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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549

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**FORM 10-Q**

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

For the quarterly period ended October 30, 2021

OR

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

Commission file number: 001-35535

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**TILLY'S, INC.**

(Exact name of Registrant as specified in its charter)

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

**45-2164791**  
(I.R.S. Employer  
Identification No.)

**10 Whatney  
Irvine, CA 92618**  
(Address of principal executive offices)

**(949) 609-5599**  
(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	TLYS	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated Filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of December 6, 2021, the registrant had the following shares of common stock outstanding:

Class A common stock \$0.001 par value

23,659,523

Class B common stock \$0.001 par value

7,306,108

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**TILLY'S, INC.**  
**FORM 10-Q**  
**For the Quarterly Period Ended October 30, 2021**

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## Forward-Looking Statements

This Report contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this Report are forward-looking statements. Forward-looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate”, “estimate”, “expect”, “project”, “plan”, “intend”, “believe”, “may”, “might”, “will”, “should”, “can have”, “likely” and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, comparable store sales, operating income, earnings per share, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- the impacts of the COVID-19 pandemic generally (including any future surges in the number of cases or new variants or strains related thereto) on our operations, future financial or operational results;
- our ability to produce acceptable levels of net sales amid the ongoing global supply chain delays that are, and have been, negatively impacting the timing of receiving new product deliveries;
- our ability to adapt to changes in foot traffic trends for our stores and changes in our customers' purchasing patterns;
- our ability to successfully open new stores and profitably operate our existing stores;
- our ability to attract customers to our e-commerce website;
- our ability to efficiently utilize our e-commerce fulfillment center;
- effectively adapting to new challenges associated with our expansion into new geographic markets;
- our ability to establish, maintain and enhance a strong brand image;
- generating adequate cash from our existing stores to support our growth;
- identifying and responding to new and changing customer fashion preferences and fashion-related trends;
- competing effectively in an environment of intense competition both in stores and online;
- the success of the malls, power centers, neighborhood and lifestyle centers, outlet centers and street-front locations in which our stores are located;
- our ability to attract customers in the various retail venues and geographies in which our stores are located;
- adapting to periods of decline in consumer confidence and consumer spending;
- our ability to adapt to significant changes in sales due to the seasonality of our business;
- our ability to compete in social media marketing platforms;
- price reductions or inventory shortages resulting from failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold;
- natural disasters, unusually adverse weather conditions, port delays, boycotts, epidemics, pandemics, acts of war, terrorism, civil unrest, and other unanticipated events;
- our dependence on third-party vendors to provide us with sufficient quantities of merchandise at acceptable prices;
- increases in costs of energy, transportation or utility costs and in the costs of labor and employment;
- our ability to balance proprietary branded merchandise with the third-party branded merchandise we sell;
- adjusting to increasing costs of mailing catalogs, paper and printing;
- most of our merchandise is made in foreign countries, making price and availability of our merchandise susceptible to international trade conditions;
- failure of our vendors and their manufacturing sources to use acceptable labor or other practices;
- our dependence upon key executive management or our inability to hire or retain the talent required for our business;
- our ability to effectively adapt to our planned expansion;
- failure of our information technology systems to support our current and growing business, before and after our planned upgrades;
- disruptions in our supply chain and distribution center;
- our indebtedness and lease obligations, including restrictions on our operations contained therein;
- our reliance upon independent third-party transportation providers for certain of our product shipments;

- our ability to increase comparable store sales or sales per square foot, which may cause our operations and stock price to be volatile;
- disruptions to our information systems in the ordinary course of business or as a result of systems upgrades;
- our inability to protect our trademarks or other intellectual property rights;
- the impact of governmental laws and regulations and the outcomes of legal proceedings;
- our ability to secure our data and comply with the security standards for the credit card industry;
- our failure to maintain adequate internal controls over our financial and management systems; and
- continuing costs incurred as a result of being a public company.

We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results.

See “Risk Factors” within our most recent Annual Report on Form 10-K for a more complete discussion of the risks and uncertainties mentioned above and for discussion of other risks and uncertainties. All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this Report and hereafter in our other SEC filings and public communications. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

We caution you that the risks and uncertainties identified by us may not be all of the factors that are important to you. Furthermore, the disclosures and forward-looking statements included in this Report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

## Part I. Financial Information

## Item 1. Financial Statements (Unaudited)

**TILLY'S, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par value)  
(Unaudited)

	October 30, 2021	January 30, 2021	October 31, 2020
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 59,392	\$ 76,184	\$ 99,309
Marketable securities	96,237	64,955	25,987
Receivables	8,881	8,724	11,397
Merchandise inventories	86,692	55,698	65,936
Prepaid expenses and other current assets	9,926	6,595	5,557
<b>Total current assets</b>	<b>261,128</b>	<b>212,156</b>	<b>208,186</b>
Operating lease assets	226,547	229,864	236,443
Property and equipment, net	49,392	52,639	54,756
Other assets	13,170	12,797	9,150
<b>Total assets</b>	<b>\$ 550,237</b>	<b>\$ 507,456</b>	<b>\$ 508,535</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable	\$ 46,378	\$ 24,983	\$ 36,245
Accrued expenses	20,084	30,682	21,984
Deferred revenue	13,568	13,492	11,051
Accrued compensation and benefits	17,106	9,899	10,096
Current portion of operating lease liabilities	54,299	54,503	62,747
Other	727	632	316
<b>Total current liabilities</b>	<b>152,162</b>	<b>134,191</b>	<b>142,439</b>
Noncurrent operating lease liabilities	204,325	211,292	214,052
Other	1,112	1,351	838
<b>Total liabilities</b>	<b>357,599</b>	<b>346,834</b>	<b>357,329</b>
Commitments and contingencies (Notes 2 and 5)			
Stockholders' equity:			
Common stock (Class A), \$0.001 par value; 100,000 shares authorized; 23,658, 22,477 and 22,474 shares issued and outstanding, respectively	24	22	22
Common stock (Class B), \$0.001 par value; 35,000 shares authorized; 7,306, 7,306 and 7,306 shares issued and outstanding, respectively	7	8	8
Preferred stock, \$0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—	—
Additional paid-in capital	165,983	155,437	154,894
Retained earnings (Accumulated deficit)	26,616	5,135	(3,736)
Accumulated other comprehensive income	8	20	18
<b>Total stockholders' equity</b>	<b>192,638</b>	<b>160,622</b>	<b>151,206</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 550,237</b>	<b>\$ 507,456</b>	<b>\$ 508,535</b>

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

**TILLY'S, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
<b>Net sales</b>	\$ 206,096	\$ 140,275	\$ 571,205	\$ 353,409
Cost of goods sold (includes buying, distribution, and occupancy costs)	129,357	99,615	364,900	269,481
<b>Gross profit</b>	<b>76,739</b>	<b>40,660</b>	<b>206,305</b>	<b>83,928</b>
Selling, general and administrative expenses	47,742	37,122	136,007	101,082
<b>Operating income (loss)</b>	<b>28,997</b>	<b>3,538</b>	<b>70,298</b>	<b>(17,154)</b>
Other (expense) income, net	(1)	(28)	(219)	692
<b>Income (loss) before income taxes</b>	<b>28,996</b>	<b>3,510</b>	<b>70,079</b>	<b>(16,462)</b>
Income tax expense (benefit)	8,162	1,397	17,888	(6,446)
<b>Net income (loss)</b>	<b>\$ 20,834</b>	<b>\$ 2,113</b>	<b>\$ 52,191</b>	<b>\$ (10,016)</b>
Basic earnings (loss) per share of Class A and Class B common stock	\$ 0.67	\$ 0.07	\$ 1.72	\$ (0.34)
<b>Diluted earnings (loss) per share of Class A and Class B common stock</b>	<b>\$ 0.66</b>	<b>\$ 0.07</b>	<b>\$ 1.68</b>	<b>\$ (0.34)</b>
Weighted average basic shares outstanding	30,915	29,708	30,429	29,693
Weighted average diluted shares outstanding	31,352	29,810	31,016	29,693

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

**TILLY'S, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(In thousands)  
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
<b>Net income (loss)</b>	<b>\$ 20,834</b>	<b>\$ 2,113</b>	<b>\$ 52,191</b>	<b>\$ (10,016)</b>
Other comprehensive income (loss), net of tax:				
Net change in unrealized (loss) gain on available-for-sale securities, net of tax	(4)	17	(12)	(196)
Other comprehensive (loss) income, net of tax	(4)	17	(12)	(196)
<b>Comprehensive income (loss)</b>	<b>\$ 20,830</b>	<b>\$ 2,130</b>	<b>\$ 52,179</b>	<b>\$ (10,212)</b>

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



**TILLY'S, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands)  
(Unaudited)

	Number of Shares			Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)	Common Stock				
<b>Balance at July 31, 2021</b>	23,651	7,306	\$ 31	\$ 165,407	\$ 5,782	\$ 12	\$ 171,232
Net income	—	—	—	—	20,834	—	20,834
Share-based compensation expense	—	—	—	521	—	—	521
Exercises of stock options	7	—	—	55	—	—	55
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	(4)	(4)
<b>Balance at October 30, 2021</b>	<u>23,658</u>	<u>7,306</u>	<u>\$ 31</u>	<u>\$ 165,983</u>	<u>\$ 26,616</u>	<u>\$ 8</u>	<u>\$ 192,638</u>

	Number of Shares			Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)	Common Stock				
<b>Balance at August 1, 2020</b>	22,414	7,366	\$ 30	\$ 154,386	\$ (5,849)	\$ 1	\$ 148,568
Net income	—	—	—	—	2,113	—	2,113
Class B common stock converted to Class A common stock	60	(60)	—	—	—	—	—
Share-based compensation expense	—	—	—	508	—	—	508
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	17	17
<b>Balance at October 31, 2020</b>	<u>22,474</u>	<u>7,306</u>	<u>\$ 30</u>	<u>\$ 154,894</u>	<u>\$ (3,736)</u>	<u>\$ 18</u>	<u>\$ 151,206</u>

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

**TILLY'S, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(In thousands)  
(Unaudited)

	Number of Shares		Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)					
<b>Balance at January 30, 2021</b>	22,477	7,306	\$ 30	\$ 155,437	\$ 5,135	\$ 20	\$ 160,622
Net income	—	—	—	—	52,191	—	52,191
Dividends paid (\$1.00 per share)	—	—	—	—	(30,710)	—	(30,710)
Restricted stock	20	—	—	—	—	—	—
Share-based compensation expense	—	—	—	1,417	—	—	1,417
Exercises of stock options	1,161	—	1	9,129	—	—	9,130
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	(12)	(12)
<b>Balance at October 30, 2021</b>	<u>23,658</u>	<u>7,306</u>	<u>\$ 31</u>	<u>\$ 165,983</u>	<u>\$ 26,616</u>	<u>\$ 8</u>	<u>\$ 192,638</u>

	Number of Shares		Common Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Common Stock (Class A)	Common Stock (Class B)					
<b>Balance at February 1, 2020</b>	22,323	7,406	\$ 30	\$ 153,377	\$ 6,280	\$ 214	\$ 159,901
Net loss	—	—	—	—	(10,016)	—	(10,016)
Restricted stock	51	—	—	—	—	—	—
Class B common stock converted to Class A common stock	100	(100)	—	—	—	—	—
Share-based compensation expense	—	—	—	1,517	—	—	1,517
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	(196)	(196)
<b>Balance at October 31, 2020</b>	<u>22,474</u>	<u>7,306</u>	<u>\$ 30</u>	<u>\$ 154,894</u>	<u>\$ (3,736)</u>	<u>\$ 18</u>	<u>\$ 151,206</u>

