UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended April 30, 2022

OR

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

Commission file number: 001-35535

TILLY'S, INC.
(Exact name of Registrant as specified in its charter)

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)

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 June 3, 2022, the registrant had the following shares of common stock outstanding:

Class A common stock $0.001 par value	22,736,122
Class B common stock $0.001 par value	7,306,108

TILLY'S, INC.
FORM 10-Q
For the Quarterly Period Ended April 30, 2022

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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 and on our operations, future financial or operational results, including with respect to our ability to keep stores open and e-commerce operational, cash and liquidity management, expense management, our ability to reduce costs, and our ability to procure sufficient quantities of inventory in line with our sales plans, or to effectively manage inventory levels on an ongoing basis relative to net sales performance and changing market conditions, particularly in light of ongoing supply chain disruptions that have significantly altered historical product flows both in terms of timing and amount of inventory available;
- the impacts of inflation on consumer spending generally and on our operating results and financial condition;
- our ability to adapt to downward trends in traffic 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 and generate acceptable levels of return from our digital marketing efforts and other e-commerce growth initiatives;
- 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 and e-commerce 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;
- adjusting to increasing costs of mailing catalogs, paper and printing;
- 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 declines in consumer confidence and decreases in 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;
- 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;
- 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)

	April 30, 2022	January 29, 2022	May 1, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 59,954	$ 42,201	$ 81,015
Marketable securities	50,997	97,027	76,633
Receivables	8,209	6,705	9,701
Merchandise inventories	74,112	65,645	65,341
Prepaid expenses and other current assets	14,769	16,400	4,591
Total current assets	**208,041**	**227,978**	**237,281**
Operating lease assets	218,163	216,508	222,209
Property and equipment, net	46,606	47,530	54,139
Deferred tax assets	11,594	11,446	11,664
Other assets	1,253	1,361	1,231
TOTAL ASSETS	**$ 485,657**	**$ 504,823**	**$ 526,524**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$ 27,193	$ 28,144	$ 35,860
Accrued expenses	16,741	19,073	29,110
Deferred revenue	15,150	17,096	12,913
Accrued compensation and benefits	8,707	17,056	14,489
Current portion of operating lease liabilities	51,237	51,504	51,231
Current portion of operating lease liabilities, related party	2,483	2,533	2,402
Other liabilities	674	761	763
Total current liabilities	**122,185**	**136,167**	**146,768**
Noncurrent portion of operating lease liabilities	174,301	171,965	192,345
Noncurrent portion of operating lease liabilities, related party	20,364	21,000	11,282
Other liabilities	872	978	1,528
Total long-term liabilities	**195,537**	**193,943**	**205,155**
Total liabilities	**317,722**	**330,110**	**351,923**
Commitments and contingencies (Notes 2 and 5)			
Stockholders' equity:			
Common stock (Class A), $0.001 par value; 100,000 shares authorized; 22,832, 23,719 and 22,837 shares issued and outstanding, respectively	23	24	23
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	7	7
Preferred stock, $0.001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—	—
Additional paid-in capital	167,512	166,929	158,454
Retained earnings	391	7,754	16,094
Accumulated other comprehensive income (loss)	2	(1)	23
Total stockholders' equity	**167,935**	**174,713**	**174,601**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 485,657**	**$ 504,823**	**$ 526,524**

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	
	April 30, 2022	**May 1, 2021**
Net sales	**$ 145,775**	**$ 163,157**
Cost of goods sold (includes buying, distribution, and occupancy costs)	101,100	107,616
Rent expense, related party	860	702
Total cost of goods sold (includes buying, distribution, and occupancy costs)	**101,960**	**108,318**
Gross profit	**43,815**	**54,839**
Selling, general and administrative expenses	42,574	39,832
Rent expense, related party	133	133
Total selling, general, and administrative expenses	**42,707**	**39,965**
Operating income	**1,108**	**14,874**
Other income (expense), net	4	(115)
Income before income taxes	**1,112**	**14,759**
Income tax expense	299	3,800
Net income	**$ 813**	**$ 10,959**
Basic earnings per share of Class A and Class B common stock	$ 0.03	$ 0.37
Diluted earnings per share of Class A and Class B common stock	$ 0.03	$ 0.36
Weighted average basic shares outstanding	30,762	29,878
Weighted average diluted shares outstanding	31,046	30,529

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

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

	Thirteen Weeks Ended	
	April 30, 2022	**May 1, 2021**
Net income	**$ 813**	**$ 10,959**
Other comprehensive income, net of tax:		
Net change in unrealized gain on available-for-sale securities, net of tax	3	3
Other comprehensive income, net of tax	3	3
Comprehensive income	**$ 816**	**$ 10,962**

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 (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders' Equity
Balance at January 29, 2022	**23,719**	**7,306**	**$ 31**	**$ 166,929**	**$ 7,754**	**$ (1)**	**$ 174,713**
Net income	—	—	—	—	813	—	813
Share-based compensation expense	—	—	—	563	—	—	563
Employee stock option exercises	5	—	—	20	—	—	20
Repurchase of common stock	(892)	—	(1)	—	(8,176)	—	(8,177)
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	3	3
Balance at April 30, 2022	**22,832**	**7,306**	**$ 30**	**$ 167,512**	**$ 391**	**$ 2**	**$ 167,935**

	Number of Shares						
	Common Stock (Class A)	Common Stock (Class B)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at January 30, 2021	**22,477**	**7,306**	**$ 30**	**$ 155,437**	**$ 5,135**	**$ 20**	**$ 160,622**
Net income	—	—	—	—	10,959	—	10,959
Share-based compensation expense	—	—	—	366	—	—	366
Employee stock option exercises	360	—	—	2,651	—	—	2,651
Net change in unrealized gain on available-for-sale securities	—	—	—	—	—	3	3
Balance at May 1, 2021	**22,837**	**7,306**	**$ 30**	**$ 158,454**	**$ 16,094**	**$ 23**	**$ 174,601**

