) and long-term compensation, currently delivered through stock option and/or restricted stock unit awards. The Compensation Committee considers a number of factors when determining the amount of Total Direct Compensation to award executive officers each year. These factors include: individual performance; performance of the overall business as well as the relevant individual business unit(s); recommendations from both management and the committee's compensation consultant; competitive market data for the previous one and three year periods; broad trends in executive compensation; retention considerations; and internal pay equity. Again, per our Compensation Philosophy, we generally endeavor to bring our executives' Total Direct Compensation levels to approximately the median of Total Direct Compensation levels found for similar positions in our Peer Group Companies. However, while the competitive market data is an important factor to the Compensation Committee's approval process, it is just one of several factors considered by the Compensation Committee in approving executive compensation. The Committee retains discretion in determining the nature and extent of its use and ultimately sets an individual's Total Direct Compensation either lower or higher than the median Total in our Peer Companies as it deems warranted.

Compensation Components

Base Salary

The Compensation Committee believes that base salaries are important as compensation for day-to-day responsibilities and services and provide the named executive officers a consistent cash flow, assuming acceptable levels of individual performance and ongoing employment. In determining base salaries, the Compensation Committee reviews a number of factors including: the ranges of base salary for similar positions paid within the apparel retail industry; individual performance during the prior year; and the level, size and complexity of responsibility of the position.

In aiding with its assessment of individual performance for each executive officer (except that of the Chief Executive Officer), the Compensation Committee reviews recommendations from the Chief Executive Officer who annually evaluates the performance of certain NEOs and other executive officers (his direct reports), from the President who evaluates the performance of certain executive officers (her direct reports), and from the Chief Operating Officer/Chief Financial Officer who evaluates the performance of certain NEOs and other executive officers (his direct reports). Regarding the assessment of the Chief Executive Officer (who is also our Founder), the Compensation Committee reviews both his and the company's annual performance in relation to performance from the previous year, pre-determined performance targets and the one and three year performance of peer group companies. The Committee also places emphasis on data taken from the compensation surveys, which evaluate total compensation for similarly situated Founder/CEO counterparts.

Again, the combination of an executive's base salary and incentive cash compensation is generally set at approximately the median salary and bonus combination for a comparable position at the Peer Group Companies.

The fiscal 2012 base salaries for the NEOs are identified in the SUMMARY COMPENSATION TABLE, below.

Incentive Cash Compensation

We maintain a cash bonus plan (Cash Incentive Plan) for certain of our employees, including the NEOs, which is tied directly to achieving Company performance goals, in order to reward these employees for their contribution to our success and to provide incentive for them to help maximize the Company's profitability and shareholder value.

Total Award Percentage

For fiscal 2012, the Compensation Committee adopted a Cash Incentive Plan where each eligible participant may receive an annual bonus equal to a certain percentage of his or her base salary (the percentage defined as Total Award Percentage, sometimes referred to herein as TAP). The particular TAP established by the Compensation Committee for each executive officer ranges from 30% to 100%, based on the officer's level of responsibility and comparative data taken from compensation surveys, generally with greater percentages applicable to the more senior executive officers. In fiscal 2012, the TAP available by position included: 100% for the Chief Executive Officer; 80% for the Chief Operating Officer/Chief Financial Officer; 50% for the President, bebe; and 50% for the Senior Vice President, Stores and Senior Vice President, General Counsel.

The portion of TAP to which an executive may be entitled, if any, depends on whether or not Bonus Gates, Target Earnings and Management Bonus Objectives (or MBOs) are achieved, as such terms and process are further explained below.

Bonus Gates and Other Eligibility Requirements

There are certain threshold requirements, or Bonus Gates, which must be met before a named executive officer, or any other employee who is subject to the Cash Incentive Plan, would be eligible for any cash incentive payout. The approach regarding establishing the Bonus Gates, which may vary depending on the position involved, is that executives who have a greater impact on particular divisional performance may be prescribed Bonus Gates having to do with divisional specific performance goals, such as divisional operational income. In comparison, executives who have a greater impact on the overall Company performance may be prescribed Bonus Gates having to do with overall Company performance, such as Company net income or earnings. In either case, all NEOs have at least a significant allocation weighted towards Company performance in order to align their interests with those of our shareholders.

In addition to meeting one's Bonus Gates, in order to be eligible to participate in the Cash Incentive Plan, the individual must: (1) be employed with the Company at the time bonuses are paid out (which occurs approximately 75 days after the end of a fiscal year) and (2) receive an overall meets (or better) on his/her year-end performance evaluation.

Components of Total Award Percentage

For fiscal 2012, and assuming an individual met the eligibility requirements to participate in the Cash Incentive Plan described above, the Total Award Percentage (or TAP) would be earned and payable based on the successful achievement, and as further described below, of one or both of the following components (TAP Components):

- (1) Company Earnings Per Share (Target EPS); and/or
- (2) Divisional Income or other objectives referred to herein as Management Bonus Objectives (or MBOs)

The particular targets for each of the above named TAP Components for an upcoming year are established per the following process. The board deliberates and approves the company budget for the upcoming year, which

includes expected revenue, expenses, and earnings (and EPS, by dividing the target earnings by the number of shares outstanding), and which is based on many factors including the company's performance during the previous year, current trends, macro-economic considerations, and shareholder return. The budget approved EPS would serve as the Target EPS for TAP purposes. The Chief Executive Officer and the Chief Operating Officer/Chief Financial Officer then determine various divisional targets, consistent with the board's approved budget, and assign these targets, as well as other goals deemed appropriate (MBOs), to individual officers. The method of establishing MBOs are more particularly described below. Management then presents such assigned targets and objectives to the Compensation Committee for its review, revision (as may be appropriate) and approval.

For fiscal 2012, the weight of each component making up the Total Award Percentage for each named executive officers was as follows:

| | |
|---------------|---|
| Mr. Mashouf | 100% based on Target EPS; |
| Mr. Parks | 100% based on Target EPS (with 80% payable upon Target Earnings achieved; 20% payable on 2b bebe divisional income goals achieved); |
| Ms. Fabricant | 40% based on Target EPS and 60% based on MBOs bebe and bebe.com divisional performance goals achieved; |
| Ms. Powers | 70% based on Target EPS and 30% based on MBOs; and |
| Mr. Smith | 100% based on Target EPS |

Individuals Goals, MBOs and non-MBOs

At the beginning of each year, each executive officer submits his or her own proposed individual goals, which (with the exception of those submitted by the Chief Executive Officer) are reviewed and/or initially revised by the Chief Executive Officer, supervisory executive management member(s), or the Compensation Committee itself, as appropriate. Then, in consultation with the Chief Executive Officer (and/or the appropriate supervisory executive management member), the Compensation Committee reviews, revises or assigns (as appropriate) and approves the final individual goals for each executive officer. Regarding the Chief Executive Officer, he or she submits his or her own proposed individual goals directly to the Compensation Committee for review, appropriate revision, and ultimate approval.

As part of the approval process, and for those executives whose Total Award Percentage is based at least in part on MBOs, the Compensation Committee will identify one or more of an individual's approved goals as that executive's MBOs. Depending on the particular position held, examples of such MBOs might include: divisional comparative sales; comparable store sales, either for all Company stores or division specific stores; divisional operating income; comparative gross margin dollars; inventory shrink; and other important goals the Compensation Committee determines as appropriate. In addition, for certain positions in higher levels of management (including some of our executive officers), MBOs may include performance targets that relate to total Company revenue, comparable sales, operating income or other corporate performance results. The individual officer must successfully achieve each and every MBO in order to be entitled to any portion of a bonus payout. Those individual goals not chosen as MBOs will remain as that executive's non-MBO goals and will also be assessed in his/her year-end evaluation in determining whether the individual has achieved an overall performance rating of meets (or better), a requirement to be eligible to participate in the Cash Incentive Plan.