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

**TILLY'S, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 30, 2021</b>	<b>October 31, 2020</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 52,191	\$ (10,016)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,123	14,571
Insurance proceeds from casualty loss	117	—
Share-based compensation expense	1,417	1,517
Impairment of long-lived assets	136	929
Loss on disposal of assets	52	67
Gain on sales and maturities of marketable securities	(101)	(685)
Deferred income taxes	57	(1,142)
Changes in operating assets and liabilities:		
Receivables	1,847	(3,912)
Merchandise inventories	(31,111)	(9,035)
Prepaid expenses and other current assets	(3,698)	1,912
Accounts payable	21,402	16,130
Accrued expenses	(9,804)	2,392
Deferred revenue	76	(710)
Accrued compensation and benefits	7,207	2,906
Operating lease liabilities	(5,205)	6,224
Other liabilities	(856)	(115)
<b>Net cash provided by operating activities</b>	<b>46,850</b>	<b>21,033</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(10,911)	(6,395)
Proceeds from sale of property and equipment	17	—
Insurance proceeds from casualty loss	29	—
Purchases of marketable securities	(126,420)	(30,946)
Maturities of marketable securities	95,224	75,157
<b>Net cash (used in) provided by investing activities</b>	<b>(42,061)</b>	<b>37,816</b>
<b>Cash flows from financing activities</b>		
Proceeds from line of credit	—	23,675
Repayment of line of credit	—	(23,675)
Dividends paid	(30,710)	(29,677)
Proceeds from exercise of stock options	9,129	—
<b>Net cash used in financing activities</b>	<b>(21,581)</b>	<b>(29,677)</b>
<b>Change in cash and cash equivalents</b>	<b>(16,792)</b>	<b>29,172</b>
Cash and cash equivalents, beginning of period	76,184	70,137
<b>Cash and cash equivalents, end of period</b>	<b>\$ 59,392</b>	<b>\$ 99,309</b>
<b>Supplemental disclosures of cash flow information</b>		
Interest paid	\$ —	\$ 182
Income taxes paid	\$ 26,493	\$ 857
<b>Supplemental disclosure of non-cash activities</b>		
Unpaid purchases of property and equipment	\$ 1,702	\$ 2,246
Leased assets obtained in exchange for new operating lease liabilities	\$ 32,787	\$ 11,999

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

**TILLY'S, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note 1: Description of the Company and Basis of Presentation**

Tillys is a leading destination specialty retailer of casual apparel, footwear and accessories for young men, young women, boys and girls with an extensive assortment of iconic global, emerging, and proprietary brands rooted in an active and social lifestyle. Tillys is headquartered in Irvine, California and operated 243 stores, in 33 states as of October 30, 2021. Our stores are located in malls, lifestyle centers, 'power' centers, community centers, outlet centers and street-front locations. Customers may also shop online, where we feature the same assortment of products as carried in our brick-and-mortar stores, supplemented by additional online-only styles. Our goal is to serve as a destination for the latest, most relevant merchandise and brands important to our customers.

The Tillys concept began in 1982, when our co-founders, Hezy Shaked and Tilly Levine, opened their first store in Orange County, California. Since 1984, the business has been conducted through World of Jeans & Tops, a California corporation, or "WOJT", which operates under the name "Tillys". In May 2011, Tilly's, Inc., a Delaware corporation, was formed solely for the purpose of reorganizing the corporate structure of WOJT in preparation for an initial public offering. As part of the initial public offering in May 2012, WOJT became a wholly owned subsidiary of Tilly's, Inc.

The consolidated financial statements include the accounts of Tilly's Inc. and WOJT. All intercompany accounts and transactions have been eliminated in consolidation.

As used in these Notes to the Consolidated Financial Statements, except where the context otherwise requires or where otherwise indicated, the terms "the Company", "World of Jeans and Tops", "WOJT", "we", "our", "us" and "Tillys" refer to WOJT before our initial public offering, and to Tilly's, Inc. and its subsidiary after our initial public offering.

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting. These unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this Quarterly Report on Form 10-Q as is permitted by SEC rules and regulations.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the financial condition, results of operations and cash flows for the interim periods presented. The results of operations for the thirteen and thirty-nine week periods ended October 30, 2021 are not necessarily indicative of results to be expected for the full fiscal year, especially in light of the favorable impact of federal stimulus checks on consumer spending earlier in fiscal 2021 and the atypical back-to-school timing that occurred amid the pandemic during fiscal 2020 and early fiscal 2021. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021 ("fiscal 2020").

***Fiscal Periods***

Our fiscal year ends on the Saturday closest to January 31. References to fiscal 2021 refer to the fiscal year ending January 29, 2022. References to the fiscal quarters or first nine months ended October 30, 2021 and October 31, 2020 refer to the thirteen and thirty-nine week periods ended as of those dates, respectively.

***Impact of the COVID-19 Pandemic on our Business***

As of the date of filing this Quarterly Report on Form 10-Q (this "Report"), there remain many uncertainties regarding the ongoing COVID-19 pandemic (the "pandemic"), including the anticipated duration and severity of the pandemic, particularly in light of ongoing vaccination efforts and emerging variant strains of the virus. To date, the pandemic has had far-reaching impacts on many aspects of the operations of the Company, directly and indirectly, including on consumer behavior, store traffic, operational capabilities and our operations generally, timing of deliveries, demands on our information technology and e-commerce capabilities, inventory and expense management, managing our workforce, our storefront configurations and operations upon reopening, and our people, which have materially disrupted our business and the market generally. The scope and nature of these impacts continue to evolve. With the current resurgence of COVID-19, we may experience adverse impacts in the future, including similar impacts we have previously experienced during the pandemic, such as regional quarantines, labor stoppages and shortages, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, disruptions to supply chains, including the inability of our suppliers and service providers to deliver materials and services on a timely basis, or at all, severe market volatility, liquidity disruptions, and overall economic instability, which, in many cases, had, and may in the future continue to have, material adverse impacts on our business, financial condition and results of

operations. This situation is continually evolving, and additional impacts may arise that we are not aware of currently, or current impacts may become magnified.

## Note 2: Summary of Significant Accounting Policies

Information regarding our significant accounting policies is contained in Note 2, “Summary of Significant Accounting Policies”, of the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

### Revenue Recognition

Revenue is recognized for store sales when the customer receives and pays for the merchandise at the register, net of estimated returns. Taxes collected from our customers are recorded on a net basis. For e-commerce sales, we recognize revenue, net of sales taxes and estimated sales returns, and the related cost of goods sold at the time the merchandise is shipped to the customer. Amounts related to shipping and handling that are billed to customers are reflected in net sales, and the related costs are reflected in cost of goods sold in the Consolidated Statements of Operations.

The following table summarizes net sales from our retail stores and e-commerce (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Retail stores	\$ 165,255	\$ 104,546	\$ 457,557	\$ 235,358
E-commerce	40,841	35,729	113,648	118,051
<b>Total net sales</b>	<b>\$ 206,096</b>	<b>\$ 140,275</b>	<b>\$ 571,205</b>	<b>\$ 353,409</b>

The following table summarizes the percentage of net sales by department:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Mens	37 %	36 %	36 %	35 %
Womens	25 %	26 %	27 %	27 %
Accessories	18 %	16 %	16 %	16 %
Footwear	10 %	12 %	11 %	13 %
Boys	5 %	5 %	5 %	5 %
Girls	4 %	4 %	4 %	4 %
Hardgoods	1 %	1 %	1 %	— %
<b>Total net sales</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

The following table summarizes the percentage of net sales by third-party and proprietary branded merchandise:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Third-party	68 %	73 %	70 %	75 %
Proprietary	32 %	27 %	30 %	25 %
<b>Total net sales</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

We accrue for estimated sales returns by customers based on historical sales return results. As of October 30, 2021, January 30, 2021 and October 31, 2020, our reserve for sales returns was \$2.3 million, \$1.4 million and \$1.5 million, respectively.

We recognize revenue from gift cards as they are redeemed for merchandise. Prior to redemption, we maintain a current liability for unredeemed gift card balances. The customer liability balance was \$7.9 million, \$9.6 million and \$7.4 million as of October 30, 2021, January 30, 2021 and October 31, 2020, respectively, and is included in deferred revenue on the accompanying Consolidated Balance Sheets. Our gift cards do not have expiration dates and in most cases there is no legal obligation to remit unredeemed gift cards to relevant jurisdictions. Based on actual historical redemption patterns, we determined that a small percentage of gift cards are unlikely to be redeemed (which we refer to as gift card “breakage”). Based

on our historical gift card breakage rate, we recognize breakage revenue over the redemption period in proportion to actual gift card redemptions. Revenue recognized from gift cards was \$2.9 million and \$2.7 million for the thirteen weeks ended October 30, 2021 and October 31, 2020, respectively. For the thirteen weeks ended October 30, 2021 and October 31, 2020, the opening gift card balance was \$7.9 million and \$7.7 million, respectively, of which \$0.6 million and \$1.2 million respectively, was recognized as revenue during the respective periods. Revenue recognized from gift cards was \$10.1 million and \$8.1 million for the thirty-nine weeks ended October 30, 2021 and October 31, 2020, respectively. For the thirty-nine weeks ended October 30, 2021 and October 31, 2020, the opening gift card balance was \$9.6 million and \$9.3 million, respectively, of which \$4.0 million and \$3.7 million, respectively, was recognized as revenue during the respective periods.

We have a customer loyalty program where customers accumulate points based on purchase activity. Once a loyalty member achieves a certain point level, the member earns an award that may be used towards the purchase of merchandise. Unredeemed awards and accumulated partial points are accrued as deferred revenue and awards redeemed by the member for merchandise are recorded as an increase to net sales. Our loyalty program allows customers to redeem their awards instantly or build up to additional awards over time. We currently expire unredeemed awards and accumulated partial points 365 days after the last purchase activity. A liability is estimated based on the standalone selling price of awards and partial points earned and estimated redemptions. The deferred revenue for this program was \$5.7 million, \$3.9 million and \$3.6 million as of October 30, 2021, January 30, 2021 and October 31, 2020, respectively. The value of points redeemed through our loyalty program was \$2.8 million and \$1.9 million for the thirteen weeks ended October 30, 2021 and October 31, 2020, respectively. For the thirteen weeks ended October 30, 2021 and October 31, 2020, the opening loyalty program balance was \$5.1 million and \$1.7 million, respectively, of which \$1.4 million and \$0.5 million, respectively, was recognized as revenue during the respective periods. The value of points redeemed through our loyalty program was \$7.7 million and \$4.2 million for the thirty-nine weeks ended October 30, 2021 and October 31, 2020, respectively. For the thirty-nine weeks ended October 30, 2021 and October 31, 2020, the opening loyalty program balance was \$3.9 million and \$2.4 million, respectively, of which \$3.7 million and \$1.6 million, respectively, was recognized as revenue during the respective periods.

### **Leases**

We conduct all of our retail sales and corporate operations in leased facilities. Lease terms for our stores are generally for ten years (subject to elective extensions) and provide for escalations in base rents. Many of our store leases contain one or more options to renew the lease at our sole discretion. Generally, we do not consider any additional renewal periods to be reasonably certain of being exercised.

Most store leases include tenant allowances from landlords, rent escalation clauses and/or contingent rent provisions. Certain leases provide for additional rent based on a percentage of sales and annual rent increases generally based upon the Consumer Price Index. In addition, most of our store leases are net leases, which typically require us to be responsible for certain property operating expenses, including property taxes, insurance, common area maintenance, in addition to base rent. Many of our store leases contain certain co-tenancy provisions that permit us to pay rent based on a pre-determined percentage of sales when the occupancy of the retail center falls below minimums established in the lease. For non-cancelable operating lease agreements, operating lease assets and operating lease liabilities are established for leases with an expected term greater than one year and we recognize lease expense on a straight-line basis. Contingent rent, determined based on a percentage of sales in excess of specified levels, is recognized as rent expense when the achievement of the specified sales that triggers the contingent rent is probable.