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

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

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
Cash flows from operating activities:		
Net income	$ 813	$ 10,959
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,508	4,324
Insurance proceeds from casualty loss	—	117
Share-based compensation expense	563	366
Impairment of assets	13	—
Loss on disposal of assets	43	62
Gain on sales and maturities of marketable securities	(26)	(29)
Deferred income taxes	(150)	285
Changes in operating assets and liabilities:		
Receivables	(356)	250
Merchandise inventories	(8,467)	(9,760)
Prepaid expenses and other current assets	1,667	1,615
Accounts payable	(955)	10,617
Accrued expenses	(2,357)	(1,745)
Accrued compensation and benefits	(8,349)	4,590
Operating lease liabilities	(1,361)	(2,103)
Deferred revenue	(1,946)	(579)
Other liabilities	(193)	308
Net cash (used in) provided by operating activities	**(17,553)**	**19,277**
Cash flows from investing activities:		
Purchases of property and equipment	(2,598)	(5,492)
Proceeds from sale of property and equipment	—	10
Insurance proceeds from casualty loss	—	29
Purchases of marketable securities	(4,967)	(36,644)
Proceeds from marketable securities	51,028	25,000
Net cash provided by (used in) investing activities	**43,463**	**(17,097)**
Cash flows from financing activities:		
Proceeds from exercise of stock options	20	2,651
Share repurchases	(8,177)	—
Net cash (used in) provided by financing activities	**(8,157)**	**2,651**
Increase in cash and cash equivalents	**17,753**	**4,831**
Cash and cash equivalents, beginning of period	42,201	76,184
Cash and cash equivalents, end of period	**$ 59,954**	**$ 81,015**
Supplemental disclosures of cash flow information:		
Interest paid	$ —	$ —
Income taxes (refunded) paid	$ (58)	$ 3,683
Supplemental disclosure of non-cash activities:		
Unpaid purchases of property and equipment	$ 1,108	$ 2,936
Operating lease liabilities arising from obtaining operating lease assets	$ 14,818	$ 4,621

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, accessories and hardgoods 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 241 stores, in 33 states as of April 30, 2022. 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", "we", "our", "us" and "Tillys" refer to Tilly's, Inc. and its subsidiary, WOJT.

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 week period ended April 30, 2022 are not necessarily indicative of results to be expected for the full fiscal year. 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 29, 2022 ("fiscal 2021").

Fiscal Periods

Our fiscal year ends on the Saturday closest to January 31. References to fiscal 2022 refer to the fiscal year ending January 28, 2023. References to the fiscal quarters or first three months ended April 30, 2022 and May 1, 2021 refer to the thirteen week period ended as of those dates, respectively.

Impact of the COVID-19 Pandemic on our Business

As of April 30, 2022, the ongoing COVID-19 pandemic (the "pandemic") and the impacts therefrom have continued to adversely impact our business, financial condition and results of operations. As we have seen over the past two years, there remain many uncertainties about 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, and our people, which have materially disrupted our business and the market generally. The scope and nature of these impacts continue to evolve. We may experience adverse impacts in the future, including similar impacts to those 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 29, 2022.

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	
	April 30, 2022	**May 1, 2021**
Retail stores	$ 117,482	$ 127,675
E-commerce	28,293	35,482
Total net sales	**$ 145,775**	**$ 163,157**

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

	Thirteen Weeks Ended	
	April 30, 2022	**May 1, 2021**
Mens	35 %	36 %
Womens	29 %	29 %
Accessories	15 %	14 %
Footwear	12 %	12 %
Boys	4 %	4 %
Girls	4 %	4 %
Hardgoods/Outdoor	1 %	1 %
Total net sales	**100 %**	**100 %**

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

	Thirteen Weeks Ended	
	April 30, 2022	**May 1, 2021**
Third-party	68 %	71 %
Proprietary	32 %	29 %
Total net sales	**100 %**	**100 %**

We accrue for estimated sales returns by customers based on historical sales return results. As of April 30, 2022, January 29, 2022 and May 1, 2021, our reserve for sales returns was $2.1 million, $1.9 million and $2.2 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 cards, the balance of which was $9.8 million, $11.2 million and $8.4 million as of April 30, 2022, January 29, 2022 and May 1, 2021, 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. Total revenue recognized from gift cards was $4.0 million and $3.8 million for the thirteen weeks ended April 30, 2022 and May 1, 2021, respectively.

For the thirteen weeks ended April 30, 2022 and May 1, 2021, the opening gift card balance was $11.2 million and $9.6 million, respectively, of which $2.6 million and $2.3 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. During the thirteen weeks ended April 30, 2022, we modified our expiration policy related to unredeemed awards and accumulated partial points from expiration at 365 days after the customer's last purchase activity to expiration at 365 days after the customer's original purchase date. As a result of this modification in expiration policy, the estimated liability was reduced by $0.5 million during the thirteen weeks ended April 30, 2022. 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 $5.4 million, $5.9 million and $4.5 million as of April 30, 2022, January 29, 2022 and May 1, 2021, respectively. The value of points redeemed through our loyalty program was $2.1 million for each of the thirteen week periods ended April 30, 2022 and May 1, 2021. For the thirteen week periods ended April 30, 2022 and May 1, 2021, the opening loyalty program balance was $5.9 million and $3.9 million, respectively, of which $2.0 million and $0.9 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 generally range up to ten years in duration (subject to elective extensions) and provide for escalations in base rents. 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 net sales in excess of specified levels, is recognized as rent expense when the achievement of those specified net sales is probable.