In fiscal 2012, the MBOs for the following named executive officers were as follows:

Mr. Mashouf - top line sales of greater than or equal to \$543 million;

Ms. Fabricant - bebe retail divisional income greater than or equal to \$26.3 million and bebe e-commerce divisional income greater than or equal to \$16.69 million; and

Ms. Powers - bebe retail compensation expenses less than or equal to 11.5% of net sales, same store sales in bebe greater than or equal to 6.3% and in 2b bebe greater than or equal to 7%, shrink less than or equal to 1.25%, divisional expenses less than or equal to \$7.6 million, and operating profit greater than or equal to \$66.6 million.

There were no MBOs in fiscal 2012 for the remaining named executive officers as 100% of their Total Award Percentage was based on certain corporate Target EPS. Thus, incentive cash compensation would only be payable to these NEOs upon their being eligible to participate in the Incentive Compensation Plan (described in ***Bonus Gates and Other Eligibility Requirements*** above) and the Company achieving the specified Target EPS. The one exception was Mr. Parks, who would be eligible for 100% incentive cash payment if the company achieved its Target EPS but would only receive an actual payout of 80% if the Company achieved its Target EPS but the 2b bebe division did not achieve its pre-determined divisional earnings target (set for fiscal 2012 as greater than or equal to \$10 million). In the case that both the Company and the 2b bebe division achieved its Target EPS and divisional earnings target respectively, Mr. Parks would receive an incentive payout of 100% of his TAP.

For those executives with MBOs, at the end of a fiscal year, and in consultation with the Chief Executive Officer (and/or supervisory executive management member as may be appropriate), the Compensation Committee will compare the performance of each relevant executive against his or her MBOs. If the Compensation Committee determines that one or more of the executive's MBOs was not met, the executive is not eligible for any component of the Total Award Percentage. However, if the Compensation Committee determines that all of the individual's MBOs were achieved, and so long as no other factor discussed herein would make the individual ineligible for bonus payout, then (1) the portion of potential Total Award Percentage assigned/weighted to his/her MBOs, is payable and (2) that individual would be eligible for the remaining components of the Total Award Percentage, or a portion thereof, as follows.

Remaining Components (non-MBOs)

If the Compensation Committee determines that the relevant individual's MBOs were achieved, the Compensation Committee would then, again in consultation with the Chief Executive Officer (and/or supervisory executive management member as may be appropriate), compare his or her performance against his or her non-MBOs to determine if the executive achieved a "meets" (or better) on all of his or her performance goals as a group. If the Compensation Committee determines the executive achieved a "meets" (or better) and so long as no other factor discussed herein would make the individual ineligible for bonus payout, that executive would also be eligible for consideration for the portion of his or her Total Award Percentage allocated to the Target EPS (as described below).

For those Named Executive Officers with no MBOs and whose Total Award Percentage is weighted 100% to Target EPS, and assuming no other factor discussed herein would otherwise make any of these NEOs ineligible, the Compensation Committee will compare the Company's actual net income results against the established Target EPS goal to determine if those Named Executive Officers' bonuses are payable.

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Target EPSs and Potential Modifier

There are two dynamics that apply to the Target EPS component. First, the Compensation Committee sets a certain minimum EPS goal (Minimum Target) and a par EPS goal (Par Target). Should the Company fail to achieve at least the Minimum Target, then those executives whose Total Award Percentage is tied exclusively to Target EPS shall not be entitled to any bonus and those executives whose Total Award Percentage is split by some proportion between Target EPS and MBOs or other components shall lose eligibility for the portion of bonus which is tied to Target EPS. In the case of fiscal 2012, the Compensation Committee set the Minimum Target goal of \$.10 and a Par Target goal of \$.11. Both the Minimum Target and Par Target are highlighted in bold in the chart below and referenced as footnotes 1 and 2. Second, if at least the Minimum Target is achieved, a multiplication factor found on a sliding scale of between 50% and 230% (as shown in the modifier column from between 0.5 to 2.3 and depending on the actual level of EPS achieved) shall be used to modify at least some portion of the individual s bonus, as the following bonus chart and subsequent discussion further explains.

| EPS | modifier | CEO | COO | Pres | Grade 14 | VPHR/ VPLP | Grade 13 | Grade 9-12 | Div Spec 2-8 |
|-----------------|-------------|-------------|------------|------------|-------------|---------------|-------------|---------------|--------------------|
| .1000(1) | 0.50 | 50% | 40% | 25% | 25% | 20% | 15% | 10% | 5% |
| .1050(2) | 0.75 | 75% | 60% | 38% | 38% | 30% | 23% | 15% | 8% |
| .1100(3) | 1.00 | 100% | 80% | 50% | 50% | 40% | 30% | 20% | 10% |
| .1200 | 1.10 | 110% | 88% | 55% | 55% | 44% | 33% | 22% | 11% |
| .1300 | 1.20 | 120% | 96% | 60% | 60% | 48% | 36% | 24% | 12% |
| .1400 | 1.30 | 130% | 104% | 65% | 65% | 52% | 39% | 26% | 13% |
| .1500 | 1.40 | 140% | 112% | 70% | 70% | 56% | 42% | 28% | 14% |
| .1600 | 1.50 | 150% | 120% | 75% | 75% | 60% | 45% | 30% | 15% |
| .1700 | 1.60 | 160% | 128% | 80% | 80% | 64% | 48% | 32% | 16% |
| .1800 | 1.70 | 170% | 136% | 85% | 85% | 68% | 51% | 34% | 17% |
| .1900 | 1.80 | 180% | 144% | 90% | 90% | 72% | 54% | 36% | 18% |
| .2000 | 1.90 | 190% | 152% | 95% | 95% | 76% | 57% | 38% | 19% |
| .2100 | 2.00 | 200% | 160% | 100% | 100% | 80% | 60% | 40% | 20% |
| .2200 | 2.10 | 210% | 168% | 105% | 105% | 84% | 63% | 42% | 21% |
| .2300 | 2.20 | 220% | 176% | 110% | 110% | 88% | 66% | 44% | 22% |
| .2400(4) | 2.30 | 230% | 184% | 115% | 115% | 92% | 69% | 46% | 23% |

- (1) 50% bonus @ \$.10 EPS
- (2) 75% bonus @ \$.1050 EPS
- (3) 100% bonus @ \$.1100 EPS
- (4) 230% bonus @ \$.2400 EPS

The first column (labeled EPS) contains various potential EPS results. The actual row that would apply is determined by the Company s actual 2012 EPS results. For example, the row starting with the \$.1100 EPS number (bolded across, 3rd row down) is the row that would apply if we achieved 100% of the Target EPS (\$.1100 EPS). The particular number found in the second column (labeled modifier) and in the row identified by the actual EPS achieved by the company is the number that will be multiplied by the individual s Total Award Percentage, the result of which will be the new potential Total Award Percentage available for that person.

Upon verification of actual year-end company EPS for the year, the Compensation Committee would scroll down the 1st column and identify such EPS number and, using the same row containing that earnings number, would scroll across to find the correlating Total Award Percentage in the far right box on the applicable to whichever position is at issue (positions noted on the top of the box). The Compensation Committee would then take that correlated percentage number from the far right box, which now becomes the revised Total Award

Percentage, and multiply it by the individual's base salary. The result will be the new total dollar amount available for potential bonus. Such amount will then be divided into its one or two component amounts based on the relative component weights assigned to that individual by the Compensation Committee (discussed in *Incentive Cash Compensation, Components of Total Award Percentage* above). Once the one or two component amounts are ascertained, the Compensation Committee will then determine, subject to the above-described qualifications, which of the components were successfully achieved and pay out the amount(s) pertaining to the component(s) successfully achieved.