In response to stores being closed to the public as a result of the COVID-19 pandemic, we elected to withhold payment of our contractual lease obligations with respect to certain stores for the periods we were unable to operate such stores. We have substantially completed negotiating COVID-19 related lease concessions for most of our stores, with less than 10 stores and \$0.4 million of withheld rents remaining unresolved as of October 30, 2021. These agreements have generally resulted in a combination of rent abatements and/or rent deferrals. With respect to all of our stores, we continue to have ongoing conversations with our landlords generally regarding what we believe to be commercially reasonable lease concessions given the current environment. We have considered the Financial Accounting Standards Board's ("FASB") guidance regarding COVID-19 lease concessions and have elected to account for the lease concessions that have been granted as lease modifications.

We lease approximately 172,000 square feet of office and warehouse space (10 and 12 Whatney, Irvine, California) from a company that is owned by the co-founders of Tillys. During the thirteen and thirty-nine week periods ended October 30, 2021, we incurred rent expense of \$0.5 million and \$1.5 million, respectively, related to this lease. During the thirteen and thirty-nine week periods ended October 31, 2020, we incurred rent expense of \$0.5 million and \$1.6 million, respectively, related to this lease. Our lease began in January 1, 2003 and terminates on December 31, 2027.

We lease approximately 26,000 square feet of office and warehouse space (11 Whatney, Irvine, California) from a company that is owned by one of the co-founders of Tillys. During each of the thirteen and thirty-nine week periods ended October 30, 2021 and October 31, 2020, we incurred rent expense of \$0.1 million and \$0.3 million, respectively, related to this lease.

Pursuant to the lease agreement, the lease payment adjusts annually based upon the Los Angeles/Anaheim/Riverside Urban Consumer Price Index, with the adjustment not to be below 3% nor exceed 7% in any one annual increase. The lease began on June 29, 2012 and terminates on June 30, 2022.

We lease approximately 81,000 square feet of office and warehouse space (17 Pasteur, Irvine, California) from a company that is owned by one of the co-founders of Tillys. We use this property as our e-commerce distribution center. During the thirteen and thirty-nine week periods ended October 30, 2021, we incurred rent expense of \$0.3 million and \$0.7 million, respectively, related to this lease. During the thirteen and thirty-nine week periods ended October 31, 2020, we incurred rent expense of \$0.2 million and \$0.7 million, respectively, related to this lease. Pursuant to the lease agreement, the lease payment adjusts annually based upon the Los Angeles/Anaheim/Riverside Urban Consumer Price Index, with the adjustment not to be below 3% nor exceed 7% in any one annual increase. The lease began on November 1, 2011 with a 10-year term ending on October 31, 2021. During October 2021, this lease was amended to extend the term for an additional period of 10 years and now terminates on October 31, 2031. Pursuant to the amended lease agreement, the lease payment adjusts annually based upon the greater of 5% or the Consumer Price Index.

The maturity of operating lease liabilities as of October 30, 2021 were as follows (in thousands):

<b>Fiscal Year</b>	<b>Related Party</b>	<b>Other</b>	<b>Total</b>
2021	\$ 917	\$ 16,786	\$ 17,703
2022	3,434	63,734	67,168
2023	3,416	53,211	56,627
2024	3,543	42,667	46,210
2025	3,676	33,484	37,160
Thereafter	13,582	69,115	82,697
<b>LeaseAndRentalExpense</b>	<b>28,568</b>	<b>278,997</b>	<b>307,565</b>
Less: Amount representing interest	4,361	44,580	48,941
<b>Present value of operating lease liabilities</b>	<b>\$ 24,207</b>	<b>\$ 234,417</b>	<b>\$ 258,624</b>

As of October 30, 2021, additional operating lease contract modifications executed subsequent to the balance sheet date, but prior to the filing date, are approximately \$2.3 million.

Lease expense for the thirteen and thirty-nine week periods ended October 30, 2021 and October 31, 2020 was as follows (in thousands):

	<b>Thirteen Weeks Ended October 30, 2021</b>			<b>Thirteen Weeks Ended October 31, 2020</b>		
	<b>Cost of goods sold</b>	<b>SG&amp;A</b>	<b>Total</b>	<b>Cost of goods sold</b>	<b>SG&amp;A</b>	<b>Total</b>
Fixed operating lease expense	\$ 14,998	\$ 415	\$ 15,413	\$ 14,829	\$ 409	\$ 15,238
Variable lease expense	4,907	15	4,922	4,663	12	4,675
<b>Total lease expense</b>	<b>\$ 19,905</b>	<b>\$ 430</b>	<b>\$ 20,335</b>	<b>\$ 19,492</b>	<b>\$ 421</b>	<b>\$ 19,913</b>

	<b>Thirty-Nine Weeks Ended October 30, 2021</b>			<b>Thirty-Nine Weeks Ended October 31, 2020</b>		
	<b>Cost of goods sold</b>	<b>SG&amp;A</b>	<b>Total</b>	<b>Cost of goods sold</b>	<b>SG&amp;A</b>	<b>Total</b>
Fixed operating lease expense	\$ 45,055	\$ 1,240	\$ 46,295	\$ 45,229	\$ 1,212	\$ 46,441
Variable lease expense	13,642	16	13,658	12,907	62	12,969
<b>Total lease expense</b>	<b>\$ 58,697</b>	<b>\$ 1,256</b>	<b>\$ 59,953</b>	<b>\$ 58,136</b>	<b>\$ 1,274</b>	<b>\$ 59,410</b>

Supplemental lease information for the thirty-nine weeks ended October 30, 2021 and October 31, 2020 was as follows:

	Thirty-Nine Weeks Ended October 30, 2021	Thirty-Nine Weeks Ended October 31, 2020
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	\$51,823	\$36,694
Weighted average remaining lease term (in years)	5.6 years	5.8 years
Weighted average interest rate (1)	6.16%	4.64%

(1) Since our leases do not provide an implicit rate, we used our incremental borrowing rate ("IBR") on date of adoption, at lease inception, or lease modification in determining the present value of future minimum payments.

During the second quarter of fiscal 2021, we identified and corrected an immaterial error in our balance sheets whereby we previously presented our operating lease assets on a net basis rather than presenting any negative operating lease asset balances as a separate operating lease liability. As such, during the third quarter of fiscal 2021, we have presented the corrected balances herein as of January 30, 2021 and October 31, 2020, for which there was a \$2.0 million and \$1.1 million gross-up of both operating lease assets and operating lease liabilities as of the respective dates. Further, we have presented the corrected Statement of Cash Flows for the thirty-nine weeks ended October 31, 2020 for which there was no net impact on net cash provided by operating activities.

### **Income Taxes**

Our income tax expense was \$17.9 million, or 25.5% of pre-tax income, compared to an income tax benefit of \$(6.4) million, or 39.2% of pre-tax loss, for the thirty-nine weeks ended October 30, 2021 and October 31, 2020, respectively. The decrease in the effective income tax rate was primarily due to deferred income tax benefits of \$1.0 million derived from employee stock option exercise activity in fiscal 2021, and the prior year impact of the CARES Act which provided for net operating losses in fiscal 2020 to be carried back to earlier tax years with higher tax rates.

### **New Accounting Standards Not Yet Adopted**

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which modifies or replaces existing models for impairment of trade and other receivables, debt securities, loans, beneficial interests held as assets, purchased-credit impaired financial assets and other instruments. The new standard requires entities to measure expected losses over the life of the asset and recognize an allowance for estimated credit losses upon recognition of the financial instrument. ASU 2016-13 will become effective for us in the first quarter of fiscal 2023, with early adoption permitted and must be adopted using the modified retrospective method. We expect the new rules to apply to our fixed income securities recorded at amortized cost and classified as held-to-maturity and our trade receivables. We do not expect the adoption of this new standard to have a material impact on our consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting of Income Taxes* ("ASU 2019-12"), which enhances and simplifies various aspects of income tax accounting guidance. The guidance is effective for annual periods after December 15, 2020. The Company adopted ASU 2019-12 in the first quarter of fiscal 2021. The impact this guidance has on our consolidated financial statements and related disclosures is immaterial.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact this guidance may have on our consolidated financial statements and related disclosures.

### **Note 3: Marketable Securities**

Marketable securities as of October 30, 2021 consisted of commercial paper, classified as available-for-sale, and fixed income securities, classified as held-to-maturity, as we have the intent and ability to hold them to maturity. Our investments in commercial paper and fixed income securities are recorded at fair value and amortized cost, respectively, which approximates fair value. All of our marketable securities are less than one year from maturity.



The following table summarizes our investments in marketable securities at October 30, 2021, January 30, 2021 and October 31, 2020 (in thousands):

<b>October 30, 2021</b>					
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Estimated Fair Value</b>	
Commercial paper	\$ 64,261	\$ 12	\$ (1)	\$ 64,272	
Fixed income securities	31,965	—	—	31,965	
<b>Total marketable securities</b>	<b>\$ 96,226</b>	<b>\$ 12</b>	<b>\$ (1)</b>	<b>\$ 96,237</b>	

  

<b>January 30, 2021</b>					
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Estimated Fair Value</b>	
Commercial paper	\$ 64,928	\$ 28	\$ (1)	\$ 64,955	
<b>Total marketable securities</b>	<b>\$ 64,928</b>	<b>\$ 28</b>	<b>\$ (1)</b>	<b>\$ 64,955</b>	

  

<b>October 31, 2020</b>					
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Holding Gains</b>	<b>Gross Unrealized Holding Losses</b>	<b>Estimated Fair Value</b>	
Commercial paper	\$ 24,950	\$ 25	\$ —	\$ 24,975	
Fixed income securities	1,012	—	—	1,012	
<b>Total marketable securities</b>	<b>\$ 25,962</b>	<b>\$ 25</b>	<b>\$ —</b>	<b>\$ 25,987</b>	

We recognized gains on investments for commercial paper that matured during the thirteen and thirty-nine week periods ended October 30, 2021 and October 31, 2020. Upon recognition of the gains, we reclassified these amounts out of Accumulated Other Comprehensive Income and into “Other (expense) income, net” on the Consolidated Statements of Operations.

The following table summarizes our gains on investments for commercial paper (in thousands):

	<b>Thirteen Weeks Ended</b>		<b>Thirty-Nine Weeks Ended</b>	
	<b>October 30, 2021</b>	<b>October 31, 2020</b>	<b>October 30, 2021</b>	<b>October 31, 2020</b>
Gains on investments	\$ 19	\$ —	\$ 91	\$ 554

#### **Note 4: Asset-Backed Credit Facility**

On November 9, 2020 (the “Closing Date”), we entered into an asset-backed credit agreement (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Bank”), as lender, administrative agent and collateral agent (the “Agent”). The Credit Agreement replaced our then-existing amended and restated credit agreement (the “Prior Credit Agreement”), dated as of May 3, 2012, as amended, with the Agent.

The Credit Agreement provides for an asset-based, senior secured revolving credit facility of up to \$65.0 million consisting of revolving loans, letters of credit and swing line loans provided by lenders, with a sub limit on credit outstanding at any time of \$10.0 million and a sub limit for swing line loans of \$7.5 million. The Credit Agreement also includes an uncommitted accordion feature whereby we may increase the revolving commitment by an aggregate amount not to exceed \$12.5 million, subject to certain conditions. The revolving facility matures on November 9, 2023. The payment and performance in full of the secured obligations under the revolving facility are secured by a lien on and security interest in all of the assets of our Company.

The maximum borrowings permitted under the revolving facility is equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base is equal to (a) 90% of the borrower's eligible credit card receivables, plus (b) 90% of the cost of the borrower's eligible inventory, less inventory reserves established by the Agent, and adjusted by the appraised value of such eligible inventory, plus (c) 90% of the cost of the borrower's eligible in-transit inventory, less inventory reserves

established by the Agent, and adjusted by the appraised value of such eligible in-transit inventory (not to exceed 10% of the total amount of all eligible inventory included in the borrowing base) less (d) reserves established by the Agent.