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 each of the thirteen week periods ended April 30, 2022 and May 1, 2021, we incurred rent expense of $0.5 million related to this lease. Our lease began on 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 week periods ended April 30, 2022 and May 1, 2021, we incurred rent expense of $0.1 million 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 expect to have a fully negotiated renewal completed in advance of this lease expiration.

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 week period ended April 30, 2022, we incurred rent expense of $0.4 million related to this lease. During the thirteen week period ended May 1, 2021, we incurred rent expense of $0.2 million 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, among other things, extend the term for an additional 10-year term and adjust the annual payment increases. Pursuant to the amended lease agreement, the lease payment adjusts annually based upon the greater of 5% or the Consumer Price Index and now terminates on October 31, 2031.

We sublease a portion of our office space, approximately 5,887 square feet, in the 17 Pasteur Irvine, California facility to Tilly's Life Center, ("TLC"), a related party and a charitable organization. The lease term is for 5 years and terminates January 31, 2027. Sublease income is recognized on a straight-line basis over the sublease agreement and is recorded as an offset within the selling, general and administrative section in the Consolidated Statements of Operations.

The maturity of operating lease liabilities and sublease income as of April 30, 2022 were as follows (in thousands):

Fiscal Year	Related Party	Other	Total	Sublease Income
2022	$ 2,513	$ 49,271	$ 51,784	$ 65
2023	3,416	56,231	59,647	90
2024	3,543	45,717	49,260	95
2025	3,676	36,402	40,078	99
2026	3,814	25,000	28,814	104
Thereafter	9,768	54,681	64,449	—
Total minimum lease payments	**26,730**	**267,302**	**294,032**	**453**
Less: Amount representing interest	3,883	41,764	45,647	—
Present value of operating lease liabilities	**$ 22,847**	**$ 225,538**	**$ 248,385**	**$ 453**

As of April 30, 2022, additional operating lease contracts that have not yet commenced are approximately $10.7 million. Further, additional operating lease contracts and modifications executed prior to the filing date of this Quarterly Report were immaterial.

Lease expense for the thirteen week period ended April 30, 2022 and May 1, 2021 was as follows (in thousands):

	Thirteen Weeks Ended April 30, 2022			Thirteen Weeks Ended May 1, 2021		
	Cost of goods sold	SG&A	Total	Cost of goods sold	SG&A	Total
Fixed operating lease expense	$ 15,275	$ 321	$ 15,596	$ 15,311	$ 316	$ 15,627
Variable lease expense (benefit)	3,786	14	$ 3,800	3,899	(11)	3,888
Total lease expense	**$ 19,061**	**$ 335**	**$ 19,397**	**$ 19,210**	**$ 305**	**$ 19,515**

For the thirteen weeks ended May 1, 2021, we corrected an immaterial error of $94 thousand, which consisted solely of a reclassification of fixed operating lease expense from SG&A to Cost of goods sold, on the table above.

Supplemental lease information for the thirteen weeks ended April 30, 2022 and May 1, 2021 was as follows:

	Thirteen Weeks Ended April 30, 2022	Thirteen Weeks Ended May 1, 2021
Cash paid for amounts included in the measurement of operating lease liabilities (in thousands)	$17,166	$17,168
Weighted average remaining lease term (in years)	5.7 years	5.6 years
Weighted average interest rate **(1)**	6.08%	6.49%

(1) Since our leases do not provide an implicit rate, we use 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, we have presented the corrected balances herein as of May 1, 2021, for which there was a $2.3 million gross-up of both operating lease assets and operating lease liabilities which is presented within other liabilities (current portion, in an amount of $0.8 million) and other liabilities (noncurrent portion, in an amount of $1.5 million). Further, we have presented the corrected Statement of Cash Flows for the thirteen weeks ended May 1, 2021 for which there was no net impact on net cash provided by operating activities.

Common Stock Share Repurchases

We may repurchase shares of our common stock from time to time pursuant to authorizations approved by our Board of Directors. As permitted under Delaware corporation law, shares repurchased are retired and, accordingly, are not presented separately as treasury stock in the consolidated financial statements. Instead, the value of repurchased shares is deducted from retained earnings.

Income Taxes

Our income tax expense was $0.3 million, or 26.9% of pre-tax income, compared to an income tax expense of $3.8 million, or 25.7% of pre-tax income, for the thirteen weeks ended April 30, 2022 and May 1, 2021, respectively.

Reclassifications of Prior Year Presentation

Certain prior year amounts on the Consolidated Balance Sheets, have been reclassified to conform with the current year presentation. These reclassifications had no effect on the reported results of operations. A reclassification has been made to last year's Consolidated Balance Sheet for the quarter ended May 1, 2021 to identify deferred tax assets of $11.7 million and the long-term portion of credit facility costs of $0.4 million. This change in classification does not affect previously reported cash flows from operating activities in the Consolidated Statements of Cash Flows.

New Accounting Standards Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("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 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 April 30, 2022 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 April 30, 2022, January 29, 2022 and May 1, 2021 (in thousands):

	April 30, 2022			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 39,921	$ 19	$ (19)	$ 39,921
Fixed income securities	11,076	—	—	11,076
Total marketable securities	**$ 50,997**	**$ 19**	**$ (19)**	**$ 50,997**

	January 29, 2022			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 64,235	$ 9	$ (11)	$ 64,233
Fixed income securities	32,794	—	—	32,794
Total marketable securities	**$ 97,029**	**$ 9**	**$ (11)**	**$ 97,027**

	May 1, 2021			
	Cost or Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Commercial paper	$ 69,938	$ 32	$ (1)	$ 69,969
Fixed income securities	6,664	—	—	6,664
Total marketable securities	**$ 76,602**	**$ 32**	**$ (1)**	**$ 76,633**

We recognized gains on investments for commercial paper that matured during the thirteen week periods ended April 30, 2022 and May 1, 2021. Upon recognition of the gains, we reclassified these amounts out of Accumulated Other Comprehensive Income and into “Other income (expense), net” on the Consolidated Statements of Operations.