By way of example, and using the chart above, we look at a hypothetical Senior Vice President position, which as a grade 14, has a 50% bonus potential and, with a Bonus Gate weighted towards the corporate EPS, has a component allocation of 70% based on EPS and 30% based on MBOs. We will also apply a hypothetical scenario where: (1) his/her base salary is \$300,000; (2) the Company achieved an EPS number of \$.1300; (3) he/she did achieve his/her MBO(s); (4) he/she did achieve a year-end performance review of meets or better; and (5) he/she was employed at the time year-end bonuses were paid out. This level of Company EPS would engage the chart in the 5th row. Scrolling to the right, the modifier would be 1.20, which would be multiplied by his/her original bonus potential of 50%. The new potential bonus for the individual would be 60% (as reflected in the 5th row down in the Grade 14 column). The Compensation Committee would then apply that percentage against his/her salary (60% multiplied by \$300,000) and arrive at a total potential bonus of \$180,000. The Compensation Committee would then break that number down to its component parts. Since the hypothetical Senior Vice President's individual component percentages are 70% Target EPS and 30% MBOs, \$126,000 (or 70% of \$180,000) would be the available bonus related to the Target EPS component and \$54,000 (or 30% of \$180,000) would be the available bonus if he/she achieved his/her MBO(s). The Compensation Committee would then review actual year-end results and performance. Given the hypothetical described above, this individual would be eligible for a bonus and would be paid for both the Target EPS portion and the MBO portion, thus receiving a \$180,000 bonus.

Stretch Goals and Stretch Bonus

For Division specific leadership roles, participants are incentivized to exceed their divisional income targets (DIT's). These stretch goals are determined by the CEO, after consultation with Management's compensation committee and approved by the Board's Compensation Committee. For fiscal year 2012, the stretch goals for each division were set at 25%, 35% and 50% above the respective division's budgeted divisional income. For an executive to be eligible for a stretch bonus payout award, he/she first must meet all other incentive plan criteria previously stated. Second, he/she must exceed his/her respective division's TDI's by at least 25%. If he/she achieves the stretch goal, the executive would be eligible to receive a stretch (additional) bonus value equal to 25%, 35% or 50% of their MBO portion of his/her TPA. The payment of the stretch bonus is calculated in dollars and paid out in the cash equivalent number of RSUs based upon the closing stock price on the day the stretch bonuses are approved. The associated RSU award would vest in two equal installments, each vesting on the first and second anniversary of the grants, respectively. By way of example we look at a hypothetical Senior Vice President position, which as a grade 14, has a 50% bonus potential. We would also apply a hypothetical scenario where: (1) his/her base salary is \$300,000; (2) his/her division exceeded their DIT by 25%; and (3) all other incentive plan criteria were met. This individual would be eligible to receive 25% of his/her MBO portion (60%) of his/her TPA. In this example, the individual would be entitled to 4,286 RSUs (or Stretch Bonus Payout Award), calculated as follows: \$300,000 base salary times 50% (TAP), the result being \$150,000; multiply this product by 60% (MBO portion) resulting in \$90,000; multiply the \$90,000 by 25% (the percentage his/her DIT was exceeded) for a would-be cash value of \$22,500; and convert that would-be cash value into the appropriate number of RSUs to be awarded. Using a hypothetical closing share price of \$5.25, this individual would be awarded 4,286 RSUs as his/her Stretch Bonus Payout Award.

Stock Options

We believe that employee equity ownership provides executive officers with significant additional motivation to maximize value for our shareholders. Because stock options are granted with an exercise price equal to the

prevailing market price as of the grant date, stock options will only have value if our stock price increases over the exercise price. Thus, the executive is further incentivized from the time of the grant to enhance sales, gross margin, productivity, control expenses and to otherwise contribute to conditions which will lead to increasing the stock price, which will in turn increase his or her stock option value. Due to the direct, and potentially significant, benefit executive officers could receive through improved stock performance, we believe that stock options are a critical component to our compensation philosophy of aligning the interests of our executive officers and our shareholders.

Again, Stock Options (and **Restricted Stock Units**, as described below) are generally used to bring an executive's Total Direct Compensation (at target) up to approximately the median level Total Direct Compensation for his or her comparable position found in our Peer Group Companies. Thus, we believe Stock Options (and Restricted Stock Units) are critical components in our Compensation Philosophy as they provide additional means to both recruit quality candidates and retain our performing executives.

Accordingly, the Compensation Committee established the Company's Option Grant Plan, which is implemented under our 1997 Stock Plan (as amended). Under this plan, the Compensation Committee grants options to our executive officers and eligible employees (those at or above a certain internal grade level), which vest either based upon time elapsing (Time Based Options) or performance achievement (Performance Based Options), both as further discussed below.

Generally, the decision whether to grant stock options, whether they will be Time Based Options or Performance Based Options and the size of such grants, are determined in light of the relative responsibilities of the executive officer, his or her historical and/or expected contributions to the Company as well as recruitment and retention considerations.

Certain newly hired executive officers receive relatively larger initial stock option grants in order to bring them up to competitive levels of total annual compensation and, in many cases, to replace options forfeited as a result of leaving another Company.

Annual grants may be awarded after the initial stock option grant in order to continue to tie an individual's compensation to our financial performance and to shareholder value as well as to address retention considerations. The Compensation Committee considers the relative size and value of the initial stock option grant to an executive officer when determining the appropriate size of the executive's subsequent annual grant(s), if any.

An annual option grant will be made by the Compensation Committee, if at all, at its meeting scheduled in the third month of the first fiscal quarter of each fiscal year. All other option grants for which a request has been submitted for approval by our human resources department, such as grants made in connection with new hires, employee promotions and superior employee performance, need to be approved by the unanimous written consent of the Compensation Committee, and are effective on the later of (a) the 15th (or, if occurring on a weekend or holiday, the next business day thereafter) of the month following the month in which the grant request was submitted or (b) the date the last approval from the Compensation Committee is received. However, in months in which we have an earnings release scheduled on or after the date on which such grants would otherwise become effective, the effective date of the grants approved by the Compensation Committee will be two business days following the earnings release.

Our Time Based Options vest over a four-year period, 20% after each of the first and second anniversaries of the grant and 30% after each of the third and fourth anniversaries. The vesting of each incremental portion is dependent upon the employee being employed continuously through the particular vest date. Since vesting of our Time Based Options occurs over a relatively long period of time and the majority of the options contained within any grant vest in later years, we believe this encourages retention of key employees and serves our above stated compensation goals and philosophy.

Vesting of Performance Based Options under the plan is tied to either the individual's, the division's or the Company's specified performance targets, as determined in advance by the Compensation Committee, which clearly aligns the individual's (and Company's) goals with those of the shareholders.

Restricted Stock Units

In addition to having the desirable characteristics similar to those associated with Stock Options, including aligning executive/employee interest with shareholder interest, providing flexibility in crafting an executive's Total Direct Compensation and providing recruitment and retention value, we believe that awards or grants of restricted stock units can provide another means by which to reward an individual who has demonstrated a high level of performance and/or potential. Therefore, the Compensation Committee has adopted a Restricted Stock Incentive Plan, which is also implemented under our 1997 Stock Plan (as amended), pursuant to which the Compensation Committee may award or grant employees, and executive officers restricted stock units (RSUs).