The unused portion of the revolving commitment accrues a commitment fee, which ranges from 0.375% to 0.50% per annum, based on the average daily borrowing capacity under the revolving facility over the applicable fiscal quarter. Borrowings under the revolving facility bear interest at a rate per annum that ranges from the LIBOR rate plus 2.0% to the LIBOR rate plus 2.25%, or the base rate plus 1.0% to the base rate plus 1.25%, based on the average daily borrowing capacity under the revolving facility over the applicable fiscal quarter. We may elect to apply either the LIBOR rate or base rate interest to borrowings at our discretion, other than in the case of swing line loans, to which the base rate shall apply.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including a financial covenant relating to availability, and customary events of default. Prior to the first anniversary of the Closing Date, we were prohibited from declaring or paying any cash dividends to our respective stockholders or repurchasing of our own common stock. After the first anniversary of the Closing Date, we are allowed to declare and pay cash dividends to our respective stockholders and repurchase our own common stock, provided, among other things, no default or event of default exists as of the date of any such payment and after giving effect thereto and certain minimum availability and minimum projected availability tests are satisfied.

On June 8, 2021, we entered into a Consent Agreement authorizing us to declare and pay cash dividends to our shareholders of up to \$31 million in the aggregate on or before July 31, 2021. We paid a one-time special cash dividend of \$1.00 per share on July 9, 2021, to all holders of record of issued and outstanding common stock in the aggregate of \$30.7 million.

In connection with the entry into the Credit Agreement, on November 9, 2020, we entered into certain ancillary agreements, including (i) a security agreement in favor of the Agent, and (ii) a guaranty by us in favor of the Agent. The security agreement and the guaranty replaced (i) the general pledge agreement, dated as of May 3, 2012, by us in favor of the bank, (ii) the continuing guaranty by us in favor of the Agent, dated May 3, 2012, and (iii) the amended and restated security agreement with respect to equipment and the amended and restated security agreement with respect to rights to payment and inventory, in each case, dated as of May 3, 2012.

As of October 30, 2021, we were in compliance with all of our covenants, were eligible to borrow up to a total of \$63.0 million, and had no outstanding borrowings under the Credit Agreement.

The Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. The interest rate charged on borrowings under the Prior Credit Agreement was selected at our discretion at the time of draw between LIBOR plus 0.75%, or at the Bank's prime rate. The Prior Credit Agreement was secured by substantially all of our assets. In March 2020, we borrowed \$23.7 million under our Prior Credit Agreement, which represented the maximum borrowings permitted thereunder, and which were subsequently repaid in September 2020.

#### **Note 5: Commitments and Contingencies**

From time to time, we may become involved in lawsuits and other claims arising from our ordinary course of business. We are currently unable to predict the ultimate outcome, determine whether a liability has been incurred or make an estimate of the reasonably possible liability that could result from an unfavorable outcome because of the uncertainties related to the incurrence, amount and range of loss on any pending litigation or claim. Because of the unpredictable nature of these matters, we cannot provide any assurances regarding the outcome of any litigation or claim to which we are a party or that the ultimate outcome of any of the matters threatened or pending against us, including those disclosed below, will not have a material adverse effect on our financial condition, results of operations or cash flows.

*Juan Carlos Gonzales, on behalf of himself and all others similarly situated, v. Tilly's Inc. et al, Superior Court of California, County of Orange, Case No. 30-2017-00948710-CU-OE-CXC.* In October 2017, the plaintiff filed a putative class action against us, alleging various violations of California's wage and hour laws. The complaint seeks class certification, unspecified damages, unpaid wages, penalties, restitution, interest, and attorneys' fees and costs. In December 2017, we filed an answer to the complaint, denying all of the claims and asserting various defenses. In April 2018, the plaintiff filed a separate action under the Private Attorneys General Act ("PAGA") against us seeking penalties on behalf of himself and other similarly situated employees for the same alleged violations of California's wage and hour laws. We requested the plaintiff to dismiss the class action claims based on an existing class action waiver in an arbitration agreement which plaintiff signed with our co-defendant, BaronHR, the staffing company that employed plaintiff to work at the Company. In June 2018, the plaintiff's class action complaint was dismissed. The parties mediated the PAGA case with a well-respected mediator in March 2020. Although the case did not settle at the mediation, the parties have agreed to continue their settlement discussions with the assistance of the mediator. The court has not yet issued a trial date. By agreement between co-defendant BaronHR and Tilly's, BaronHR is required to indemnify us for all of our losses and expenses incurred in connection with this matter. We have defended this case vigorously, and will continue to do so. We believe that a loss is currently not probable or estimable under ASC 450, "Contingencies," and no accrual has been made with regard to the verdict.

*Skylar Ward, on behalf of herself and all others similarly situated, v. Tilly's, Inc., Superior Court of California, County of Los Angeles, Case No. BC595405.* In September 2015, the plaintiff filed a putative class action lawsuit against us alleging, among other things, various violations of California's wage and hour laws. The complaint sought class certification, unspecified damages, unpaid wages, penalties, restitution, and attorneys' fees. In June 2016, the court granted our demurrer to the plaintiff's complaint on the grounds that the plaintiff failed to state a cause of action against us and dismissed the complaint. Specifically, the court agreed with us that the plaintiff's cause of action for reporting-time pay fails as a matter of law as the plaintiff and other putative class members did not "report for work" with respect to certain shifts on which the plaintiff's claims are based. In November 2016, the court entered a written order sustaining our demurrer to the plaintiff's complaint and dismissing all of plaintiff's causes of action with prejudice. In January 2017, the plaintiff filed an appeal of the order to the California Court of Appeal. In February 2019, the Court of Appeal issued an opinion overturning the trial court's decision, holding that the plaintiff's allegations stated a claim. In March 2019, we filed a petition for review with the California Supreme Court seeking its discretionary review of the Court of Appeal's decision. The California Supreme Court declined to review the Court of Appeal's decision. Since the case was remanded back to the trial court, the parties have been engaged in discovery. In March 2020, the plaintiff filed a motion for class certification. In July 2020, we filed our opposition to the motion for class certification. In September 2020, the plaintiff filed her reply brief in support of the motion for class certification. In October 2020, the court denied plaintiff's motion for class certification. In December 2020, the plaintiff filed a notice of appeal of the court's order denying her motion for class certification. On October 15, 2021, the plaintiff filed a request for dismissal of her appeal. On October 20, 2021, the Court of Appeal dismissed plaintiff's appeal and issued a remittitur to return the case to the trial court. As a result, the case currently consists solely of the plaintiff's individual claims. We have defended this case vigorously, and will continue to do so. We believe that a loss is currently not probable or estimable under ASC 450, "Contingencies," and no accrual has been made with regard to the verdict.

#### **Note 6: Fair Value Measurements**

We determine fair value based on a three-level valuation hierarchy as described below. Fair value is defined as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. The three-level hierarchy of inputs used to determine fair value is as follows:

- *Level 1* – Quoted prices in active markets for identical assets and liabilities.
- *Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets and liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* – Unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

We measure certain financial assets at fair value on a recurring basis, including our marketable securities, which are classified as available-for-sale, and certain cash equivalents, specifically money market securities, and commercial paper. The money market accounts are valued based on quoted market prices in active markets (Level 1). The marketable securities are valued based on other observable inputs for those securities (including market corroborated pricing or other models that utilize observable inputs such as interest rates and yield curves) based on information provided by independent third-party entities (Level 2).

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets for impairment using Company specific assumptions which would fall within Level 3 of the fair value hierarchy. Fair value calculations contain significant judgments and estimates, which may differ from actual results due to, among other things, economic conditions, changes to the business model or changes in operating performance.

During the thirteen and thirty-nine week periods ended October 30, 2021 and October 31, 2020, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of October 30, 2021, January 30, 2021 and October 31, 2020, we did not have any Level 3 financial assets. We conduct reviews on a quarterly basis to verify pricing, assess liquidity and determine if significant inputs have changed that would impact the fair value hierarchy disclosure.

### Financial Assets

We have categorized our financial assets based on the priority of the inputs to the valuation technique for the instruments as follows (in thousands):

	October 30, 2021			January 30, 2021			October 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Cash equivalents (1):</b>									
Money market securities	\$ 52,532	\$ —	\$ —	\$ 67,115	\$ —	\$ —	\$ 93,045	\$ —	\$ —
<b>Marketable securities:</b>									
Commercial paper	\$ —	\$ 64,272	\$ —	\$ —	\$ 64,955	\$ —	\$ —	\$ 24,975	\$ —

(1) Excluding cash.

### Impairment of Long-Lived Assets

An impairment is recorded on a long-lived asset used in operations whenever events or changes in circumstances indicate that the net carrying amounts for such asset may not be recoverable. Important factors that could result in an impairment review include, but are not limited to, significant under-performance relative to historical or planned operating results, significant changes in the manner of use of the assets, a decision to relocate or permanently close a store, or significant changes in our business strategies.

An evaluation is performed using estimated undiscounted future cash flows from operating activities compared to the carrying value of related assets for the individual stores. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the difference between the carrying value and the estimated fair value of the assets based on the discounted cash flows of the assets using a rate that approximates our weighted average cost of capital. With regard to retail store assets, which are comprised of leasehold improvements, fixtures, computer hardware and software, and operating lease assets, we consider the assets at each individual retail store to represent an asset group. In addition, we have considered the relevant valuation techniques that could be applied without undue cost and effort and have determined that the discounted estimated future cash flow approach provides the most relevant and reliable means by which to determine fair value in this circumstance.

On a quarterly basis, we assess whether events or changes in circumstances have occurred that potentially indicate the carrying value of long-lived assets may not be recoverable. During the thirty-nine weeks ended October 30, 2021, based on Level 3 inputs of historical operating performance, including sales trends, gross margin rates, current cash flows from operations and the projected outlook for each of our stores, we determined that 1 of our stores would not be able to generate sufficient cash flows over the remaining term of the related lease to recover our investment in the respective store. As a result, we recorded \$0.1 million impairment charges to write-down the carrying value of certain long-lived store assets to their estimated fair values.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
	(\$ in thousands)			
Carrying value of assets with impairment	\$—	\$26	\$176	\$929
Fair value of assets impaired	\$—	\$—	\$40	\$—
Number of stores tested for impairment	1	34	12	52
Number of stores with impairment	—	2	1	12

### Note 7: Share-Based Compensation

The Tilly's, Inc. 2012 Second Amended and Restated Equity and Incentive Plan, as amended in June 2020 (the "2012 Plan"), authorizes up to 6,613,900 shares for issuance of options, shares or rights to acquire our Class A common stock and allows for, among other things, operating income and comparable store sales growth targets as additional performance goals that may be used in connection with performance-based awards granted under the 2012 Plan. As of October 30, 2021, there were 2,282,115 shares available for future issuance under the 2012 Plan.

#### Stock Options

We grant stock options to certain employees that give them the right to acquire our Class A common stock under the 2012 Plan. The exercise price of options granted is equal to the closing price per share of our stock at the date of grant. The non qualified

options vest at a rate of 25% on each of the first four anniversaries of the grant date provided that the award recipient continues to be employed by us through each of those vesting dates, and expire ten years from the date of grant.

The following table summarizes stock option activity for the thirty-nine weeks ended October 30, 2021 (aggregate intrinsic value in thousands):

	Stock Options	Grant Date Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (1)
Outstanding at January 31, 2021	2,602,212	\$ 8.19		
Granted	513,700	\$ 10.84		
Exercised	(1,161,571)	\$ 7.86		
Forfeited	(273,479)	\$ 9.24		
Expired	(32,000)	\$ 16.26		
<b>Outstanding at October 30, 2021</b>	<b>1,648,862</b>	<b>\$ 8.91</b>	<b>7.6</b>	<b>\$ 8,383</b>
<b>Exercisable at October 30, 2021</b>	<b>486,792</b>	<b>\$ 10.50</b>	<b>4.8</b>	<b>\$ 1,844</b>

(1) Intrinsic value for stock options is defined as the difference between the market price of our Class A common stock on the last business day of the fiscal period and the weighted average exercise price of in-the-money stock options outstanding at the end of the fiscal period. The market value per share was \$13.88 at October 30, 2021.