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

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
Gains on investments	$ 25	$ 29

Note 4: Credit Agreement

New Credit Agreement

On January 20, 2022, we entered into a senior secured credit agreement (the "Credit Agreement") and revolving line of credit note (the "Note") with Wells Fargo Bank, National Association (the “Bank”). The Credit Agreement provides for a senior secured revolving credit facility (“Revolving Facility”) of up to $25.0 million (“Revolving Commitment”) consisting of revolving loans, letters of credit and swing line loans, with a sub-limit on letters of credit outstanding at any time of $15.0 million. The Revolving Facility matures on January 20, 2024. 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 payment and performance in full of the obligations under the Credit Agreement are guaranteed by the Company pursuant to a continuing guaranty (the "Guaranty") granted by the Company in favor of the Bank. The payment and performance of the

Company's obligations under the Guaranty are secured by a lien on, and pledge of, all of the equity interests owned by the Company.

Borrowings under the Revolving Facility bear interest at a rate per annum equal to the daily simple Secured Overnight Financing Rate ("SOFR") plus 0.75%. Amounts available to be drawn under outstanding letters of credit accrue fees in an amount equal to 1.00% per annum. The unused portion of the Revolving Commitment is not subject to a commitment fee.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants of types customary in a cash-flow-based lending facility, including financial covenants that require maintenance of (1) a ratio of total funded debt to earnings before interest, taxes, depreciation, amortization and annual rent expenses no greater than 4.00 to 1.00 and (2) a fixed charge coverage ratio of not less than 1.25 to 1.00 (calculation of which takes into account dividends, distributions, redemptions and repurchases of the equity interests of the Company only if the Company's cash on hand, net of any amounts outstanding under the Credit Agreement, is less than $50.0 million after giving effect to such dividends, distributions, redemptions or repurchases).

Events of default under the Credit Agreement include, among other things, failure to pay principal, interest, fees or other amounts; covenant defaults; material inaccuracy of representations and warranties; bankruptcy events with respect to the Company; actual or asserted invalidity of any of the loan documents; or a change of control of the Company.

In connection with the entry into the Credit Agreement, on January 20, 2022, we entered into certain ancillary agreements, including (i) a security agreement in favor of the Bank (ii) a guaranty entered into by the Company, and (iii) a third party pledge agreement entered into by the Company in favor of the Bank. The security agreement, the guaranty and the pledge agreement replaced (i) the guaranty by the Company in favor of the Bank, dated November 9, 2020, and (ii) the security agreement dated as of November 9, 2020, among the Company and the Bank, which were both terminated concurrently with the termination of the Prior Credit Agreement.

As of April 30, 2022, we were in compliance with all of our covenants and had no outstanding borrowings under the Credit Agreement.

Prior Credit Agreement

The Credit Agreement replaced our previously existing asset-backed credit agreement (the "Prior Credit Agreement"), dated as of November 9, 2020, as amended, with the Bank, which had revolving commitments of up to $65.0 million, a sub-limit on letters of credit of $10.0 million and a sub-limit for swing-line loans of $7.5 million. 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 Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. The maximum borrowings permitted under the Prior Credit Agreement was equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base was 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. As of the date the Prior Credit Agreement was terminated, we had no outstanding borrowings under the Credit Agreement and the only utilization of the letters of credit sub-limit under the Credit Agreement was a $2.025 million irrevocable standby letter of credit, which was previously issued under the Prior Credit Agreement and was transferred on such date to the Credit Agreement.

The unused portion of the revolving commitment under the Prior Credit Agreement accrued a commitment fee, which ranged 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 Prior Credit Agreement bear interest at a rate per annum that ranged 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 Prior Credit Agreement over the applicable fiscal quarter. We were allowed to 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 Prior Credit Agreement, we were 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 were 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.

Note 5: Commitments and Contingencies

Indemnifications, Commitments, and Guarantees

During the normal course of business, we have made certain indemnifications, commitments, and guarantees under which we may be required to make payments for certain transactions. These indemnifications include, but are not limited to, those given to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnifications to our directors and officers to the maximum extent permitted under the laws of the state of Delaware. The majority of these indemnifications, commitments, and guarantees do not provide for any limitation of the maximum potential future payments we could be obligated to make, and their duration may be indefinite. We have not recorded any liability for these indemnifications, commitments, and guarantees in the accompanying Consolidated Balance Sheets.

Legal Proceedings

From time to time, we may become involved in lawsuits and other claims arising from our ordinary course of business. We establish loss provisions for matters in which losses are probable and can be reasonably estimated. For some matters, 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 this matter.

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. 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, which we opposed. 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. In October 2021, the plaintiff filed a request for dismissal of her appeal, which the Court of Appeal granted with a remittitur to return the case to the trial court where the case would proceed only with respect to the plaintiff's individual claims. In March 2022, the parties executed a settlement agreement and in April 2022 the Company paid the settlement amount, which was originally accrued for during the fourth quarter of fiscal 2021. On May 11, 2022, the Court dismissed the case with prejudice.

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 securities, and certain cash equivalents, specifically money market securities, commercial paper, municipal bonds and certificates of deposits. The money market accounts are valued based on quoted market prices in active markets. The available-for-sale 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.