The determination of appropriateness and size of a restricted stock unit (RSU) award for an individual is based on that particular individual's responsibilities and expected contribution as well as the Compensation Committee's belief, and based on the recommendation of management where appropriate, that an RSU award is the best motivator for that particular individual.

A particular RSU award, at Compensation Committee discretion, is awarded either where granting is subject to time elapsing (Time Based RSUs) or where granting is contingent upon certain performance goals being met (Performance Based RSUs). In either case, an additional time vesting feature may be added.

The timing of recommendation, request, and Compensation Committee approval regarding Time Based RSUs awarded under this plan is identical to that which applies to stock options. (See above, ***Compensation Components, Stock Options.***)

Performance Based RSUs awarded under this plan may be awarded at any time (but usually upon the hiring of the individual or during the first quarter of the applicable fiscal year) and are tied to either the individual's or business specific performance targets, as determined by the Compensation Committee. However, these Performance Based RSUs would then be formally granted only upon the Compensation Committee's determination of successful achievement of the applicable targets assigned. Again, upon such determination, the performance RSUs may have an additional time vesting feature, all as prospectively determined at the time of the award by the Compensation Committee.

Whether the particular awarded RSUs are Time Based RSUs or Performance Based RSUs, once they are actually granted (upon the completion of time and/or successful achievement of the assigned performance goal), they will then typically vest over a two-year period, in equal annual installments on the first two anniversaries of the grant date.

Deviation

Any deviation from implementing any of the policies or procedures as described above must be approved by the Compensation Committee.

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2012 Compensation of Named Executive Officers

Total Compensation for the named executive officers payable in fiscal 2012 was established per the policies described above and is specifically described in the paragraphs that follow and in the **SUMMARY COMPENSATION TABLE** below.

Base Salary

In early fiscal 2012, the base salary for each NEO was carefully evaluated in light of the results of the compensation survey commissioned by the Compensation Committee, the reports and performance reviews related to fiscal 2011 provided by the Chief Executive Officer and other supervising executives, the Company's fiscal 2011 performance results and the other considerations described above. As a result, and during its meetings at the commencement of fiscal year 2012, the Compensation Committee decided on the following base salary actions pertaining to fiscal 2012: (1) maintain (without raise) the 2011 yearly base salary rates for Mr. Mashouf at \$368,000 and for Ms. Fabricant at \$600,000 and (2) raise the 2011 yearly base salary rates for Mr. Parks from \$500,000 to \$550,000, for Ms. Powers from \$360,500 to \$375,500 and for Mr. Smith from \$275,000 to \$300,000.

Actual fiscal 2012 base salary details are shown in the **SUMMARY COMPENSATION TABLE** below.

Incentive Cash Compensation

Our executives' bonus goals and targets for fiscal 2012, which would have been the subject of any bonus actually paid out during fiscal 2013, were established by the Compensation Committee in accordance with the bonus plan described above. Upon review of the Company's and the executives' performances against pre-established goals for the fiscal year 2011, the Compensation Committee determined that based on the 2012 reported Company EPS of \$.14, the Company's Minimum Target was met and exceeded and that the bonus multiplier in the chart of above shown bonus chart was appropriate and would be applied to those eligible for payout.

Based on the Company EPS Target goals being met and exceeded, and the relevant bonus gates and other eligibility requirements being achieved, the Committee approved the payment of \$450,000 for Mr. Parks and \$192,000 for Mr. Smith, each according to the process described above. The Committee also determined that the MBOs for Mr. Mashouf and Ms. Fabricant were not achieved, and the stretch bonus goals for Ms. Fabricant were not achieved, and therefore did not award bonuses to these NEOs. While the Committee concluded that the MBOs for Ms. Powers were not met, they decided that actual results were in substantial compliance with the applicable pre-determined MBOs and used their discretion and award Ms. Powers her full bonus of \$242,000. All of the above is reflected in the **SUMMARY COMPENSATION TABLE** below.

Stock Options

During fiscal 2012, after considering the factors described above in **Compensation Components, Stock Options**, the Compensation Committee decided to award to Mr. Parks 75,000 stock options, to Ms. Powers 15,000 stock options, and to Mr. Smith 20,000 stock options, all of which are Time Based Options and reflected in the GRANT OF PLAN-BASED AWARDS, below. The company did not award Mr. Mashouf options given his significant ownership in the company nor to Ms. Fabricant given the significant option awards received upon the relatively recent commencement of her employment. See below, **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**.

Restricted Stock Units

After completing Fiscal 2011 year-end performance reviews for the named executive officers, and other factors described in **Compensation Components, Restricted Stock Units** above, the Compensation Committee decided not to award restricted stock to any of the named executive officers above named activity is reflected in

the **SUMMARY COMPENSATION TABLE AND GRANT OF PLAN-BASED AWARDS TABLE**, below. The company also considered Mr. Mashouf's significant ownership in the company in not awarding any restricted stock to him. See below, **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

Benefits and Perquisites

In fiscal 2012, we offered additional benefits designed to be competitive with overall market practices, and to attract and retain the talent needed in the Company. Our named executive officers were eligible to participate in our general benefit programs, available to all full-time employees, which include: the bebe Retirement and Savings Plan (Section 401(k) plan), with discretionary Company matching contributions; an employee stock purchase plan; bebe Health and Welfare Plan (health care coverage); a specified medical cost reimbursement plan; life insurance; disability pay; and paid holidays. Two benefits offered to the named executive officers (and other executives), not available to all employees, were: reimbursement for certain qualified medical, dental and vision expenses, subject to an expense cap depending on the position held; and a disability benefit which adds 10% of an individual's base salary earnings to the percentage of base salary earnings already available to all full-time employees under the Company's general disability plan. We do not maintain a defined benefit pension plan or a nonqualified deferred compensation plan.

Section 162(m) of the Internal Revenue Code

We have considered the provisions of Section 162(m) of the Internal Revenue Code of 1986, and related Treasury Department regulations, which restrict deductibility of executive compensation paid to the certain Named Executive Officers holding office at the end of any year to the extent such compensation exceeds \$1,000,000 for any of such officers in any year and does not qualify for an exception under the statute or regulations. Income from options granted under our shareholder-approved 1997 Stock Plan, as amended, would generally qualify for an exemption from these restrictions so long as the options are granted by a committee whose members are outside directors within the meaning of Section 162(m) and have an exercise price no less than the fair market value of the underlying shares on the date of grant. We expect that the Compensation Committee will continue to be comprised of outside directors, and that to the extent such committee is not so constituted for any period of time, the options granted during such period will not be likely to result in compensation exceeding \$1,000,000 in any year. The Compensation Committee does not believe in general that other components of our compensation will be likely to exceed \$1,000,000 for any executive officer in the foreseeable future, and therefore concluded that no further action with respect to qualifying such compensation for deductibility is necessary at this time. In the future, the Compensation Committee will continue to evaluate the advisability of qualifying its executive compensation for deductibility under Section 162(m). The Compensation Committee's policy is to qualify its executive compensation for deductibility under applicable tax laws as practicable.