The stock option awards were measured at fair value on the grant date using the Black-Scholes option valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, expected volatility of our stock over the option's expected term, the risk-free interest rate over the option's expected term and our expected annual dividend yield, if any. We account for forfeitures as they occur. We issue shares of Class A common stock when stock option awards are exercised.

The fair values of stock options granted during the thirteen and thirty-nine weeks ended October 30, 2021 and October 31, 2020 were estimated on the grant date using the following assumptions:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Weighted average grant-date fair value per option granted	\$7.96	\$4.04	\$5.69	\$2.19
Expected option term (1)	5.3 years	5.7 years	5.4 years	5.3 years
Weighted average expected volatility factor (2)	59.4%	59.9%	59.9%	57.5%
Weighted average risk-free interest rate (3)	1.0%	0.3%	0.9%	0.4%
Expected annual dividend yield (4)	—%	—%	—%	—%

(1) The expected option term of the awards represents the estimated time that options are expected to be outstanding based upon historical option data.

(2) Stock volatility for each grant is measured using the historical daily price changes of our common stock over the most recent period equal to the expected option term of the awards.

(3) The risk-free interest rate is determined using the rate on treasury securities with the same term as the expected life of the stock option as of the grant date.

(4) We do not currently have a dividend policy.

#### Restricted Stock Awards

Restricted stock awards ("RSAs") represent restricted shares of our common stock issued upon the date of grant in which the recipient's rights in the stock are restricted until the shares are vested. Under the 2012 Plan, we grant RSAs to independent members of our Board of Directors. RSAs granted to our Board of Directors vest at a rate of 50% on each of the first two anniversaries of the grant date provided that the respective award recipient continues to serve on our Board of Directors through each of those vesting dates. We determine the fair value of RSAs based upon the closing price of our Class A common stock on the date of grant.

The following table summarizes the status of RSAs during the thirty-nine weeks ended October 30, 2021:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at January 30, 2021	71,548	\$ 6.71
Granted	19,988	\$ 16.01
Vested	(46,072)	\$ 6.95
<b>Nonvested at October 30, 2021</b>	<b>45,464</b>	<b>\$ 10.56</b>

Share-based compensation expense associated with stock options and restricted stock is recognized on a straight-line basis over the requisite service period. The following table summarizes share-based compensation expense recorded in the Consolidated Statements of Operations (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Cost of goods sold (1)	\$ 75	\$ 147	\$ 119	\$ 434
Selling, general and administrative expenses	446	361	1,298	1,083
<b>Total share-based compensation expense</b>	<b>\$ 521</b>	<b>\$ 508</b>	<b>\$ 1,417</b>	<b>\$ 1,517</b>

(1) Share-based compensation expense for the thirty-nine weeks ended October 30, 2021 includes forfeiture credits due to the departure of the Company's prior Chief Merchandising Officer effective March 19, 2021.

At October 30, 2021, there was \$4.4 million of total unrecognized share-based compensation expense related to unvested stock options and restricted stock. This cost has a weighted average remaining recognition period of 2.7 years.

#### Note 8: Earnings (Loss) Per Share

Earnings (loss) per share is computed under the provisions of ASC 260, *Earnings Per Share*. Basic income (loss) per share is computed based on the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares (i.e., in-the-money outstanding stock options as well as RSAs) outstanding during the period using the treasury stock method, whereby proceeds from such exercise, unamortized compensation and hypothetical excess tax benefits, if any, on share-based awards are assumed to be used by us to purchase the common shares at the average market price during the period.

The components of basic and diluted earnings (loss) per share were as follows (in thousands, except per share amounts):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net income (loss)	\$ 20,834	\$ 2,113	\$ 52,191	\$ (10,016)
Weighted average basic shares outstanding	30,915	29,708	30,429	29,693
Dilutive effect of stock options and restricted stock	437	102	587	—
<b>Weighted average shares for diluted earnings per share</b>	<b>31,352</b>	<b>29,810</b>	<b>31,016</b>	<b>29,693</b>
Basic earnings (loss) per share of Class A and Class B common stock	\$ 0.67	\$ 0.07	\$ 1.72	\$ (0.34)
<b>Diluted earnings (loss) per share of Class A and Class B common stock</b>	<b>\$ 0.66</b>	<b>\$ 0.07</b>	<b>\$ 1.68</b>	<b>\$ (0.34)</b>

The following stock options have been excluded from the calculation of diluted earnings (loss) per share as the effect of including these stock options would have been anti-dilutive (in thousands):

	<b>Thirteen Weeks Ended</b>		<b>Thirty-Nine Weeks Ended</b>	
	<b>October 30, 2021</b>	<b>October 31, 2020</b>	<b>October 30, 2021</b>	<b>October 31, 2020</b>
Stock options	677	1,503	800	2,597
Restricted stock	—	—	20	72
<b>Total</b>	<b>677</b>	<b>1,503</b>	<b>820</b>	<b>2,669</b>

**Note 9: Subsequent Events**

On November 18, 2021, our Board of Directors declared a special cash dividend of \$1.00 per share to all holders of issued and outstanding shares of both Class A and Class B common stock as of the close of business on December 7, 2021. Payment of the dividend will be made on December 15, 2021.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of the financial condition and results of our operations should be read together with the financial statements and related notes of Tilly’s, Inc. included in Part I Item 1 of this Quarterly Report on Form 10-Q (this "Report") and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021. As used in this Quarterly Report on Form 10-Q, except where the context otherwise requires or where otherwise indicated, the terms “the Company”, “World of Jeans & Tops”, “we”, “our”, “us”, “Tillys” and “Tilly’s” refer to Tilly’s, Inc. and its subsidiary.*

### **Overview**

Tillys is a destination specialty retailer of casual apparel, footwear, accessories and hardgoods for men, women, boys and girls. We believe we bring together an unparalleled selection of iconic global, emerging, and proprietary brands rooted in an active and outdoor lifestyle. The Tillys concept began in 1982, when our co-founders, Hezy Shaked and Tilly Levine, opened our first store in Orange County, California. As of October 30, 2021, we operated 243 stores in 33 states, averaging approximately 7,300 square feet per store, compared to 238 total stores last year at this time. We also sell our products through our e-commerce website, [www.tillys.com](http://www.tillys.com).

### **Known or Anticipated Trends**

#### COVID-19 Pandemic

As of the date of filing this Report, there remain many uncertainties regarding the ongoing COVID-19 pandemic (the "pandemic"), including the anticipated duration and severity of the pandemic, particularly in light of ongoing vaccination efforts and emerging variant strains of the virus. To date, the pandemic has had far-reaching impacts on many aspects of the operations of the Company, directly and indirectly, including on consumer behavior, store traffic, operational capabilities and our operations generally, timing of deliveries, demands on our information technology and e-commerce capabilities, inventory and expense management, managing our workforce, our storefront configurations and operations upon reopening, and our people, which have materially disrupted our business and the market generally. The scope and nature of these impacts continue to evolve. With the continued challenges posed by the pandemic, we may experience adverse impacts in the future, including similar impacts we have previously experienced during the pandemic, such as regional quarantines, labor stoppages and shortages, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, disruptions to supply chains, including the inability of our suppliers and service providers to deliver materials and services on a timely basis, or at all, severe market volatility, liquidity disruptions, and overall economic instability, which, in many cases, had, and may in the future continue to have, material adverse impacts on our business, financial condition and results of operations. This situation is continually evolving, and additional impacts may arise that we are not aware of currently, or current impacts may become magnified. As a result, we cannot reliably predict future business trends with any certainty at this time.

#### Supply Chain Disruptions

We source a significant portion of our merchandise assortment from third parties who manufacture their products in countries that have experienced widespread issues with the COVID-19 pandemic, thereby significantly impacting the global supply chain for merchandise inventories. Additionally, disruptions in the global transportation network have intensified recently, particularly in certain Southern California receiving ports which handle a significant portion of United States merchandise imports. These issues are resulting in shipping delays and increased shipping costs throughout the retail industry, including for us. Any untimely delivery of merchandise could have a negative impact on our ability to serve our customers with the specific merchandise they want in the quantities they wish to purchase in a timely manner, including for the 2021 holiday season, thereby potentially resulting in lost sales. These supply chain issues, and the media attention surrounding them, appear to be changing consumer shopping patterns to some extent, and are causing us to adjust our merchandise planning, allocation and pricing strategies from historical practices, among other impacts. We have been monitoring the situation very closely and have been in frequent contact with our key brand partners to acquire as much priority inventory as we can in anticipation of the holiday season and potential additional delivery delays. However, we are unable to predict the specific effects these factors will have on our fiscal 2021 fourth quarter net sales, results of operations, and our inventory position ending fiscal 2021.

#### Preliminary Fiscal 2022 New Store Openings and Capital Expenditure Plans

During fiscal 2022, we currently plan to open approximately 15 to 20 new stores within existing markets, primarily in California, Texas and the Northeast, assuming we are able to negotiate what we believe to be acceptable lease economics. We expect our total capital expenditures for fiscal 2022 to be in the range of approximately \$25 million to \$30 million, inclusive of our new store plans, investments in website and mobile app upgrades, distribution efficiencies, and other information technology infrastructure investments.



## How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of performance and financial measures. The key indicators of the financial condition and operating performance of our business are net sales, comparable store sales, gross profit, selling, general and administrative ("SG&A") expenses and operating income.

### *Net Sales*

Net sales reflect revenue from the sale of our merchandise at store locations and through e-commerce, net of sales taxes. Store sales are reflected in sales when the merchandise is received by the customer. For e-commerce sales, we recognize revenue, and the related cost of goods sold at the time the merchandise is shipped to the customer. Net sales also include shipping and handling fees for e-commerce shipments that have been shipped to the customer. Net sales are net of returns on sales during the period as well as an estimate of returns expected in the future stemming from current period sales. We recognize revenue from gift cards as they are redeemed for merchandise. Prior to redemption, we maintain a current liability for unredeemed gift card balances. Our gift cards do not have expiration dates and in most cases there is no legal obligation to remit unredeemed gift cards to relevant jurisdictions. Based on actual historical redemption patterns, we determined that a small percentage of gift cards are unlikely to be redeemed (which we refer to as "breakage"). Based on our historical gift card breakage rate, we recognize breakage revenue over the redemption period in proportion to actual gift card redemptions. Net sales are also adjusted for the unredeemed awards and accumulated partial points on our customer loyalty program.

Our business is seasonal and as a result our revenues fluctuate from quarter to quarter. In addition, our revenues in any given quarter can be affected by a number of factors including the timing of holidays and weather patterns. The third and fourth quarters of the fiscal year, which include the back-to-school and holiday sales seasons, have historically produced stronger sales and disproportionately stronger operating results than have the first two quarters of the fiscal year.

### *Comparable Store Net Sales*

Comparable store net sales is a measure that indicates the change in year-over-year comparable store net sales which allows us to evaluate how our store base is performing. Numerous factors affect our comparable store sales, including:

- overall economic trends;
- our ability to attract traffic to our stores and e-commerce platform;
- our ability to identify and respond effectively to consumer preferences and fashion trends;
- competition;
- the timing of our releases of new and seasonal styles;
- changes in our product mix;
- pricing;
- the level of customer service that we provide in stores and through our e-commerce platform;
- our ability to source and distribute products efficiently;
- calendar shifts of holiday or seasonal periods;
- the number and timing of new store openings and the relative proportion of new stores to mature stores; and
- the timing and success of promotional and advertising efforts.