From time to time, we measure certain assets at fair value on a non-recurring basis, including evaluation of long-lived assets for impairments 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 week period ended April 30, 2022 and May 1, 2021, we did not make any transfers between Level 1 and Level 2 financial assets. Furthermore, as of April 30, 2022, January 29, 2022 and May 1, 2021, 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

In accordance with the provisions of ASC 820, *Fair Value Measurement*, we categorized our financial assets based on the priority of the inputs to the valuation technique for the instruments as follows (in thousands):

	April 30, 2022			**January 29, 2022**			**May 1, 2021**		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash equivalents **(1)**:									
Money market securities	$51,843	$—	$—	$32,764	$—	$—	$70,477	$—	$—
Commercial paper	$—	$4,995	$—	$—	$4,999	$—	$—	$—	$—
Marketable securities:									
Commercial paper	$—	$ 39,921	$—	$—	64,233	$—	$—	69,969	$—

(1) Excluding cash.

Impairment of Long-Lived Assets

On at least 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. 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 our stores, we determined that certain stores would not be able to generate sufficient cash flows over the remaining term of the related leases to recover our investment in the respective stores. As a result, we recorded non-recurring, non-cash impairment charges of approximately $13.4 thousand in the period ending April 30, 2022, to write-down the carrying value of certain long-lived store assets to their estimated fair values. There were no such impairment charges in the period ended May, 1, 2021.

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
	($ in thousands)	
Carrying value of assets with impairment	$13	$—
Fair value of assets impaired	$—	$—
Number of stores tested for impairment	2	9
Number of stores with impairment	1	—

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 April 30, 2022, there were 1,797,665 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 thirteen weeks ended April 30, 2022 (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 29, 2022	1,570,211	$ 9.02		
Granted	502,500	$ 9.45		
Exercised	(4,750)	$ 4.13		
Forfeited	(2,000)	$ 9.45		
Expired	—	$ —		
Outstanding at April 30, 2022	**2,065,961**	**$ 9.14**	**7.9**	**$ 2,231**
Exercisable at April 30, 2022	**815,761**	**$ 9.84**	**6.0**	**$ 853**

(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 $8.82 at April 30, 2022.

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 weeks ended April 30, 2022 and May 1, 2021 were estimated on the grant date using the following assumptions:

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
Weighted average grant-date fair value per option granted	$4.98	$5.64
Expected option term **(1)**	5.2 years	5.4 years
Weighted average expected volatility factor **(2)**	58.6%	59.9%
Weighted average risk-free interest rate **(3)**	2.3%	0.9%
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 issued upon the date of grant in which the recipient's rights in the stock are restricted until the shares are vested, whereas restricted stock units ("RSUs") represent shares issuable in the future upon vesting. Under the 2012 Plan, we grant RSAs to independent members of our Board of Directors and RSUs to certain employees. RSAs granted to Board members 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. The RSUs granted to certain employees vest at a rate of 25% on each of the first four anniversaries of the grant date provided that the respective recipient continues to be employed by us through each of those vesting dates. We determine the fair value of restricted stock underlying the RSAs and RSUs based upon the closing price of our Class A common stock on the date of grant.

The following table summarizes the status of RSAs as of April 30, 2022 and January 29, 2022:

	Restricted Stock	Weighted Average Grant-Date Fair Value
Nonvested at April 30, 2022 and January 29, 2022	45,464	$ 10.56

There were no RSAs granted, vested, or forfeited during the thirteen weeks ended April 30, 2022.

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	
	April 30, 2022	May 1, 2021
Cost of goods sold **(1)**	$ 89	$ (38)
Selling, general, and administrative	474	404
Total share-based compensation	**$ 563**	**$ 366**

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

At April 30, 2022, there was $5.7 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 3.0 years.

Note 8: Earnings Per Share

Earnings per share is computed under the provisions of ASC 260, *Earnings Per Share*. Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential shares of common stock (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 shares of common stock at the average market price during the period.

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

	Thirteen Weeks Ended	
	April 30, 2022	**May 1, 2021**
Net income	$ 813	$ 10,959
Weighted average basic shares outstanding	30,762	29,878
Dilutive effect of in-the-money stock options and RSAs	284	651
Weighted average shares for diluted earnings per share	**31,046**	**30,529**
Basic earnings per share of Class A and Class B common stock	$ 0.03	$ 0.37
Diluted earnings per share of Class A and Class B common stock	**$ 0.03**	**$ 0.36**

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

	Thirteen Weeks Ended	
	April 30, 2022	**May 1, 2021**
Stock options	1,445	1,204

Note 9: Share Repurchase Program

On March 14, 2022 we announced that our Board of Directors had authorized a share repurchase program, pursuant to which we were authorized to repurchase up to 2,000,000 million shares of our Class A common stock through, March 14, 2023, in open market transactions through a broker-dealer at prevailing market prices, in block trades, or by any other means in accordance with federal securities laws. For the quarter ended April 30, 2022, we repurchased 892,033 shares at a weighted average price of $9.14 per share for a total of $8.2 million under the program. At April 30, 2022, the remaining repurchase authorization totaled 1,107,967 shares.

During May 2022, we repurchased an additional 95,394 shares at a weighted average price of $8.76 per share for a total of $0.8 million. Since the inception of the repurchase program, we have repurchased 987,427 shares at a weighted average price of $9.10 per share for a total of $9.0 million. The remaining repurchase authorization as of the date of this filing was 1,012,573 shares.

We are not obligated to repurchase any specific number or amount of shares of Class A common stock pursuant to the Program, and we may modify, suspend or discontinue the Program at any time. We will determine the timing and amount of repurchased shares, if any, in our discretion based on a variety of factors, such as the market price of our Class A common stock, corporate requirements, general market economic conditions, and applicable legal requirements.

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 29, 2022. 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 April 30, 2022, we operated 241 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.