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SUMMARY COMPENSATION TABLE

The following table sets forth information for the fiscal years ended June 30, 2012, July 2, 2011, and July 3, 2010 concerning the compensation of our principal executive officer, principal financial officer and three other most highly compensated executive officers as of the end of fiscal year 2012, whose total compensation for the year ended June 30, 2012 exceeded \$100,000 for services in all capacities to bebe and our subsidiaries (the Named Executive Officers).

| Name and Principal Position | Year | Salary | Bonus | Stock Awards | Option Awards | Non-Equity Incentive Plan Compensation | Change in Pension Value and Nonqualified Deferred Compensation Earnings | All Other Compensation | Total |
|--|------|---------|------------|--------------|---------------|--|---|------------------------|-----------|
| | (1) | (1) | | (2) | (3) | (4) | | (5) | (6) |
| Manny Mashouf, Chairman and Chief Executive Officer | 2012 | 368,000 | - | - | - | - | - | - | 368,000 |
| | 2011 | 368,000 | - | - | - | - | - | - | 368,000 |
| | 2010 | 368,000 | - | - | - | - | - | - | 368,000 |
| Walter Parks Chief Operating Officer and Chief Financial Officer | 2012 | 540,384 | - | - | 207,713 | 450,000 | - | 11,923 | 1,210,020 |
| | 2011 | 490,384 | - | - | 227,510 | - | - | - | 717,894 |
| | 2010 | 450,000 | - | - | - | - | - | - | 450,000 |
| Emilia Fabricant President, bebe stores, inc. | 2012 | 600,000 | - | - | - | - | - | - | 600,000 |
| | 2011 | 530,769 | 248,970(7) | 374,998 | 441,280 | - | - | - | 1,596,017 |
| | 2010 | - | - | - | - | - | - | - | - |
| Susan Powers, Senior Vice President, Stores | 2012 | 372,212 | - | - | 41,543 | 242,000 | - | - | 655,755 |
| | 2011 | 358,480 | - | - | 22,751 | - | - | - | 381,231 |
| | 2010 | 350,000 | - | - | - | - | - | - | 350,000 |
| Lawrence Smith, Senior Vice President, General Counsel | 2012 | 295,192 | - | - | 55,390 | 192,000 | - | - | 542,582 |
| | 2011 | 270,156 | - | - | 34,127 | - | - | - | 304,283 |
| | 2010 | 250,000 | - | - | - | - | - | - | 250,000 |

(1) All cash compensation received by each Named Executive Officer in fiscal 2012 is found in the Salary, Bonus, or Non-Equity Incentive Plan Compensation column of this table. The figure shown in the Salary column of this table reflects the amount actually received by the Named Executive Officer, not such officer's annual rate of pay for the fiscal year; reasons annual rates of pay may/would be higher than amounts shown in this table would include, but not be limited to, where the executive started or ended employment during the fiscal year, where his/her particular salary increase went into effect during the fiscal year or if the executive elected to take time off without pay.

(2) Amounts shown represent the aggregate grant date fair value of restricted stock units granted in the year indicated computed in accordance with FASB ASC Topic 718. Assumptions used to calculate the value of the awards are set forth under footnote 13 in our most recent 10-K filing for fiscal year ended June 30, 2012.

(3) Amounts shown represent the aggregate grant date fair value of options granted in the year indicated computed in accordance with FASB ASC Topic 718. Assumptions used to calculate the value of the stock options are set forth under footnote 13 in our most recent 10-K filing for fiscal year ended June 30, 2012.

(4) Amounts listed, if any, were earned during fiscal year 2012, and paid in fiscal year 2013.

(5) Amounts of other compensation are not listed unless cumulatively amount to more than \$10,000.

(6) Total dollar value of all compensation.

(7) Gross amount of sign-on bonus, subject to repayment upon certain conditions.

GRANTS OF PLAN-BASED AWARDS

The following table provides the specified information concerning grants of non-equity and equity based awards made during the fiscal year ended June 30, 2012, to the Named Executive Officers.

| Name | Grant Date | Estimated Future Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | All Other Stock Awards: Number of Shares of Stock or Units | All Other Option Awards: Number of Securities Underlying Options | Exercise or Base Price of Option Awards | Grant Date Fair Value of Stock and Option Awards (1) |
|-----------|------------|---|---------|---------|---|--------|---------|--|--|---|--|
| | | Threshold | Target | Maximum | Threshold | Target | Maximum | | | | |
| Manny | 9/15/11 | \$184,000 | 368,000 | 846,400 | - | - | - | (2) | - | - | - |
| Mashouf | | | - | | | | | | | | |
| Walter | 9/15/11 | 216,154 | 432,307 | 994,306 | - | - | - | - | 75,000 | \$7.37 | \$207,713 |
| Parks | | | | | | | | | | | |
| Emilia | 9/15/11 | 150,000 | 300,000 | 690,000 | - | - | - | 7,389, 10,345 or 14,778 | - | - | - |
| Fabricant | | | | | | | | | | | |
| Susan | 9/15/11 | 93,053 | 186,106 | 428,044 | - | - | - | - | 15,000 | \$7.37 | \$41,543 |
| Powers | | | | | | | | | | | |
| Lawrence | 9/15/11 | 73,798 | 147,596 | 339,471 | - | - | - | - | 20,000 | \$7.37 | \$55,390 |
| Smith | | | | | | | | | | | |

(1) Amounts shown represent the grant date fair value of the respective award computed in accordance with FASB ASC Topic 718 and do not reflect whether the recipient has actually realized or will realize a financial benefit from the awards (such as by exercising the stock option). The value of a stock and option awards is based on the fair value of the awards as of the grant date. Assumptions used to calculate the value of the awards are set forth under footnote 13 in our most recent 10-K filing for fiscal year ended June 30, 2012.

(2) Ms. Fabricant was given stretch goals at the beginning of Fiscal 2012 where if the budgeted bebe divisional income goals were exceeded in Fiscal 2012 by 25-34.99%, 35%-49.99% or greater than or equal to 50%, she would be granted 7,389, 10,345 or 14,778 RSUs respectively, and as further described in *Compensation Components, Stretch Goals and Stretch Bonus* above.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

(A)

| Name | Option Awards | | | | | Stock Awards | | | |
|---------------|---|---|---|-----------------------|------------------------|---|--|---|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price | Option Expiration Date | Number of Shares or Unites That Have Not Vested | Market Value of Shares or Units That Have Not Vested | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested |
| Manny | - | - | - | - | - | - | - | - | - |
| Mashouf | | | | | | | | | |
| (2) | | | | | | | | | |
| Walter Parks | 152,036 | - | - | \$7.63 | 12/07/13 | - | - | - | - |
| (3) | | | | | | | | | |
| (4) | 35,000 | 15,000 | - | \$10.01 | 9/07/18 | - | - | - | - |
| (5) | 50,000 | - | - | \$6.11 | 12/14/18 | - | - | - | - |
| (6) | 133,348 | - | - | \$7.64 | 9/28/16 | - | - | - | - |
| (7) | 20,000 | 80,000 | - | \$6.29 | 9/15/20 | - | - | - | - |
| (8) | - | 75,000 | - | \$7.37 | 9/14/21 | - | - | - | - |
| Emilia | - | 160,000 | - | \$6.10 | 8/08/20 | - | - | - | - |
| Fabricant (9) | | | | | | | | | |
| (10) | - | - | - | - | | 40,983 | \$249,996 | - | - |
| Susan | 10,500 | 4,500 | - | \$10.01 | 9/07/18 | - | - | - | - |
| Powers | | | | | | | | | |
| (4) | | | | | | | | | |
| (7) | - | 8,000 | - | \$6.29 | 9/15/20 | - | - | - | - |
| (8) | - | 15,000 | - | \$7.37 | 9/14/21 | - | - | - | - |
| Lawrence | 21,000 | 9,000 | - | \$10.01 | 9/07/18 | - | - | - | - |
| Smith (4) | | | | | | | | | |
| (6) | 59,392 | - | - | \$7.64 | 9/28/16 | - | - | - | - |
| (7) | 3,000 | 12,000 | - | \$6.29 | 9/15/20 | - | - | - | - |
| (8) | - | 20,000 | - | \$7.37 | 9/14/21 | - | - | - | - |