Historically, our comparable store net sales are sales have included net sales from our e-commerce platform and stores open at least 12 full fiscal months as of the end of the current reporting period. However, as a result of the COVID-19 pandemic, our comparable store net sales for fiscal 2021 are defined as net sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates of last year. A remodeled or relocated store is included in comparable store net sales, both during and after construction, if the square footage of the store used to sell merchandise was not changed by more than 20% and the store was not closed for remodel for more than five days in any fiscal month. We include net sales from our e-commerce platform as part of comparable store net sales as we manage and analyze our business on an omni-channel basis and have substantially integrated our investments and operations for our stores and e-commerce platform to give our customers seamless access and increased ease of shopping. Comparable store sales exclude gift card breakage income and e-commerce shipping and handling fee revenue. Some of our competitors and other retailers may calculate comparable or "same store" sales differently than we do. As a result, data in this report regarding our comparable store sales may not be comparable to similar data made available by other retailers.

### *Gross Profit*

Gross profit is equal to our net sales less our cost of goods sold. Cost of goods sold reflects the direct cost of purchased merchandise as well as buying, distribution and occupancy costs. Buying costs include compensation and benefit expense for our internal buying organization. Distribution costs include costs for receiving, processing and warehousing our store and e-commerce merchandise, and shipping of merchandise to our stores, customers, or between our distribution and e-commerce fulfillment centers. Occupancy costs include the rent, common area maintenance, utilities, property taxes, security and

depreciation costs of all store locations. These costs are significant and can be expected to continue to increase as our company grows. The components of our reported cost of goods sold may not be comparable to those of other retail companies.

We regularly analyze the components of gross profit as well as gross profit as a percentage of net sales. Specifically we look at the initial markup on purchases, markdowns and reserves, shrinkage, buying costs, distribution costs and occupancy costs. Any inability to obtain acceptable levels of initial markups, a significant increase in our use of markdowns or a significant increase in inventory shrinkage or inability to generate sufficient sales leverage on the buying, distribution and occupancy components of cost of goods sold could have an adverse impact on our gross profit and results of operations.

Gross profit is also impacted by shifts in the proportion of sales of proprietary branded products compared to third-party branded products, as well as by sales mix shifts within and between brands and between major product departments such as mens apparel, womens apparel, footwear or accessories. A substantial shift in the mix of products could have a material impact on our results of operations. In addition, gross profit and gross profit as a percentage of net sales have historically been higher in the third and fourth quarters of the fiscal year, as these periods include the back-to-school and winter holiday selling seasons. In those periods, various costs, such as occupancy costs, generally do not increase in proportion to the seasonal sales increase.

#### *Selling, General and Administrative Expenses*

Our SG&A expenses are composed of store selling expenses and corporate-level general and administrative expenses. Store selling expenses include store and regional support costs, including personnel, advertising and debit and credit card processing costs, e-commerce receiving and processing costs and store supplies costs. General and administrative expenses include the payroll and support costs of corporate functions such as executive management, legal, accounting, information systems, human resources, other centralized services, and impairment charges. Store selling expenses generally vary proportionately with net sales and store growth. In contrast, general and administrative expenses are generally not directly proportional to net sales and store growth, but will be expected to increase over time to support the needs of our growing company. SG&A expenses as a percentage of net sales are usually higher in lower volume periods and lower in higher volume periods.

#### *Operating Income (Loss)*

Operating income (loss) equals gross profit less SG&A expenses. Operating income (loss) excludes interest income, interest expense and income taxes. Operating income (loss) percentage measures operating income (loss) as a percentage of our net sales.

We believe that drawing specific conclusions from comparative financial performance against fiscal 2020 results may be misleading given the various impacts of the COVID-19 pandemic. Further, it is challenging to predict future performance trends with any certainty due to many continuing unknowable factors in the current environment. These factors include but are not limited to:

- how the pandemic may continue to impact consumer habits and global supply chains;
- how the continuation or cessation of federal or state/local stimulus payments may continue to impact consumer spending;
- how store performance will continue to evolve over a longer period of time, particularly against the strong operating results from stores during fiscal 2021; and
- how our e-commerce business will perform relative to the significant increases in store net sales we have experienced during fiscal 2021.

The extent to which the COVID-19 pandemic and our response thereto may impact our business, financial condition, and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. For more details, see Item 1A. "Risk Factors - Risks Related to Our Business" within our most recently filed Annual Report on Form 10-K and the discussions elsewhere in this Report.

## Results of Operations

The following tables summarize key components of our unaudited results of operations for the periods indicated, both in dollars (in thousands) and as a percentage of our net sales:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
<b>Statements of Operations Data:</b>				
<b>Net sales</b>	\$ 206,096	\$ 140,275	\$ 571,205	\$ 353,409
Cost of goods sold	129,357	99,615	364,900	269,481
<b>Gross profit</b>	<b>76,739</b>	<b>40,660</b>	<b>206,305</b>	<b>83,928</b>
Selling, general and administrative expenses	47,742	37,122	136,007	101,082
<b>Operating income (loss)</b>	<b>28,997</b>	<b>3,538</b>	<b>70,298</b>	<b>(17,154)</b>
Other (expense) income, net	(1)	(28)	(219)	692
<b>Income (loss) before income taxes</b>	<b>28,996</b>	<b>3,510</b>	<b>70,079</b>	<b>(16,462)</b>
Income tax expense (benefit)	8,162	1,397	17,888	(6,446)
<b>Net income (loss)</b>	<b>\$ 20,834</b>	<b>\$ 2,113</b>	<b>\$ 52,191</b>	<b>\$ (10,016)</b>
<b>Percentage of Net Sales:</b>				
<b>Net sales</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of goods sold	62.8 %	71.0 %	63.9 %	76.3 %
<b>Gross profit</b>	<b>37.2 %</b>	<b>29.0 %</b>	<b>36.1 %</b>	<b>23.7 %</b>
Selling, general and administrative expenses	23.2 %	26.5 %	23.8 %	28.6 %
<b>Operating income (loss)</b>	<b>14.1 %</b>	<b>2.5 %</b>	<b>12.3 %</b>	<b>(4.9)%</b>
Other (expense) income, net	0.0 %	0.0 %	0.0 %	0.2 %
<b>Income (loss) before income taxes</b>	<b>14.1 %</b>	<b>2.5 %</b>	<b>12.3 %</b>	<b>(4.7)%</b>
Income tax expense (benefit)	4.0 %	1.0 %	3.1 %	(1.8) %
<b>Net income (loss)</b>	<b>10.1 %</b>	<b>1.5 %</b>	<b>9.1 %</b>	<b>(2.8)%</b>

The following table presents store operating data for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
<b>Operating Data:</b>				
Stores operating at end of period	243	238	243	238
Comparable store net sales change <b>(1)</b>	31.3 %	(1.4)%	18.2 %	4.3 %
Total square feet at end of period (in '000s)	1,781	1,753	1,781	1,753
Average net sales per physical store (in '000s) <b>(2)</b>	\$ 678	\$ 439	\$ 1,892	\$ 987
Average net sales per square foot <b>(2)</b>	\$ 93	\$ 60	\$ 258	\$ 134
E-commerce revenues (in '000s) <b>(3)</b>	\$ 40,841	\$ 35,729	\$ 113,648	\$ 118,051
E-commerce revenues as a percentage of net sales	19.8 %	25.5 %	19.9 %	33.4 %

- (1) Historically, comparable store net sales have included net sales from our e-commerce platform and stores open at least 12 full fiscal months as of the end of the current reporting period. However, as a result of the COVID-19 pandemic, our comparable store net sales for fiscal 2021 are defined as sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates last year. A remodeled or relocated store is included in comparable store net sales, both during and after construction, if the square footage of the store used to sell merchandise was not changed by more than 20% and the store was not closed for remodel for more than five days in any fiscal month. We include sales from our e-commerce platform as part of our comparable store net sales as we manage and analyze our business on an omni-channel basis and have substantially integrated our investments and operations for our stores and e-commerce platform to give our customers seamless access and increased ease of shopping. Comparable store net sales exclude gift card breakage income, and e-commerce shipping and handling fee revenue.
- (2) The number of stores and the amount of square footage reflect the number of days during the period that stores were open. E-commerce sales, e-commerce shipping and handling fee revenue and gift card breakage income are excluded from net sales in deriving average net sales per retail store and average net sales per square foot.
- (3) E-commerce revenues include e-commerce sales and e-commerce shipping and handling fee revenue.

**Third Quarter (13 Weeks) Ended October 30, 2021 Compared to Third Quarter (13 Weeks) Ended October 31, 2020****Net Sales**

Total net sales were \$206.1 million, an increase of \$65.8 million, or 46.9%, compared to \$140.3 million for the corresponding period last year.

- Net sales from physical stores were \$165.3 million, an increase of \$60.7 million or 58.1%, compared to \$104.6 million last year with a much more normalized back-to-school season this year and no pandemic-forced store closures during the quarter. Net sales from stores represented 80.2% of total net sales compared to 74.5% of total net sales last year. The Company ended the third quarter with 243 total stores compared to 238 total stores at the end of the third quarter last year.
- Net sales from e-commerce were \$40.8 million, an increase of \$5.1 million or 14.3%, compared to \$35.7 million last year. E-commerce net sales represented 19.8% of total net sales compared to 25.5% of total net sales last year.

**Gross Profit**

Gross profit was \$76.7 million, or 37.2% of net sales, compared to \$40.7 million, or 29.0% of net sales, last year. Buying, distribution and occupancy costs improved by 690 basis points collectively, despite increasing by \$2.7 million in total, due to leveraging these costs against higher net sales. Occupancy costs improved by 540 basis points despite increasing by \$0.5 million with 5 net new stores. Distribution costs improved by 110 basis points despite increasing by \$2.1 million. Buying costs improved by 40 basis points despite increasing by \$0.1 million. Product margins improved by 130 basis points versus last year due to lower markdowns.

**Selling, General and Administrative Expenses**

SG&A expenses were \$47.7 million, or 23.2% of net sales, compared to \$37.1 million, or 26.5% of net sales, last year. The components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	\$ millions	Primarily Attributable to
0.3%	\$7.6	Increase in store payroll and related benefits due to operating all stores for the entirety of this year's third quarter and serving higher net sales.
0.9%	1.8	Corporate bonus accruals due to strong operating performance to date in fiscal 2021.
(0.5)%	1.2	Increase in marketing expenses.
(4.0)%	—	Net change in all other SG&A expenses.
<b>(3.3)%</b>	<b>\$10.6</b>	<b>Total</b>

**Operating Income**

Operating income improved to \$29.0 million, or 14.1% of net sales, compared to \$3.5 million, or 2.5% of net sales, for the corresponding period last year. The increase in operating income was primarily due to the factors noted above.

**Income Tax Expense**

Income tax expense was \$8.2 million, or 28.1% of pre-tax income, compared to \$1.4 million, or 39.8% of pre-tax income, last year. The decrease in the effective income tax rate was primarily due to the prior year impact of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which provided for net operating losses in fiscal 2020 to be carried back to earlier tax years with higher tax rates.

**Net Income and Income Per Diluted Share**

Net income improved to \$20.8 million, or \$0.66 per diluted share, compared to \$2.1 million, or \$0.07 per diluted share, last year as a result of the factors noted above.

**Thirty-Nine Weeks Ended October 30, 2021 Compared to Thirty-Nine Weeks Ended October 31, 2020****Net Sales**

Total net sales were \$571.2 million, an increase of \$217.8 million or 61.6%, compared to \$353.4 million last year.

- Net sales from physical stores were \$457.6 million, an increase of \$222.2 million or 94.4%, compared to \$235.4 million last year, primarily due to the various periods of pandemic-forced store closures during the first thirty-nine weeks of last year. Net sales from stores represented 80.1% of total net sales compared to 66.6% of total net sales last year.