Known or Anticipated Trends

Ongoing Impacts of the COVID-19 Pandemic

Economic Impacts. The impacts of the COVID-19 pandemic (the "pandemic") have had, and continue to have, a material effect on our business, financial condition and results of operations, as well as on the market generally. The scope and nature of these impacts continue to evolve. We may experience adverse impacts in the future, particularly related to broader economic conditions that result in significant part from the pandemic. Further, we believe our operating results for fiscal 2021 were significantly aided by the considerable pent-up consumer demand exiting 2020 pandemic restrictions and the impact of federal stimulus payments. Additionally, the factors noted below have had, and are expected to continue to have, an adverse impact on our operating results during fiscal 2021. As a result, we expect our operating results for fiscal 2022 will remain well below fiscal 2021 levels for each quarter of the fiscal year.

Inflationary Cost Pressures. As of the date of this filing, the pandemic and resulting supply chain disruptions, as well as certain geo-political matters, have resulted in significant price increases for the merchandise we purchase for sale to our customers as well as for gasoline, food and other consumables across the economy. We believe that these price increases have had, and will likely continue to have, a negative impact on consumer behavior and, by extension, our results of operations and financial condition during fiscal 2022.

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 pandemic, thereby significantly impacting the global supply chain for merchandise inventories. Disruptions in the global transportation network remain prevalent, 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, thereby potentially resulting in lost sales or increased markdowns to move through excess seasonal inventories that were delivered late. These supply chain issues, and the media attention surrounding them, had an impact on consumer shopping patterns during the fiscal 2021 holiday season and may do so again to some extent, and have caused 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 assess delivery delays on a continuous basis. However, we are unable to predict the specific effects these factors will have on our fiscal 2022 net sales, results of operations, and our inventory position at any point in time during fiscal 2022.

Labor Challenges and Wage Inflation. The pandemic and the resulting factors above have also created challenges related to the availability of sufficient labor from time to time, and have caused a significant increase in the competition for labor among consumer facing companies. This competition for labor has driven significant increases in wages beyond government-mandated increases in minimum wages in order to compete for sufficient labor availability and/or to prevent the loss of existing workforce in our stores, distribution centers and corporate offices. We expect these pressures to continue throughout fiscal 2022.

Operational Impacts. As of the date of filing this Report, there remain many uncertainties regarding the ongoing pandemic, including its anticipated duration and severity. In addition to the economic impacts on the Company, 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 corporate, distribution center and store operations generally, timing of deliveries, demands on our information technology and e-commerce capabilities, inventory and expense management, managing our workforce, and our people, which have materially disrupted our business. With the continued challenges posed by the pandemic, we may experience adverse impacts in the future, including similar impacts to those we have previously experienced during the pandemic, such as regional quarantines, changes in consumer purchasing patterns, mandatory or elective shut-downs of retail locations, and operational challenges posted by the inability of our suppliers and service providers to deliver materials and services on a timely basis, which, in many cases, had, and may in the future continue to have, material adverse impacts on our business. This situation is continually evolving, and additional impacts may arise that we are not aware of currently, or current impacts may become magnified.

Fiscal 2022 New Store Openings and Capital Expenditure Plans

During fiscal 2022, we currently plan to open approximately 9 to 12 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 $23 million to $25 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 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.

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 (including our e-commerce platform) is performing. Numerous factors affect our comparable store sales, including:

- overall economic trends;
- our ability to attract traffic to our stores and online 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;
- our ability to source and distribute products efficiently;
- calendar shifts of holiday or seasonal periods;
- the number and timing of store openings and the relative proportion of new stores to mature stores; and
- the timing and success of promotional and advertising efforts.

Our comparable store sales are defined as sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates of the prior year. A remodeled, relocated or refreshed store is included in comparable store sales, both during and after construction, if the square footage of the store used to sell merchandise was not changed by more than 20% in any fiscal month. We include sales from our e-commerce platform as part of comparable store sales as we manage and analyze our business on a single 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 merchandise, and shipping of merchandise to or from our distribution and e-commerce fulfillment centers and to our e-commerce customers and between store locations. 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 young men's and women's 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 percent of 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. This reflects that various costs, including occupancy costs, generally do not increase in proportion to the seasonal sales increase.

Selling, General and Administrative Expenses

Our selling, general and administrative, or SG&A, expenses are comprised 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, impairment charges and other centralized services. 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

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

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	
	April 30, 2022	May 1, 2021
Statements of Operations Data:		
Net sales	**$ 145,775**	**$ 163,157**
Cost of goods sold	101,100	107,616
Rent expense, related party	860	702
Total cost of goods sold	**101,960**	**108,318**
Gross profit	**43,815**	**54,839**
Selling, general and administrative expenses	42,574	39,832
Rent expense, related party	133	133
Total selling, general and administrative expenses	**42,707**	**39,965**
Operating income	**1,108**	**14,874**
Other income (expense), net	4	(115)
Income before income taxes	**1,112**	**14,759**
Income tax expense	299	3,800
Net income	**$ 813**	**$ 10,959**
Percentage of Net Sales:		
Net sales	**100.0 %**	**100.0 %**
Cost of goods sold	69.4 %	66.0 %
Rent expense, related party	0.6 %	0.4 %
Total cost of goods sold	**69.9 %**	**66.4 %**
Gross profit	**30.1 %**	**33.6 %**
Selling, general and administrative expenses	29.2 %	24.4 %
Rent expense, related party	0.1 %	0.1 %
Total selling, general and administrative expenses	**29.3 %**	**24.5 %**
Operating income	**0.8 %**	**9.1 %**
Other income (expense), net	0.0 %	(0.1) %
Income before income taxes	**0.8 %**	**9.0 %**
Income tax expense	0.2 %	2.3 %
Net income	**0.6 %**	**6.7 %**

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

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
Operating Data:		
Stores operating at end of period	241	238
Comparable store net sales change **(1)**	(13.0)%	7.5 %
Total square feet at end of period (in '000s)	1,764	1,753
Average net sales per physical store (in '000s) **(2)**	$ 487	$ 535
Average net sales per square foot **(2)**	$ 66	$ 73
E-commerce revenues (in '000s) **(3)**	$ 28,293	$ 35,482
E-commerce revenues as a percentage of net sales	19.4 %	21.7 %

(1) Our comparable store net sales are defined as sales from our e-commerce platform and stores open on a daily basis compared to the same respective fiscal dates of the prior 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% 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 or 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.