(A) The number of shares indicated in this chart (as well as in SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT) account for, as the participants elected to participate, the option exchange program the Company announced during fiscal 2009, processed during the first fiscal quarter of 2010 and as is further described as follows. The Company filed a Tender Offer Statement on Schedule TO with the SEC pursuant to which the Company extended an offer to employees and non-employee directors to exchange up to an aggregate of 2,058,475 options to purchase shares of our common stock, whether vested or unvested. Options with an exercise price greater than \$10.74 per share and an expiration date after September 29, 2009 were eligible to be tendered pursuant to the offer. The closing market price on September 29, 2009 was \$7.64. In accordance with the Tender Offer (the "TO"), the number of new options issued was based on exchange ratios as set forth in the table below:

| Exercise Price Range | Shares Subject to Option Surrendered | Shares Subject to Replacement Option To Be Granted |
|----------------------|---|--|
| \$ 10.75-\$14.99 | 1.14 | 1 |
| \$ 15.00-\$19.99 | 1.84 | 1 |
| \$ 20.00 and above | 2.06 | 1 |

A total of 1,710,735 options were tendered and cancelled, and a total of 1,126,267 replacement options were granted on September 29, 2009 with an exercise price of \$7.64 per share. Replacement options granted in exchange for fully or partially unvested surrendered options at the time they were surrendered for cancellation will vest as follows: (A) vested shares subject

to eligible options and unvested shares subject to eligible options scheduled to vest prior to the one-year anniversary of the replacement grant date shall vest on the one-year anniversary of the replacement grant date and (B) unvested shares subject to eligible options scheduled to vest after the one-year anniversary of the replacement grant date shall vest according to the original vest dates of the eligible option. The TO was subject to modification accounting pursuant to FASB ASC 718-20-35-3 whereby the total compensation cost measured at the date of modification was the incremental cost resulting from the modification. The incremental cost resulting from the modification is measured as the excess of the fair value of the modified award over the fair value of the original award immediately before its terms are modified. The incremental fair value of \$0.3 million for the new awards was computed using an expected life of 4.07 years, a risk-free interest rate of 1.94% and a volatility of 54%. The incremental fair value of the unvested awards is being amortized over the remaining service period.

- (1) Options granted during fiscal 2006 and later vest over four years, with 20% of the award vesting on each of the first and second anniversaries of the date of grant and 30% of the award vesting on each of the third and fourth anniversaries of the date of grant; options granted prior to fiscal 2006 vest over four years on a different yearly schedule, but have all since vested.
- (2) Mr. Mashouf, as founder and a holder of a majority of the Company's outstanding shares, has never been granted options.
- (3) Grant date was December 8, 2003 (Mr. Parks' initial stock option grant).
- (4) Grant date was September 8, 2008.
- (5) Grant date was December 15, 2008.
- (6) Grant date was September 29, 2009 (date of acceptance of bebe's Offer to Exchange - see description of the material terms of the offer described above).
- (7) Grant date was September 16, 2010.
- (8) Grant date was September 15, 2011.
- (9) Grant date was August 9, 2010 (Ms. Fabricant's initial stock option grant).
- (10) Grant date was August 9, 2010 (Ms. Fabricant's initial restricted stock award), with full vesting on the first anniversary of the grant date.

OPTION EXERCISES AND STOCK VESTED

(During Fiscal 2012)

| Name | Option Awards | | Stock Awards | |
|------|---|-------------------------------|--|------------------------------|
| | Number of Shares Acquired on Exercise | Value Realized on Exercise | Number of Shares Acquired on Vesting | Value Realized on Vesting |
| | (#) | \$(1) | | (#)(2) |

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| | | | (#) | |
|------------------|--------|-----------|--------|---------|
| Manny Mashouf | - | - | - | - |
| Walter Parks | - | - | - | - |
| Emilia Fabricant | 40,000 | \$112,846 | 20,492 | 121,722 |
| Susan Powers | 15,587 | \$23,726 | - | - |
| Lawrence Smith | - | - | - | - |

- (1) Any value which would have been listed would have been the difference between the option exercise price and the market price of the underlying shares at exercise, multiplied by the number of shares acquired upon exercise.

- (2) Any value which would have been listed would have been the closing stock price as listed on the NASDAQ stock exchange on the day of vesting multiplied by the number of shares vested.

Employment Contracts, Severance, and Change in Control Arrangements

Except in those cases where there exists a fully executed Offer Letter which sets forth the basic terms concerning an executive's at-will employment relationship, we do not have any employment agreements with any of our named executive officers.

In the event of a Change in Control (as defined in the 1997 Plan), the vesting of restricted stock awards will be accelerated in full unless our right to reacquire the shares upon the participant's termination of service is assigned to the entity employing the participant immediately after the Change in Control or to its parent or a subsidiary. Options and restricted stock units will become vested in full upon a Change in Control if they are not continued, assumed, or replaced by the surviving Company or its parent. Additionally, we engaged one severance and change in control agreement with the following named executive officer as further described as follows:

EMILIA FABRICANT

Ms. Fabricant's offer letter agreement, dated August 2, 2010 (the "Letter"), provides for severance benefits in certain circumstances. If her employment is terminated by the Company other than for cause, disability or death, and she signs a full release, the Letter provides she would be entitled to receive continued payment of her base salary for a 12-month period following such termination, payable in accordance with our normal pay schedule, as her sole compensation, consideration and benefit (no bonus or equity payable or issuable). If however, such termination other than for cause, disability, or death occurred during the first year of her employment, she would be entitled to vesting of 40,000 stock options and the vesting and issuance of \$125,000 worth of RSUs.

In addition, the Letter provided that in the case of a Change in Control (as that term is defined in our 1997 Stock Plan), all of Ms. Fabricant's unexercised options and unvested RSUs shall accelerate, vest and issue, except in the cases where (1) the company is not privately held, (2) the Chairman controls less than 50% of the outstanding shares but still retains directional authority over the company and his position as Chairman or (3) where no other person controls more shares than the Chairman.

The following table sets forth the amount of potential payments to (as described above) based on an assumed termination date of July 30, 2012:

| | Non-cause, non-voluntary severance (Not related to a change of control) | Severance - change of control |
|-------------------------------|--|-------------------------------|
| Salary | \$600,000(1) | \$0 |
| Bonus | \$0 | \$0 |
| Equity Acceleration (Options) | \$0(2) | \$0(4) |
| Equity Acceleration (RSUs) | \$0(3) | \$240,570(5) |
| Total | \$600,000 | \$240,570 |

- (1) Payable per Company's normal pay schedule.
- (2) Since such hypothetical event occurred after August 9, 2011 (Ms. Fabricant's one-year anniversary), this value is zero.
- (3) Since such hypothetical event occurred after August 9, 2011 (Ms. Fabricant's one-year anniversary), this value is zero.
- (4) Since the strike price (\$6.10) was higher than the closing price of the stock on June 30, 2012 (\$5.87), this value is zero.
- (5) Represents number of unvested RSUs (40,983) multiplied by the closing price of the stock on June 30, 2012 (\$5.87).

REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

Our Compensation and Management Development Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, our Compensation and Management Development Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement and, through incorporation by reference from this proxy statement, our Annual Report on Form 10-K for the year ended June 30, 2012.

Barbara Bass, Chair

Cynthia Cohen

Corrado Federico

The foregoing Report of our Compensation and Management Development Committee does not constitute soliciting materials and shall not be deemed filed or incorporated by reference into any other filing by us with the SEC, except to the extent specifically incorporated by reference.