- Net sales from e-commerce were \$113.6 million, a decrease of \$(4.4) million or (3.7)%, compared to \$118.1 million last year, primarily due to the anniversary of last year's substantial increase in e-commerce net sales during the period of pandemic-forced store closures. E-commerce net sales represented 19.9% of total net sales compared to 33.4% of total net sales last year.

#### Gross Profit

Gross profit was \$206.3 million, or 36.1% of net sales, compared to \$83.9 million, or 23.7% of net sales, last year. Buying, distribution and occupancy costs improved by 1050 basis points collectively, despite increasing by \$5.9 million in total, due to leveraging these costs against higher net sales. Product margins improved by 190 basis points versus last year due to lower markdowns.

#### Selling, General and Administrative Expenses

SG&A expenses were \$136.0 million or 23.8% of net sales, compared to \$101.1 million, or 28.6% of net sales, last year. The components of the SG&A variances, both in terms of percentage of net sales and total dollars, were as follows:

%	\$ millions	Primarily Attributable to
(0.1)%	\$24.0	Increase in store payroll and related benefits due to operating all stores for the entirety of fiscal 2021 and serving higher net sales.
1.0%	6.0	Corporate bonus accruals due to strong operating performance to date in fiscal 2021.
—%	2.4	Increase in credit card fees associated with higher net sales.
(1.2)%	2.2	Increase in marketing expenses.
(1.2)%	2.2	Increase in corporate payroll and related benefits due to being more fully staffed this year compared to significant furloughs and temporary management pay reductions last year.
(0.8)%	(3.4)	Net year-to-year decrease attributable to a \$1.7 million disputed California sales tax assessment originally recorded in the third quarter of fiscal 2020 which was subsequently resolved in the company's favor and reversed in the first quarter of fiscal 2021.
(2.5)%	1.5	Net change in all other SG&A expenses.
<b>(4.8)%</b>	<b>\$34.9</b>	<b>Total</b>

#### Operating Income (Loss)

Operating income improved to \$70.3 million, or 12.3% of net sales, compared to an operating loss of \$(17.2) million, or (4.9)% of net sales, for the corresponding period last year. The increase in operating income was due to the factors noted above.

#### Income Tax Expense (Benefit)

Income tax expense was \$17.9 million, or 25.5% of pre-tax income, compared to an income tax benefit of \$(6.4) million, or 39.2% of pre-tax loss, last year. The decrease in the effective income tax rate was primarily due to deferred income tax benefits of \$1.0 million derived from employee stock option exercise activity in fiscal 2021, and the prior year impact of the CARES Act, which provided for net operating losses in fiscal 2020 to be carried back to earlier tax years with higher tax rates.

#### Net Income (Loss) and Income (Loss) Per Diluted Share

Net income improved to \$52.2 million, or \$1.68 per diluted share, compared to a net loss of \$(10.0) million, or \$(0.34) per share, last year as a result of the factors noted above.

#### Liquidity and Capital Resources

Our business relies on cash flows from operating activities as well as cash on hand as our primary sources of liquidity. We currently expect to finance company operations, store growth and remodels, and all of our planned capital expenditures with existing cash on hand, marketable securities and cash flows from operations.

In addition to cash and cash equivalents and marketable securities, the most significant components of our working capital are merchandise inventories, accounts payable and accrued expenses. We believe that cash flows from operating activities, our cash and marketable securities on hand, and credit facility availability will be sufficient to cover our working capital requirements and anticipated capital expenditures for the next 12 months from the filing of this Report. If cash flows from operations are not sufficient or available to meet our capital requirements, then we will be required to obtain additional equity or debt financing in the future. There can be no assurance that equity or debt financing will be available to us when we need it or, if available, that the terms will be satisfactory to us and not dilutive to our stockholders.

### Working Capital

Working capital at October 30, 2021, was \$109.0 million compared to \$78.0 million at January 30, 2021, an increase of \$31.0 million. The changes in our working capital during the first three quarters of fiscal 2021 were as follows:

\$ millions	Description
<b>\$78.0</b>	<b>Working capital at January 30, 2021</b>
45.2	Increase in cash, cash equivalents, and marketable securities, primarily due to higher net income.
9.6	Increase in merchandise inventories, net of accounts payable.
8.6	Increase primarily due to timing of income tax payments.
(30.7)	Payment of special cash dividend.
(7.2)	Decrease primarily due to corporate bonus accruals and timing of accrued compensation and benefits.
5.5	Other net increases.
<b>\$109.0</b>	<b>Working capital at October 30, 2021</b>

### Asset-Backed Credit Facility

On November 9, 2020 (the "Closing Date"), we entered into a credit agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Bank"), as lender, administrative agent and collateral agent (the "Agent"). The Credit Agreement replaced our existing amended and restated credit agreement (the "Prior Credit Agreement"), dated as of May 3, 2012, as amended, with the Agent.

The Credit Agreement provides for an asset-based, senior secured revolving credit facility of up to \$65.0 million consisting of revolving loans, letters of credit and swing line loans provided by lenders, with a sub limit on credit outstanding at any time of \$10.0 million and a sub limit for swing line loans of \$7.5 million. The Credit Agreement also includes an uncommitted accordion feature whereby we may increase the revolving commitment by an aggregate amount not to exceed \$12.5 million, subject to certain conditions. The revolving facility matures on November 9, 2023. The payment and performance in full of the secured obligations under the revolving facility are secured by a lien on and security interest in all of the assets of our Company.

The maximum borrowings permitted under the revolving facility is equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base is equal to (a) 90% of the borrower's eligible credit card receivables, plus (b) 90% of the cost of the borrower's eligible inventory, less inventory reserves established by the Agent, and adjusted by the appraised value of such eligible inventory, plus (c) 90% of the cost of the borrower's eligible in-transit inventory, less inventory reserves established by the Agent, and adjusted by the appraised value of such eligible in-transit inventory (not to exceed 10% of the total amount of all eligible inventory included in the borrowing base) less (d) reserves established by the Agent.

The unused portion of the revolving commitment accrues a commitment fee, which ranges from 0.375% to 0.50% per annum, based on the average daily borrowing capacity under the revolving facility over the applicable fiscal quarter. Borrowings under the revolving facility bear interest at a rate per annum that ranges from the LIBOR rate plus 2.0% to the LIBOR rate plus 2.25%, or the base rate plus 1.0% to the base rate plus 1.25%, based on the average daily borrowing capacity under the revolving facility over the applicable fiscal quarter. We may elect to apply either the LIBOR rate or base rate interest to borrowings at our discretion, other than in the case of swing line loans, to which the base rate shall apply.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including a financial covenant relating to availability, and customary events of default. Prior to the first anniversary of the Closing Date, we were prohibited from declaring or paying any cash dividends to our respective stockholders or repurchasing our own common stock. After the first anniversary of the Closing Date, we are allowed to declare and pay cash dividends to our respective stockholders and repurchase our own common stock, provided, among other things, no default or event of default exists as of the date of any such payment and after giving effect thereto and certain minimum availability and minimum projected availability tests are satisfied.

On June 8, 2021, we entered into a Consent Agreement authorizing us to declare and pay cash dividends to our shareholders of up to \$31 million in the aggregate on or before July 31, 2021. We paid a one-time special cash dividend of \$1.00 per share on July 9, 2021, to all holders of record of issued and outstanding common stock in the aggregate of \$30.7 million.

In connection with the entry into the Credit Agreement, on November 9, 2020, we entered into certain ancillary agreements, including (i) a security agreement in favor of the Agent, and (ii) a guaranty by us in favor of the Agent. The security agreement and the guaranty replaced (i) the general pledge agreement, dated as of May 3, 2012, by us in favor of the bank, (ii) the continuing guaranty by us in favor of the Agent, dated May 3, 2012, and (iii) the amended and restated security agreement with

respect to equipment and the amended and restated security agreement with respect to rights to payment and inventory, in each case, dated as of May 3, 2012.

The Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. No borrowings were outstanding under the Prior Credit Agreement as of the Closing Date. The interest rate charged on borrowings under the Prior Credit Agreement was selected at our discretion at the time of draw between LIBOR plus 0.75%, or at the Bank's prime rate. The Prior Credit Agreement was secured by substantially all of our assets. In March 2020, we borrowed \$23.7 million under our Prior Credit Agreement, which represented the maximum borrowings permitted thereunder, and which were subsequently repaid in September 2020.

As of October 30, 2021, we were in compliance with all of our covenants, were eligible to borrow up to a total of \$63.0 million and had no outstanding borrowings under the Credit Agreement.

#### *Impact of CARES Act on Company Liquidity*

On March 27, 2020, the CARES Act was signed into law. The CARES Act includes tax provisions applicable to businesses, such as net operating losses, enhanced interest deductibility, optional deferral of deposits of payroll taxes, a refundable employee retention payroll tax credit and changes to the depreciation rules for qualified improvement property. As of October 30, 2021, pursuant to the CARES Act, we have deferred the deposit of certain payroll taxes, applied for certain tax credits and accelerated depreciation on qualified improvement property.

#### **Cash Flow Analysis**

A summary of operating, investing and financing activities for the thirty-nine weeks of fiscal 2021 compared to the thirty-nine weeks of fiscal 2020 is shown in the following table (in thousands):

	<b>Thirty-Nine Weeks Ended</b>	
	<b>October 30, 2021</b>	<b>October 31, 2020</b>
Net cash provided by operating activities	\$ 46,850	\$ 21,033
Net cash (used in) provided by investing activities	(42,061)	37,816
Net cash used in financing activities	(21,581)	(29,677)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (16,792)</b>	<b>\$ 29,172</b>

#### *Net Cash Provided by Operating Activities*

Operating activities consist primarily of net income (loss) adjusted for non-cash items, plus the effect on cash of changes during the period in our assets and liabilities.

Net cash flows provided by operating activities were \$46.9 million this year compared to \$21.0 million last year. The \$25.8 million increase in cash provided by operating activities was due to higher net sales in fiscal 2021, which was primarily attributable to the closure of all stores from mid-March to mid-May in fiscal 2020 as a result of the COVID-19 pandemic and the varying periods of ongoing store closures for certain stores that continued into October 2020.

#### *Net Cash (Used In) Provided By Investing Activities*

Cash flows from investing activities consist primarily of capital expenditures and maturities and purchases of marketable securities.

Net cash used in investing activities was \$42.1 million this year compared to \$37.8 million provided by investing activities last year. Net cash used in investing activities in the first three quarters of fiscal 2021 consisted of purchases of marketable securities of \$126.4 million and capital expenditures totaling \$10.9 million, partially offset by the maturities of marketable securities of \$95.2 million. Net cash provided by investing activities during the first three quarters of fiscal 2020 consisted of proceeds from the maturities of marketable securities of \$75.2 million, partially offset by purchases of marketable securities of \$30.9 million and capital expenditures totaling \$6.4 million.

#### *Net Cash Used in Financing Activities*

Financing activities primarily consist of cash dividend payments, borrowings and repayments of our line of credit, taxes paid in lieu of shares issued for share based compensation and proceeds from employee exercises of stock options.

Net cash used in financing activities was \$21.6 million this year compared to \$29.7 million last year. Financing activities in the first three quarters of fiscal 2021 consisted of dividends paid of \$30.7 million, partially offset by proceeds from the exercise of stock options of \$9.1 million. Financing activities in the first three quarters of fiscal 2020 consisted of dividends paid of \$29.7 million and \$23.7 million in both borrowings and repayments under the Prior Credit Agreement.



## **Contractual Obligations**

As of October 30, 2021, there were no material changes to our contractual obligations as described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

## **Off-Balance Sheet Arrangements**

We are not a party to any off-balance sheet arrangements, except for purchase obligations and our revolving credit facility.