First Quarter (13 Weeks) Ended April 30, 2022 Compared to First Quarter (13 Weeks) Ended May 1, 2021

Net Sales

Total net sales were $145.8 million, a decrease of $(17.4), or (10.7)%, compared to a Company first quarter record of $163.2 million last year, primarily due to the impacts of the pent-up customer demand following the winding down of 2020 pandemic restrictions and the pandemic-related federal stimulus payments on last year's results as well as the highly inflationary environment that has developed during fiscal 2022.

- Net sales from physical stores were $117.5 million, a decrease of $(10.2) million or (8.0)%, compared to $127.7 million last year. Net sales from stores represented 80.6% of total net sales compared to 78.3% of total net sales last year. The Company ended the first quarter with 241 total stores compared to 238 total stores at the end of the first quarter last year.
- Net sales from e-commerce were $28.3 million, a decrease of $(7.2) million or (20.3)%, compared to $35.5 million last year. E-commerce net sales represented 19.4% of total net sales compared to 21.7% of total net sales last year.

Gross Profit

Gross profit was $43.8 million, or 30.1% of net sales, compared to $54.8 million, or 33.6% of net sales, last year. Buying, distribution and occupancy costs deleveraged by 190 basis points collectively, despite decreasing by $(1.0) million in total due to carrying these costs against a lower level of net sales this year compared to last year. Product margins declined by 160 basis points versus last year due to a more normalized markdown rate compared to last year when full price selling was at record levels.

Selling, General and Administrative Expenses

SG&A expenses were $42.7 million or 29.3% of net sales, compared to $40.0 million, or 24.5% 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
2.8%	$2.0	Increase in store payroll and related benefits primarily due to wage inflation (our average rate per store payroll hour increased by 6.5% over last year's first quarter).
1.0%	1.6	Credit from the reversal of a disputed California sales tax assessment in last year's first quarter.
(1.0)%	(1.6)	Decrease in corporate bonus expense due to lack of a bonus accrual in fiscal 2022.
2.0%	0.7	Net change in all other SG&A expenses.
4.8%	**$2.7**	**Total**

Operating Income

Operating income was $1.1 million, or 0.8% of net sales, compared to $14.9 million, or 9.1% of net sales, last year due to the combined impacts of the factors noted above.

Income Tax Expense

Income tax expense was $0.3 million, or 26.9% of pre-tax income, compared to $3.8 million, or 25.7% of pre-tax income, last year.

Net Income and Income Per Diluted Share

Net income was $0.8 million, or $0.03 per diluted share, compared to a Company first quarter record of $11.0 million, or $0.36 per diluted share, last year due to the combined impacts 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 April 30, 2022, was $85.9 million compared to $91.8 million at January 29, 2022, a decrease of $(6.0) million. The changes in our working capital during the first quarter of fiscal 2022 were as follows:

$ millions	Description
$91.8	**Working capital at January 29, 2022**
9.4	Increase in merchandise inventories, net of accounts payable.
(8.2)	Repurchase of shares under our share repurchase program.
(7.1)	Other net decreases.
$85.9	**Working capital at April 30, 2022**

Cash Flow Analysis

A summary of operating, investing and financing activities for the thirteen weeks ended April 30, 2022 compared to the thirteen weeks ended May 1, 2021 is shown in the following table (in thousands):

	Thirteen Weeks Ended	
	April 30, 2022	May 1, 2021
Net cash (used in) provided by operating activities	$ (17,553)	$ 19,277
Net cash provided by (used in) investing activities	43,463	(17,097)
Net cash (used in) provided by financing activities	(8,157)	2,651
Net increase in cash and cash equivalents	**$ 17,753**	**$ 4,831**

Net Cash (Used in) Provided by Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items that include depreciation, asset impairment write-downs, deferred income taxes and share-based expense, plus the effect on cash of changes during the period in our assets and liabilities.

Net cash used in operating activities was $(17.6) million this year compared to net cash provided of $19.3 million last year. The $(36.8) million decrease in cash provided by operating activities was primarily due to lower net sales in fiscal 2022 compared to record net sales in fiscal 2021. The net sales decline was primarily due to the impacts of pent-up customer demand following the winding down of the 2020 pandemic restrictions and the pandemic-related federal stimulus payments on fiscal 2021 operations, coupled with the negative impact of a highly inflationary consumer environment in fiscal 2022.

Net Cash Provided by (Used In) Investing Activities

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

Net cash provided by investing activities was $43.5 million this year compared to $(17.1) million in net cash used last year. Net cash provided by investing activities in the first quarter of fiscal 2022 consisted of maturities of marketable securities of $51.0 million, partially offset by the purchases of marketable securities of $5.0 million and capital expenditures totaling $2.6 million. Net cash used in investing activities during the first quarter of fiscal 2021 consisted of purchases of marketable securities of $36.6 million and capital expenditures totaling $5.5 million, partially offset by proceeds from the maturities of marketable securities of $25.0 million.

Net Cash (Used in) Provided by 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, share repurchases, and proceeds from employee exercises of stock options.