PROPOSAL NO. 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our Audit Committee has selected Deloitte & Touche LLP as the independent registered public accounting firm to audit both our consolidated financial statements and internal control over financial statements for the fiscal year ending July 6, 2013. A representative of Deloitte & Touche LLP is expected to be present at the Annual Meeting of Shareholders with the opportunity to make a statement if the representative desires and to respond to appropriate questions.

Vote Required and Board of Directors Recommendation

Shareholder ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm is not required by our bylaws or otherwise. Our board of directors, however, is submitting the selection of Deloitte & Touche LLP to the shareholders for ratification as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee and the board of directors will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee and the board of directors in their discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of us and our shareholders.

The affirmative vote of a majority of votes cast at the Annual Meeting of Shareholders, at which a quorum is present, is required for approval of this proposal. If no vote is indicated on the proxy, except in the case of a broker non-vote, the shares will be voted for the proposal. Abstentions and broker non-votes will not affect the outcome of the vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JULY 6, 2013.

PRINCIPAL ACCOUNTING FIRM FEES

The following table sets forth the aggregate fees billed to us for the fiscal years ended July 2, 2011 and June 30, 2012 by our principal accounting firm, Deloitte & Touche LLP:

| | 2011 | 2012 |
|-----------------------|---------------------|-------------------|
| Audit Fees(1) | \$ 900,000 | \$ 835,000 |
| Tax and Other Fees(2) | \$ 160,000 | \$ 6,000 |
| Total | \$ 1,060,000 | \$ 841,000 |

(1) Audit Fees consist of fees billed for professional services rendered in connection with the audit of our consolidated annual financial statements and internal control over financial reporting, the review of our interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings and engagements.

(2) Tax and Other Fees consist primarily of tax compliance, planning, and advice.

With minor and immaterial exceptions, all of the services provided in fiscal 2012 were approved in advance by the Audit Committee. Any services Deloitte & Touche performed in addition to approved in advance were discussed and approved both at the time of service and/or after the end of the fiscal year.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of September 1, 2012, with respect to the beneficial ownership of our common stock by (i) all persons known by us to be the beneficial owners of more than 5% of our outstanding common stock, (ii) each of our directors and director-nominees, (iii) each of our executive officers named in the Summary Compensation Table in this Proxy Statement and (iv) all of our executive officers and directors as a group:

| Name and Address of Beneficial Owners(2) | Shares Owned(1) | |
|--|------------------|----------------------|
| | Number of Shares | Percentage of Class% |
| Manny Mashouf(3) | 45,687,537 | 54% |
| Barbara Bass(4) | 229,546 | * |
| Cynthia Cohen(5) | 247,661 | * |
| Corrado Federico(6) | 229,546 | * |
| Caden Wang(7) | 238,921 | * |
| Walter Parks | 440,384 | * |
| Emilia Fabricant | 40,000 | * |
| Susan Powers | 20,000 | * |
| Lawrence Smith | 99,392 | * |
| All directors, director nominees and executive officers as a group (11 persons)(8) | 47,551,168 | 56 |

* Less than 1%

(1) Number of shares beneficially owned and the percentage of shares beneficially owned are based on 84,388,298 shares outstanding as of September 1, 2012. We determine beneficial ownership in accordance with the rules of the SEC and a person is deemed to be the beneficial owner of shares that can be acquired by such person within 60 days upon exercise of outstanding options. Shares of common stock subject to options granted under bebe's 1997 Plan, as amended, that are currently exercisable or exercisable within 60 days of September 1, 2012 are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the number of shares beneficially owned and the percentage of ownership of such person, but are not deemed to be outstanding or to be beneficially owned

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for the purpose of computing the percentage of ownership of any other person. Except as indicated in the footnotes to the

table and subject to applicable community property laws, based on information provided by the persons named in the table, we believe that the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

- (2) Unless otherwise noted, the address of each beneficial owner is c/o bebe stores, inc., 400 Valley Drive, Brisbane, California 94005.
- (3) Includes 357,750 shares held in trusts for the benefit of Mr. Mashouf's children, as to which Mr. Mashouf disclaims beneficial ownership. Includes 415,204 shares held by the Manny Mashouf Charitable Remainder Trust of which Mr. Mashouf is trustee, and 44,914,583 shares owned by the Manny Mashouf Family Trust. Manny Mashouf is the trustee of the Mashouf Family Trust. Mr. Mashouf has pledged 25 and 4 million shares, respectively, to certain lending institutions to support personal loans. If some or all of these shares were foreclosed upon following a default under these loans, this could result in Mr. Mashouf no longer owning a majority of our shares.
- (4) Includes 56,255 shares subject to options exercisable within 60 days of September 1, 2012, 3,384 shares subject to restricted stock units as to which the restriction lapses on October 21, 2012 and 12,027 shares subject to restricted stock units as to which the restriction lapses upon termination of Ms. Bass's service as a director.
- (5) Includes 56,255 shares subject to options exercisable within 60 days of September 1, 2012, 3,384 shares subject to restricted stock units as to which the restriction lapses on October 21, 2012 and 4,830 shares subject to restricted stock units as to which the restriction lapses upon termination of Ms. Cohen's service as a director.
- (6) Includes 56,255 shares subject to options exercisable within 60 days of September 1, 2012, 3,384 shares subject to restricted stock units as to which the restriction lapses on October 21, 2012, and 12,027 shares subject to restricted stock units as to which the restriction lapses upon termination of Mr. Federico's service as a director.
- (7) Includes 56,255 shares subject to options exercisable within 60 days of September 1, 2012, 3,384 shares subject to restricted stock units as to which the restriction lapses on October 21, 2012, and 4,830 shares subject to restricted stock units as to which the restriction lapses upon termination of Mr. Wang's service as a director.
- (8) Includes an aggregate of 310,520 shares subject to options exercisable within 60 days of September 1, 2012 held by the directors and executive officers, an aggregate of 13,536 shares subject to restricted stock units held by Ms. Bass, Ms. Cohen, Mr. Wang and Mr. Federico as to which the restriction lapses on October 21, 2012, and an aggregate of 33,714 shares subject to restricted stock units as to which the restriction lapses upon termination of the services of Ms. Bass, Ms. Cohen, Mr. Wang and Mr. Federico as directors as discussed in the footnotes above.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities and Exchange Act of 1934, as amended, requires our executive officers, directors and persons who beneficially own more than 10% of bebe's common stock (collectively, Reporting Persons) to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. Based solely on our review of the forms received by us or written representations from certain Reporting Persons, we believe that all Reporting Persons complied with all applicable reporting requirements during the fiscal year ended June 30, 2012.

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Equity Compensation Plan Information

The following table provides information as of June 30, 2012 with respect to shares of our common stock that may be issued under our existing equity compensation plans.

| | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance (c) |
|--|--|--|---|
| Equity compensation plans approved by shareholders | 4,939,584 | \$7.74 | 3,758,665 |
| Equity compensation plans not approved by shareholders | 0 | 0 | 0 |
| Total | 4,939,584 | \$7.74 | 3,758,665 |

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the quality of our financial statements and our financial reporting on behalf of the board of directors. Management has the primary responsibility for the financial statements, maintaining appropriate accounting and financial reporting principles and policies and the reporting process, including internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations and providing a report on management's assessment of our internal control over financial reporting. Deloitte & Touche LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements, expressing an opinion as to the conformity of our audited financial statements with accounting principles generally accepted in the United States, and providing an attestation report on the effectiveness of our internal control over financial reporting.