## **Critical Accounting Policies and Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, some of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements. Since future events and their impact cannot be determined with absolute certainty, the actual results will inevitably differ from our estimates. As noted elsewhere in this Report, the COVID-19 pandemic has had significant impacts on our business and the economy generally, making estimates and assumptions about future events far more difficult, if not impossible. A summary of our significant accounting policies is included in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of October 30, 2021, there were no material changes in the market risks described in the “Quantitative and Qualitative Disclosure of Market Risks” section of our Annual Report on Form 10-K for the fiscal year ended January 30, 2021.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, including our Chief Executive Officer and our Chief Financial Officer, with the participation of our Disclosure Committee, evaluated the effectiveness of our disclosure controls and procedures as of October 30, 2021. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of October 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because



of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## Part II. Other Information

### Item 1. Legal Proceedings

The information contained in "[Note 5: Commitments and Contingencies](#)" to our consolidated financial statements included in this Report is incorporated by reference into this Item.

### Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. In addition to the other information set forth in this Quarterly Report on Form 10-Q, please refer to the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended January 30, 2021 for a detailed discussion of the risks that affect our business.

### Item 6. Exhibits

Exhibit No.	Description of Exhibit
<a href="#">10.1</a>	<a href="#">First Amendment to Lease between Amnet Holdings and World of Jeans &amp; Tops, dated as of October 21, 2021 (17 Pasteur, Irvine, California) *</a>
<a href="#">31.1*</a>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">31.2*</a>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">32.1**</a>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	Interactive data files from Tilly's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 30, 2021, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income (Loss); (iv) the Consolidated Statement of Stockholders' Equity; (v) the Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith and not "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

**SIGNATURES**

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

Date: December 7, 2021

**Tilly's, Inc.**

/s/ Edmond Thomas

\_\_\_\_\_  
Edmond Thomas

*President, Chief Executive Officer and Director*

*(Principal Executive Officer)*

Date: December 7, 2021

/s/ Michael Henry

\_\_\_\_\_  
Michael Henry

*Executive Vice President, Chief Financial Officer*

*(Principal Financial Officer)*

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this "Amendment") is executed as of October 21, 2021, by and between Amnet Holdings, a California limited liability company ("Landlord"), and World of Jeans & Tops, a California Corporation ("Tenant").

RECITALS

A. By written Lease Agreement between Landlord and Tenant dated November 1, 2011 (as amended from time to time, the "Lease"), Tenant agreed to lease from Landlord certain Leased Property, more commonly known as 17 Pasteur, located in the City of Irvine, County of Orange, State of California, which is more particularly described in the Lease. Capitalized terms not defined herein shall have the meanings as set forth in the Lease.

B. Landlord and Tenant desire to amend the Lease as set forth herein.

NOW, THEREFORE, the parties agree that the foregoing recitals are true and correct and incorporated below by reference and for good and valuable consideration, the receipt and sufficiency of which are acknowledged hereto, the parties agree as follows:

1. **Lease Term.** The Term of the lease is hereby extended for a period of Ten (10) years, commencing upon November 1, 2021 (the "Extension Term Commencement Date") and ending October 31, 2031 unless sooner terminated in accordance with the terms and conditions in Amending Agreement or the Lease. Further, all terms, covenants and conditions applicable to the Lease Term will be equally applicable to the Extension Term except hereinafter modified. The phrase "Lease Term" wherever it appears in the Lease shall be deemed to include the Original Lease Term and Extension Term.

2. **Minimum Monthly Rent.** Provided Tenant is not in default of the Lease, commencing on the extension Term Commencement Date and continuing through and including the expiration of the Extension Term, Minimum Monthly Rent and Annual Rent (Section 1.9 and 4.1), Tenant shall pay to Landlord, without notice or demand, a Minimum Monthly Rent equal to Ninety Seven Thousand, Three Hundred Ninety and 80/100 Dollars (\$97,390.80).

Beginning on the first day of the Second (2<sup>nd</sup>) full Lease Year of the Extension Term, Minimum Monthly Rent shall be increased by Five Percent (5%) or CPI, whichever is greater, per annum and shall continue to increase annually on a compounded basis Five Percent (5%) or CPI, whichever is greater, as defined in the Lease (Section 4.2), on each subsequent anniversary thereafter.

3. **Security Deposit.** Tenant has deposited with Landlord the sum of One Hundred Eighty-Three Thousand Five Hundred Thirty-Eight and 30/100 Dollars (\$183,538.30). Said sum shall be increased to Three Hundred Ninety-Nine, Five Hundred Sixty-One and 00/100 Dollars (\$399,561.00). Difference owed from current security deposit is Two Hundred Sixteen Thousand, Twenty-Two and 70/100 Dollars (\$216,022.70) and shall be deposited along with first months Minimum Monthly Rent.

4. **Restoration.** In the event Tenant performs alterations, additions, or improvements, Tenant shall return the Premises to the condition the Premises were delivered to the Tenant by Landlord. A Restoration Deposit shall be added to the Security Deposit in an amount equal to the cost of returning the Premises to said condition prior to commencement of any alterations, additions, or improvements following Landlord approval, which approval shall not be unreasonably withheld or delayed. No work shall commence prior to payment of Restoration Deposit.

5. **Utilities.** Tenant shall be responsible for all utility costs. Landlord reserves the right to contract service from a different Electric Service Provider or Alternative Service Provider including the right to install solar power. Cost of such Alternative Service Provider shall not exceed the cost Tenant would pay to the present Electric Service Provider.

6. **Hold Harmless.** Unless due to the negligent act or omission of Landlord, its agents, contractors or employees, Tenant assumes all risk of damage to the property or injury to person in, upon, or about the

Premises from any cause. Tenant shall defend the Landlord, Landlord's agents, employees, lenders, and affiliates against any such claims at Tenant's expense by counsel reasonably satisfactory to Landlord.

7. **Tenant's Insurance.** Tenant shall be required to maintain Commercial Liability Insurance of \$2,000,000 per occurrence (Bodily Injury, Personal Injury, Death & Property Damage Liability), with an aggregate of \$4,000,000, Workers Comp Insurance of \$1,000,000 or greater, Commercial Automobile Liability & Property Insurance of no less than \$1,000,000 combined single limit, Business Interruption Insurance of \$5,000,000, Rental Value Insurance in the value of 12 months Minimum Monthly Rental, Plate Glass Insurance, Earthquake Insurance, and Fire and Sprinkler Damage coverage. Tenant will insure leasehold improvements, trade fixtures, merchandise, personal property, and plate glass in an amount not less than full replacement value. Property perils covered should be on an All Risks form including Fire and Sprinkler Damage coverage. Tenant will also insure merchandise for the peril of Earthquake in an amount not less than full replacement value. Insurance Companies General Policy Holders rating of not less than A- and Financial ratings not less than Class VII (7) as rated in the most current available best's key rating guide. Unless due to the negligent act or omission of Landlord, its agents, contractors or employees, Landlord has no liability for any of Tenants covered or non-covered items.

8. **Repairs and Maintenance.** Tenant shall, at Tenant's sole expense, keep the premises (both exterior and interior) in good order, condition, and repair and shall be responsible for managing, operating, maintaining, repairing and replacing components of the buildings and premises. Tenant shall use Landlord's designated landscapers or Landlord shall have the right to approve any other landscapers chosen by Tenant, which approval shall not be unreasonably withheld or delayed.

9. **Ventilating and Air Conditioning.** Tenant shall have use of Landlord's ventilating and air-conditioning units or system in the Premises. Tenant shall provide regular preventative maintenance and is responsible for all maintenance, repair and replacement of such units at Tenant's sole cost and expense. Furthermore, Section 11.1 (b) Replacement is omitted in its entirety from the Lease.

10. **Surrender of the Premises.** Tenant shall provide Landlord no less than Two Hundred Seventy days (270) notice should Tenant elect not to renew the Lease at the end of the Lease Term.

11. **Hold Over.** Should Tenant hold over in the Premises beyond the expiration or earlier termination of the lease, the holding over shall not constitute a renewal or extension of the Lease. In such event, MMR (Minimum Monthly Rent) shall equal 150% of MMR at end of lease or Market Rent, whichever is greater.

12. **Assignment and Subletting.** The Lease may not be assigned or sublet without the prior written consent of Landlord, not to be unreasonably withheld, and subject to Landlord's standard conditions, including no change of Tenant's use, as referenced in the Lease. In the event Tenant sublets and the rent amount is higher than Tenant's rent Tenant shall pay Landlord 100% of any net profits after Tenant deducts costs of subleasing (ie. TI cost, commissions, legal costs)

13. **Signage.** Tenant shall have the right to install signage in compliance with applicable City ordinances and Landlord's standard sign criteria. Landlord may allocate monument sign panels for Tenant's use, in locations designated by Landlord. Tenant shall be responsible for the cost of installation, maintenance, and removal at the end of the Lease.

14. **Coronavirus or any other Pandemic Acknowledgement.** The parties hereby acknowledge that, as of the date of this Amendment, the coronavirus outbreak, including, without limitation Covid-19 and any mutations thereof or any other Pandemic (the "**Coronavirus or any other Pandemic Situation**") has resulted in various governmental entities at various levels (federal, state, county, city and local) to issue various laws, ordinances, regulations, orders and controls directly in response to the Coronavirus or any other Pandemic Situation (collectively and as hereinafter promulgated, the "**Coronavirus or any other Pandemic Governmental Actions**"), which have included, without limitation, orders that may give tenants the right to withhold or defer rent payments without late fees or interest ("**Coronavirus or any other Pandemic Rent Deferrals**"). Landlord and Tenant acknowledge that this Amendment is being entered into while both parties have knowledge and awareness of the Coronavirus or any other Pandemic

Situation and the ongoing Coronavirus or any other Pandemic Governmental Actions, and Tenant acknowledges and agrees that Landlord would not lease the Premises to Tenant without Tenant expressly waiving any current or future rights to Coronavirus or any other Pandemic Rent Deferrals, and all other rights now or in the future to withhold any payments to Landlord arising in any way from the Coronavirus or any other Pandemic Governmental Actions. Therefore, in consideration of the foregoing and Landlord's willingness to enter into this Amendment, to the maximum extent allowed by Legal Requirements, Tenant hereby expressly and irrevocably waives any and all current or future rights to Coronavirus or any other Pandemic Rent Deferrals and all other rights now or in the future to withhold any payments of Rent to Landlord arising in any way from the Coronavirus or any other Pandemic Governmental Actions. Tenant acknowledges and agrees that Landlord is under no obligation to provide notice of any incidents of Coronavirus or any other Pandemic infections within the Project, and the presence of Coronavirus or any other Pandemic infected individuals within the Project is not an excuse or basis for not making payments to Landlord otherwise due under this Amendment, including, without limitation, Rent.

15. Except as specifically modified by this First Amendment, the terms and conditions of the Lease shall remain in full force and effect, unchanged and unmodified in any way, and the Lease is hereby ratified and affirmed by Landlord and Tenant.

16. This Amendment shall bind and inure to the benefit of not only the parties hereto, but also their successors and assigns.

*(Signature page follows)*

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the day and year first above written.

“LANDLORD”

Amnet Holdings, LLC,  
a California limited liability company

/s/ Hezy Shaked

Hezy Shaked, Manager

“TENANT”

World of Jeans & Tops, a California Corporation

/s/ Michael L. Henry

Michael L. Henry, EVP CFO

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO RULE 13a-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Edmond Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended October 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2021

/s/ Edmond Thomas

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Edmond Thomas

*President, Chief Executive Officer and Director*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(a)  
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, Michael Henry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tilly's, Inc. for the quarter ended October 30, 2021;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 7, 2021

/s/ Michael Henry  
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Michael Henry  
Chief Financial Officer



**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2021 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edmond Thomas, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 7, 2021

/s/ Edmond Thomas

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Edmond Thomas

*President, Chief Executive Officer and Director*

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended October 30, 2021 of Tilly's, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Henry, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 7, 2021

/s/ Michael Henry

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Michael Henry

*Chief Financial Officer*

The foregoing certifications are being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350 and in accordance with SEC Release No. 33-8238. These certifications shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.