Net cash used in financing activities was $(8.2) million this year compared to net cash provided of $2.7 million last year. Financing activities in the first quarter of fiscal 2022 consisted of cash used to repurchase shares of our common stock of $8.2

million, partially offset by proceeds from the exercise of stock options of $20 thousand. Financing activities in the first quarter of fiscal 2021 consisted of proceeds from the exercise of stock options of $2.7 million.

Credit Agreement

New Credit Agreement

On January 20, 2022, we entered into a senior secured credit agreement (the "Credit Agreement") and revolving line of credit note (the "Note") with Wells Fargo Bank, National Association (the "Bank"). The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to $25.0 million ("Revolving Commitment") consisting of revolving loans, letters of credit and swing line loans, with a sub-limit on letters of credit outstanding at any time of $15.0 million. The Revolving Facility matures on January 20, 2024. 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 payment and performance in full of the obligations under the Credit Agreement are guaranteed by the Company pursuant to a continuing guaranty (the "Guaranty") granted by the Company in favor of the Bank. The payment and performance of the Company's obligations under the Guaranty are secured by a lien on, and pledge of, all of the equity interests owned by the Company.

Borrowings under the Revolving Facility bear interest at a rate per annum equal to the daily simple Secured Overnight Financing Rate ("SOFR") plus 0.75%. Amounts available to be drawn under outstanding letters of credit accrue fees in an amount equal to 1.00% per annum. The unused portion of the Revolving Commitment is not subject to a commitment fee.

Under the Credit Agreement, we are subject to a variety of affirmative and negative covenants of types customary in a cash-flow-based lending facility, including financial covenants that require maintenance of (1) a ratio of total funded debt to earnings before interest, taxes, depreciation, amortization and annual rent expenses no greater than 4.00 to 1.00 and (2) a fixed charge coverage ratio of not less than 1.25 to 1.00 (calculation of which takes into account dividends, distributions, redemptions and repurchases of the equity interests of the Company only if the Company's cash on hand, net of any amounts outstanding under the Credit Agreement, is less than $50.0 million after giving effect to such dividends, distributions, redemptions or repurchases).

Events of default under the Credit Agreement include, among other things, failure to pay principal, interest, fees or other amounts; covenant defaults; material inaccuracy of representations and warranties; bankruptcy events with respect to the Company; actual or asserted invalidity of any of the loan documents; or a change of control of the Company.

In connection with the entry into the Credit Agreement, on January 20, 2022, we entered into certain ancillary agreements, including (i) a security agreement in favor of the Bank (ii) a guaranty entered into by the Company, and (iii) a third party pledge agreement entered into by the Company in favor of the Bank. The security agreement, the guaranty and the pledge agreement replaced (i) the guaranty by the Company in favor of the Bank, dated November 9, 2020, and (ii) the security agreement dated as of November 9, 2020, among the Company and the Bank, which were both terminated concurrently with the termination of the Prior Credit Agreement.

As of April 30, 2022, we were in compliance with all of our covenants and had no outstanding borrowings under the Credit Agreement.

Prior Credit Agreement

The Credit Agreement replaced our previously existing asset-backed credit agreement (the "Prior Credit Agreement"), dated as of November 9, 2020, as amended, with the Bank, which had revolving commitments of up to $65.0 million, a sub-limit on letters of credit of $10.0 million and a sub-limit for swing-line loans of $7.5 million. 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 Prior Credit Agreement was terminated concurrently with the entry into the Credit Agreement. The maximum borrowings permitted under the Prior Credit Agreement was equal to the lesser of (x) the revolving commitment and (y) the borrowing base. The borrowing base was 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. As of the date the Prior Credit Agreement was terminated, we had no outstanding borrowings under the Credit Agreement and the only utilization of the letters of credit sub-limit under the Credit Agreement was a $2.025 million irrevocable standby letter of credit, which was previously issued under the Prior Credit Agreement and was transferred on such date to the Credit Agreement.

The unused portion of the revolving commitment under the Prior Credit Agreement accrued a commitment fee, which ranged 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 Prior Credit Agreement bear interest at a rate per annum that ranged 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 Prior Credit Agreement over the applicable fiscal quarter. We were allowed to 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 Prior Credit Agreement, we were 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 were 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.

Contractual Obligations

As of April 30, 2022, 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 29, 2022.

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 29, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of April 30, 2022, there were no material changes in the market risks described in the “Quantitative and Qualitative Disclosure About Market Risks” section of our Annual Report on Form 10-K for the fiscal year ended January 29, 2022.

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 April 30, 2022. 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 April 30, 2022, 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 29, 2022 for a detailed discussion of the risks that affect our business.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1*	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**	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.
101	Interactive data files from Tilly's, Inc.'s Quarterly Report on Form 10-Q for the quarter ended April 30, 2022, 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; (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.

	Tilly's, Inc.
Date: June 8, 2022	
	/s/ Edmond Thomas
	Edmond Thomas
	President, Chief Executive Officer and Director
	(Principal Executive Officer)
Date: June 8, 2022	
	/s/ Michael Henry
	Michael Henry
	Executive Vice President, Chief Financial Officer
	(Principal Financial Officer)

Exhibit 31.1

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 April 30, 2022;

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: June 8, 2022

/s/ Edmond Thomas
Edmond Thomas
President, Chief Executive Officer and Director

Exhibit 31.2

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 April 30, 2022;

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: June 8, 2022

/s/ Michael Henry
Michael Henry
Chief Financial Officer

Exhibit 32.1

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 April 30, 2022 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: June 8, 2022

/s/ Edmond Thomas
Edmond Thomas
President, Chief Executive Officer and Director

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2022 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: June 8, 2022

/s/ Michael Henry
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.