The Audit Committee consists of three directors, each of whom, in the judgment of the board, is an independent director for purposes of the Nasdaq Listing Rules as they apply to audit committee members.

The Audit Committee has discussed and reviewed with Deloitte & Touche LLP all matters required by the applicable regulations prescribed by the Public Company Accounting Oversight Board and Securities and Exchange Commission. The Audit Committee also received from Deloitte & Touche LLP written disclosures and the letter, required by the applicable regulations of the Public Company Accounting Oversight Board, regarding the independent accountant's independence. The Audit Committee has discussed the matter of independence of Deloitte & Touche LLP with that firm, including a review of both audit and non-audit fees, and satisfied itself as to the auditors' independence.

The Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP the audited consolidated financial statements. The Audit Committee has met with Deloitte & Touche LLP, with and without management present, to discuss the overall scope of Deloitte & Touche LLP's audit, the results of its examinations, its evaluations of our internal controls and the overall quality of our financial reporting.

Based on the review and discussions referred to above, the Audit Committee recommended to the board of directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

Caden Wang, Chair

Corrado Federico

Cynthia Cohen

SHAREHOLDER PROPOSALS TO BE PRESENTED

AT NEXT ANNUAL MEETING

Shareholder proposals may be included in our proxy materials for an annual meeting so long as they are provided to us on a timely basis and satisfy the other conditions set forth in applicable SEC rules. For a shareholder proposal to be included in our proxy materials for the 2013 annual meeting, we must receive the proposal at our principal executive offices, addressed to the Secretary, not later than June 14, 2013. In addition, shareholder business that is not intended for inclusion in our proxy materials may be brought before the annual meeting so long as we receive notice of the proposal in compliance with the requirements set forth in our bylaws, addressed to the Secretary at our principal executive offices, not later than June 14, 2013.

TRANSACTION OF OTHER BUSINESS

At the date of this proxy statement, the only business that the board of directors intends to present or knows that others will present at the meeting is as set forth above. If any other matter or matters are properly brought before the meeting, or any adjournments or postponements thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

Manny Mashouf

Brisbane, California

Chief Executive Officer

October 10, 2012

IMPORTANT ANNUAL MEETING INFORMATION

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

A Proposals The Board recommends a vote FOR all nominees and for Proposal 2.

1. To elect the five (5) directors named in the Proxy Statement to hold office for a one year term and until their successors are duly elected and qualified;

+

| | For | Withhold | | For | Withhold | | For | Withhold |
|-----------------------|------------|-----------------|-------------------|------------|-----------------|--------------------|------------|-----------------|
| 01 - Manny Mashouf | •• | •• | 02 - Barbara Bass | •• | •• | 03 - Cynthia Cohen | •• | •• |
| 04 - Corrado Federico | •• | •• | 05 - Caden Wang | •• | •• | | | |

2. To ratify the appointment of Deloitte and Touche LLP as our independent registered public accounting firm for the fiscal year ending July 6, 2013

| | For | Against | Abstain |
|--|------------|----------------|----------------|
| | •• | •• | •• |

B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Sign exactly as your name(s) appears on your stock certificate. If shares of stock stand on record in the names of two or more persons or in the name of husband and wife, whether as joint tenants or otherwise, both or all of such persons should sign the above proxy. If shares of stock are held of record by a corporation, the proxy should be executed by the President or Vice President and the Secretary or Assistant Secretary, and the corporate seal should be affixed thereto. Executors or administrators or other fiduciaries who execute the above proxy for a deceased stockholder should give their full title. Please date the proxy.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

Proxy bebe stores, inc.

Proxy for 2012 Annual Meeting of Shareholders

Solicited by the Board of Directors

The undersigned hereby constitutes and appoints Manny Mashouf and Larry Smith, and each of them, as his or her true and lawful agents and proxies with full power of substitution to represent the undersigned and to vote all of the shares of stock in bebe stores, inc. which the undersigned is entitled to vote at the bebe stores 2012 Annual Meeting of Shareholders to be held at the Company's principal executive offices located at 400 Valley Drive, Brisbane, California 94005 on October 22, 2012 at 9:30 a.m. local time, and at any adjournment thereof (1) as hereinafter specified upon the proposals listed below and as more particularly described in bebe's proxy statement, receipt of which is acknowledged and (2) in their discretion upon such other matters as may properly come before the meeting.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO SIGN AND PROMPTLY MAIL THIS PROXY IN THE RETURN ENVELOPE SO THAT YOUR STOCK MAY BE REPRESENTED AT THE MEETING.

This proxy when properly executed will be voted in the manner directed herein. If no direction is made, such shares shall be voted FOR the Company's nominees for election to the Board of Directors, and FOR ratification of Deloitte & Touche LLP, and as said proxies deem advisable on such other matters as may properly come before the meeting.

Even if you are planning to attend the meeting in person, you are urged to sign and mail the proxy in the return envelope so that your stock may be represented at the meeting.

IMPORTANT ANNUAL MEETING INFORMATION

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

q **PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A Proposals The Board recommends a vote **FOR** all nominees and for Proposal 2.

+

1. To elect the five (5) directors named in the Proxy Statement to hold office for a one year term and until their successors are duly elected and qualified;

| | For | Withhold | | For | Withhold | | For | Withhold |
|-----------------------|------------|-----------------|-------------------|------------|-----------------|--------------------|------------|-----------------|
| 01 - Manny Mashouf | •• | •• | 02 - Barbara Bass | •• | •• | 03 - Cynthia Cohen | •• | •• |
| 04 - Corrado Federico | •• | •• | 05 - Caden Wang | •• | •• | | | |

2. To ratify the appointment of Deloitte and Touche LLP as our independent registered public accounting firm for the fiscal year ending July 6, 2013

| For | Against | Abstain |
|------------|----------------|----------------|
| •• | •• | •• |

B Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Sign exactly as your name(s) appears on your stock certificate. If shares of stock stand on record in the names of two or more persons or in the name of husband and wife, whether as joint tenants or otherwise, both or all of such persons should sign the above proxy. If shares of stock are held of record by a corporation, the proxy should be executed by the President or Vice President and the Secretary or Assistant Secretary, and the corporate seal should be affixed thereto. Executors

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or administrators or other fiduciaries who execute the above proxy for a deceased stockholder should give their full title. Please date the proxy.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

Proxy bebe stores, inc.

Proxy for 2012 Annual Meeting of Shareholders

Solicited by the Board of Directors

The undersigned hereby constitutes and appoints Manny Mashouf and Larry Smith, and each of them, as his or her true and lawful agents and proxies with full power of substitution to represent the undersigned and to vote all of the shares of stock in bebe stores, inc. which the undersigned is entitled to vote at the bebe stores 2012 Annual Meeting of Shareholders to be held at the Company's principal executive offices located at 400 Valley Drive, Brisbane, California 94005 on October 22, 2012 at 9:30 a.m. local time, and at any adjournment thereof (1) as hereinafter specified upon the proposals listed below and as more particularly described in bebe's proxy statement, receipt of which is acknowledged and (2) in their discretion upon such other matters as may properly come before the meeting.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO SIGN AND PROMPTLY MAIL THIS PROXY IN THE RETURN ENVELOPE SO THAT YOUR STOCK MAY BE REPRESENTED AT THE MEETING.

This proxy when properly executed will be voted in the manner directed herein. If no direction is made, such shares shall be voted FOR the Company's nominees for election to the Board of Directors, and FOR ratification of Deloitte & Touche LLP, and as said proxies deem advisable on such other matters as may properly come before the meeting.

Even if you are planning to attend the meeting in person, you are urged to sign and mail the proxy in the return envelope so that your stock may be represented at the meeting.